

Using ERIC to influence HR elements of OPEX
A 'White Paper' by Jamie Lywood
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In this article I want to focus on the issues and concerns these discussions raise about the “People” part of the OPEX equation and discuss the impact of Empathy on HR. My team are currently working with leading suppliers of technology like JAM IP, Cisco, Verint, SAP and others to look at the process & technology impacts of change on OPEX and these subjects will be discussed in due course.

The link between the ERIC measures and bottom-line results has been well documented and still represents the only service measure of its type in the world to show an academically proven correlation with profit. However, whilst this is still a highly influential and relevant finding, major concerns exist about the current economic conditions and the appetite for significant CAPEX Programmes during the next 6 months +.

Harding & Yorke initiatives are proven to generate positive impact on OPEX and revenues. Therefore it makes sense to look in more detail at those areas of expenditure where an empathetic culture or interaction will have a positive effect in terms of efficiency or will allow a reduction in expenditure in line with many organisations’ current needs.

The HR (People) element of OPEX is a key lever that can be used during the current economic conditions to deliver change. Currently, with unemployment rising and major brands disappearing from the scene, there are both opportunities and threats presented by the change in conditions. Some of the key expected changes are:

Opportunities	Larger pool of resources allowing for the selection of more candidates with a best fit to requirements
	Wage cost and incentives are flat and this is expected to continue for the next year
	Competition for the best fit resources will lessen
	Staff Churn patterns will change and should reduce
	Staff motivation to stay in employment may deliver improved focus on roles
Threats	Increased job applicant numbers will add to front-end selection cost and make selection process more stressful for HR Team
	Motivation of new hires may pose challenges based on how long they have been in the market and if recently redundant.
	Motivation & monitoring techniques will need to take into account how roles may change because of lack of consumer confidence or increased exposure to vulnerable or distressed customers
	Lack of other job opportunities may negatively impact behaviours of managers and staff
	Poor market conditions may present agents with fewer opportunities to convert sales or meet incentive targets, impacting on incentives and wages. In addition this may lead to reduced self-confidence.

At Harding & Yorke during the past six years, Nickie Hawton and her Solutions team, at 'The Empathy Academy', have had the opportunity to work with companies and organisations from virtually every sector and in many overseas locations including Europe, Australasia and North America. It is from these experiences and the results of numerous change programmes we have witnessed, analysed, designed and implemented that we draw these conclusions on the relationship between EMPATHY and the HR elements of OPEX.

HR and its role in OPEX can mean different things to different types of organisations because accounting principles and business mechanics vary in different sectors and countries. Therefore we have generalised our observations into four main categories:

- Recruitment
- Training
- The Interaction
- Culture

Recruitment

Recruitment costs are a necessary evil. The need to control these costs is paramount and yet the real cost of getting this area wrong is even worse than is immediately obvious.

Understanding what makes up the "cost of recruitment" is a good area of focus. This may vary from industry to industry but if your "cost of recruitment" calculation only covers pre-induction activity, this should be reviewed to include such things as 'Attraction', 'Reputation' and 'Retained Competency'.

Attraction

We have all heard numerous times the call to recruit people with the right attitude and then train them in the necessary skills so let's examine this element of "Attraction".

A key factor to take into consideration is the organisation's ability to attract the right people. For example, anyone who has worked for 'first direct' for several years and leaves of their own accord can simply walk into any job almost anywhere else. What is it about an organisation that naturally attracts the right people? Of course, money plays a key role, but increasingly people are looking for demonstrable evidence of caring and empathetic initiatives in potential employers.

A good example of the power of Attraction is in the Indian Contact Centre market, where those companies with instantly recognisable brands (Nike, Microsoft, Amex etc) attract the best people. In this situation the clear preference for recruits is to work for globally recognised brands, but there are also those brands that have already established a reputation for good service and are seen as 'mould breakers'.

In order to keep employees, companies are forced to increase wages (which are said to have risen by 33% in the past year in India). Financial incentives are a simple form of protectionism and are often considered an unseen asset for brand values in the same way that reputation and customer experience have been seen as soft impacts on the balance sheet. In the UK we have a similar, although slightly

more complex scenario and as we have already stated, the expectation is that wages are likely to flatten in 2009, driven by tightening budgets. Brand Values and Customer Experience reputation will still influence prospective employees, even if only because these are the organisations that are more likely to survive in an increasingly demanding marketplace.

Reputation

Quite clearly having an enviable reputation can heap huge rewards in all aspects of business. But in challenging economic times reputation may be the deciding factor in business survival. Take the mortgage market as an extreme example of the impact of the current challenging economic conditions. By September 2008 mortgage sales had dropped by around 64% for the year and mortgage rejection rates had more than doubled in 3 months. Now predictions for 2009 are inconsistent and without a consensus in the market, the predictions look speculative at best.

In shrinking markets where conditions require urgent change to business rules, consumers choose recognised brands and reputations. Because the stresses on front line staff translate into customers' perception of their treatment, having a good reputation means that customers and staff will trust a business to steer through difficult times when confidence is low.

Customers & Reputation

The Harding & Yorke description of the Customer is as follows:

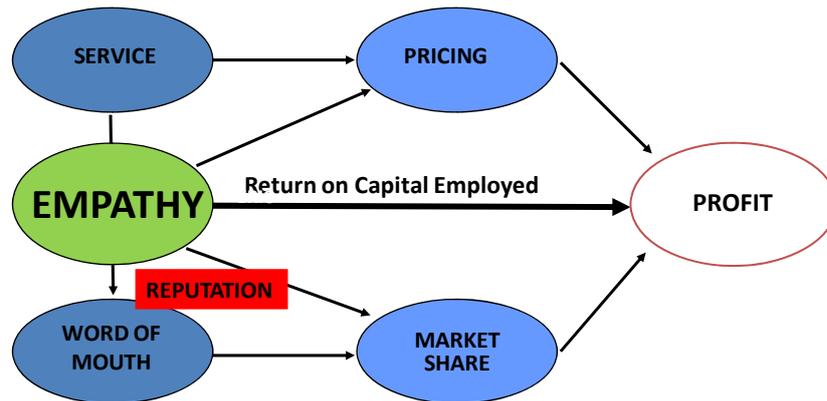
"The Customer is anyone you need to treat well in order to thrive"

It is the customer that is responsible for reputation. For internal customers, the ability to be empathetic (looking after the needs of the individual) far outweighs your ability to pay high salaries - albeit this may serve as an initial attraction. Empathy is also a fundamental influencing factor in the development of your reputation with external customers.

We already know that there is a direct correlation between Empathy and profit and it is **equally clear that there is a strong correlation between Empathy and Reputation.**

We know that a company that understands and responds to all its Stakeholders (Customers, Shareholders, Suppliers, Community and Employees and their families) is able to charge more for its products and services as well as build up market share at the expense of its competitors (a good example would be Innocent Smoothies in the UK). Add this to the improved returns on capital employed and suddenly understanding empathy becomes a priority.

Exploring the relationship with Profit and Reputation?



Retention

The Harding & Yorke Empathy Scale is a 10-point combined numeric and verbal scale. It ranges from 1 (you can't imagine how it could feel any worse) to 10 (you can't imagine how it could feel any better). (N.B. The Empathy Scale referred to here has been developed by H&Y and is the scale that has been academically calibrated.)

Typically, the customer experiences delivered by a single organisation's people will fall within a four point range on the Empathy scale (i.e. between 4 and 8, 3 and 7 etc). This is for a number of reasons including;

- The organisation's culture & approach
- The way you train your people
- The processes you expect them to follow
- Reward and recognition
- The environment that they are in
- The function and channel in which they work.

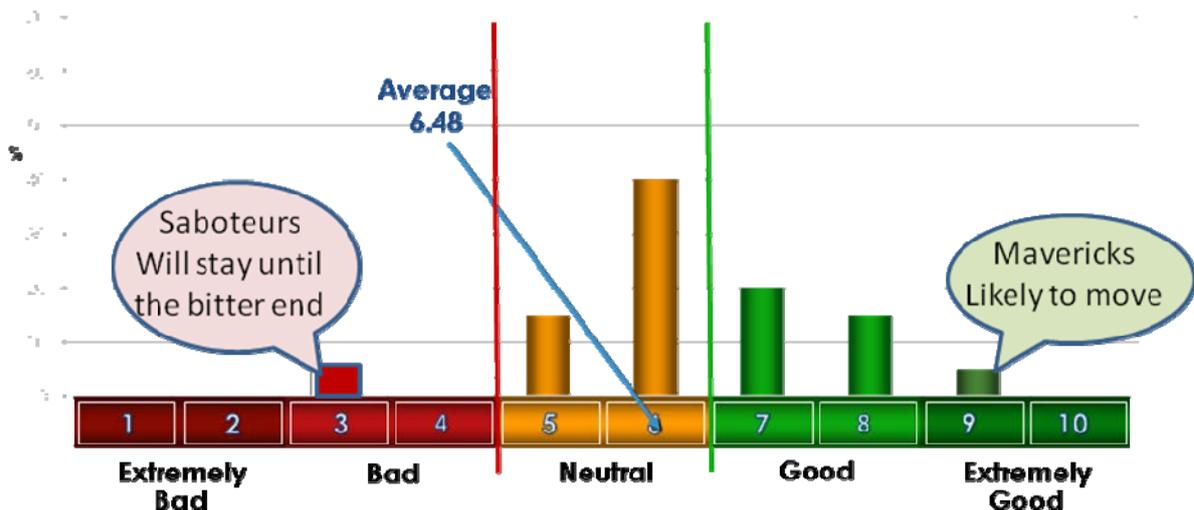
However, as in all situations you will have people who are either particularly good ('Mavericks') and those that fall below organisational expectations ('Saboteurs'). The ideal situation is to lose those people or behaviours that do your business and its reputation harm, and retain and learn from those who are better than average. Unfortunately the natural organisational pattern (if it left to its own devices), is exactly the opposite to this.

Mavericks will feel increasingly uncomfortable and will be counter-culture. In many cases they are what they are because they disregard processes that do little to enhance the Customer Experience. Unless

you can learn from these people and engage them as Champions they will leave to find a culture that they can feel comfortable in.

Saboteurs however are also counter-culture. Often they are the way they are because they religiously stick to the processes you expect but apply minimum effort and have little empathy for the customer. Instead of feeling the need to leave your company to seek pastures new, they will dig in and try to draw more and more of your people into their world. This is why these people, in particular, are dangerous to your organisation. The problem is that by defining the processes you want them to adhere to, the attitude or the outcome is left out. In other words and through their eyes they are doing nothing wrong – doing exactly what was asked of them.

Mavericks and Saboteurs



A recent NOP survey showed the following:

17% of staff expect to leave their current employment at the earliest opportunity, and

12% expect to leave within the year

The main causes are dissatisfaction with employers and a lack of manager engagement, with 69% of dissatisfied employees and 64% of staff with disengaged managers ready to leave within the year.

The CIPD estimate that the cost of replacing an individual is £7,750. This cost can quickly spiral out of control and we estimate that the consequential cost of the loss of 'Retained Competence' will increase the replacement cost enormously.

Savings on reducing Staff 'Churn'

Initial Churn	10%	No of Employees					
		200 Normal	500 Normal	1,000 Normal	2,000 Normal	5,000 Normal	10,000 Normal
15%	Reduction of 5% (to 10%)	£ 77,500	£ 193,750	£ 387,500	£ 775,000	£ 1,937,500	£ 3,875,000
	development cost	£ 15,500	£ 34,875	£ 62,000	£ 108,500	£ 232,500	£ 387,500
	Saving	£ 62,000	£ 158,875	£ 325,500	£ 666,500	£ 1,705,000	£ 3,487,500
20%	Reduction of 10% (to 10%)	£ 155,000	£ 387,500	£ 775,000	£ 1,550,000	£ 3,875,000	£ 7,750,000
	development cost	£ 31,000	£ 69,750	£ 124,000	£ 217,000	£ 465,000	£ 775,000
	Saving	£ 124,000	£ 317,750	£ 651,000	£ 1,333,000	£ 3,410,000	£ 6,975,000
25%	Reduction of 15% (to 10%)	£ 232,500	£ 581,250	£ 1,162,500	£ 2,325,000	£ 5,812,500	£ 11,625,000
	development cost	£ 46,500	£ 104,625	£ 186,000	£ 325,500	£ 697,500	£ 1,162,500
	Saving	£ 186,000	£ 476,625	£ 976,500	£ 1,999,500	£ 5,115,000	£ 10,462,500
30%	Reduction of 20% (to 10%)	£ 310,000	£ 775,000	£ 1,550,000	£ 3,100,000	£ 7,750,000	£ 15,500,000
	development cost	£ 62,000	£ 139,500	£ 248,000	£ 434,000	£ 930,000	£ 1,550,000
	Saving	£ 248,000	£ 635,500	£ 1,302,000	£ 2,666,000	£ 6,820,000	£ 13,950,000
35%	Reduction of 25% (to 10%)	£ 387,500	£ 968,750	£ 1,937,500	£ 3,875,000	£ 9,687,500	£ 19,375,000
	development cost	£ 77,500	£ 174,375	£ 310,000	£ 542,500	£ 1,162,500	£ 1,937,500
	Saving	£ 310,000	£ 794,375	£ 1,627,500	£ 3,332,500	£ 8,525,000	£ 17,437,500
40%	Reduction of 30% (to 10%)	£ 465,000	£ 1,162,500	£ 2,325,000	£ 4,650,000	£ 11,625,000	£ 23,250,000
	development cost	£ 93,000	£ 209,250	£ 372,000	£ 651,000	£ 1,395,000	£ 2,325,000
	Saving	£ 372,000	£ 953,250	£ 1,953,000	£ 3,999,000	£ 10,230,000	£ 20,925,000

The sums represent the CIPD suggested saving when reducing 'Churn' down to a normal level of 10% ↓

Less the estimated cost of development to achieve these reductions and ↓

the savings to the organisation.

Retained Competence

The biggest single disproportionate investment you will make in your people is immediately during induction and training. They will be at their least productive and will require more skilled people to supervise them in the early days. This carries a huge operational cost and has a similar impact to modern warfare tactics where the aim is not to kill the enemy but simply to wound them. For every soldier wounded it takes two more off the battlefield to tend to them plus all the medics etc. The demoralisation of the other soldiers could prove devastating to any army. Large scale training programmes have this problem as well, (where on paper) you may have the correct numbers of people but you struggle to meet SLA commitments because you are using front line staff to address other issues.

Another key cost impacted by retained competence is LOC (lost opportunity cost). This is in lost customer experience opportunities. There are a fixed number of customer contact opportunities during the year for your business. The more of those opportunities that are approached with retained skills the higher number of sales and first time resolutions will be achieved. The tracking of LOC is challenging because it is impacted by people process and technology.

In a project carried out for Friends Provident in 2002 we found that, in one contact centre, they were able to increase staff retention from 72% to 92% over a relatively short period of time. In pure recruitment terms the operational team were able to demonstrate a saving of over £90k. However, when they added in induction training and its associated costs, plus improved effectiveness and productivity, the real value from the retained competence of those employees came to £864k – almost 10 times the basic cost of gaining ‘bums on seats’.

However, our studies show that an organisation with no ‘churn’ can turn stale and lose out on re-invention; therefore a churn rate of between 8% and 12% in a Contact Centre environment is considered ‘optimum’.

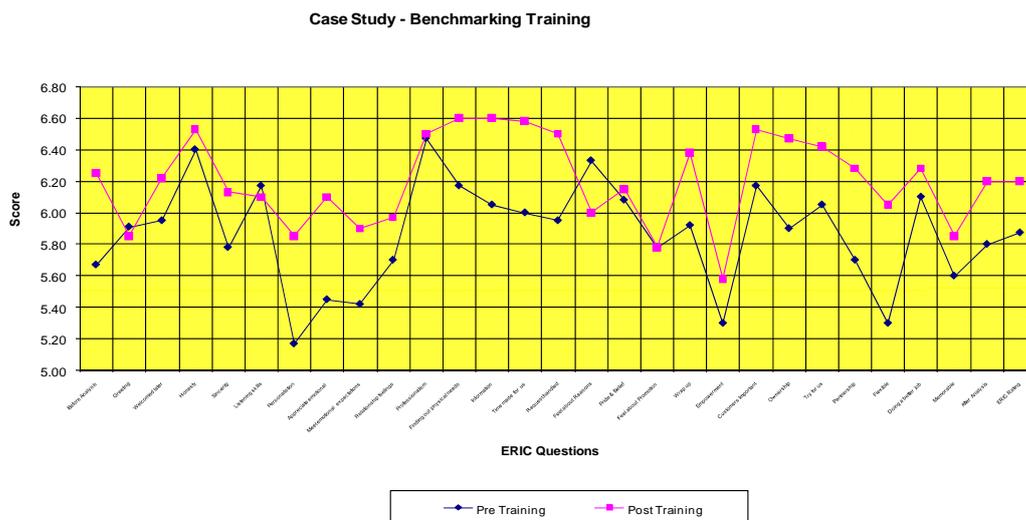
Training

The potential value of attracting people with the right attitude starts to deliver benefits during induction and training. The better the quality and 'fit' of the people you recruit, the more quickly they will learn, the more they will retain and the more comfortable they will feel— thus reducing the need to repeat training programmes and increasing their impact.

Monitoring Initiative Sustainability

Using Empathy measures to monitor the effects of training (before and after) will indicate the impact and sustainability of different initiatives and programmes. Measuring the quality of the customer experience from beginning to end enables you to assess the effectiveness of training and to evaluate its effect on different areas of the interaction. This in turn allows trainers to recognise areas of strength and to focus follow-up sessions or individual coaching on targeted trouble spots.

ERIC Measures to track initiatives



Applying the 80/20 Rule

The second value of using ERIC measures alongside training programmes is the opportunity to apply 'progressive training'. Essentially this means that the training outputs adapt with each intervention and a continuous feedback loop is created.

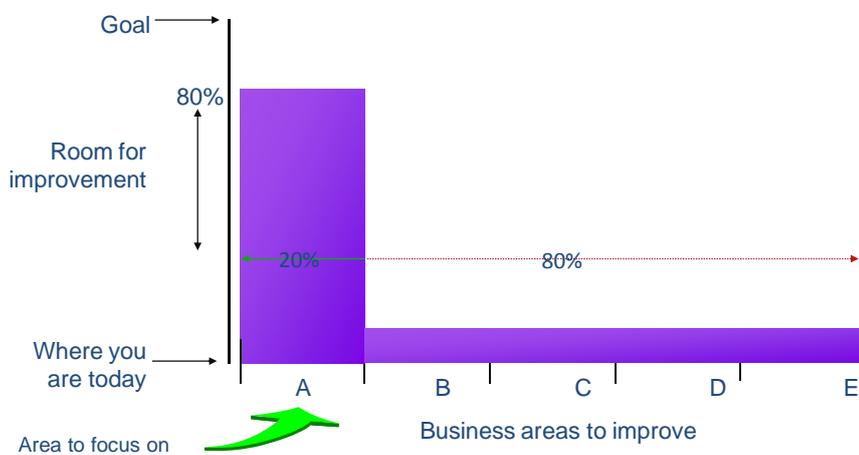
Before ERIC's correlation with profit was uncovered, organisations could be forgiven for not entirely understanding what their training needs were. Sceptics (or dinosaurs) could be equally forgiven for believing that such initiatives were a waste of time. Not any more.

After years of tracking and correlation we are clear now what customer experience elements align with profitability therefore we can gear our training around these. In the November issue of Your Empathy

Prophet™, Caroline Hardwicke (Harding & Yorke Empathy Academy's Senior Consultant) identified the key components needed to create an empathetic interaction.

Because training and coaching budgets are always tight and are often the first to go in difficult times, we need to be able to justify what we do and to concentrate our efforts in areas of real advantage. The ERIC analysis clearly identifies major areas where improvements would have maximum impact; if you need a more in-depth analysis, we have a full Empathy questionnaire, with over 300 questions, that will enable you to drill down to the specific behaviours that contribute to these overall results.

Synthesis Based On 80/20 Rule



Progressive training can be applied by applying specific training interventions, repeating the measure, identifying the next key areas for improvement, designing the next round of interventions, and so on. This will have the added benefit of creating a culture of continuous improvement where even your best performers will be able to find new challenges and develop their skills to a higher level.

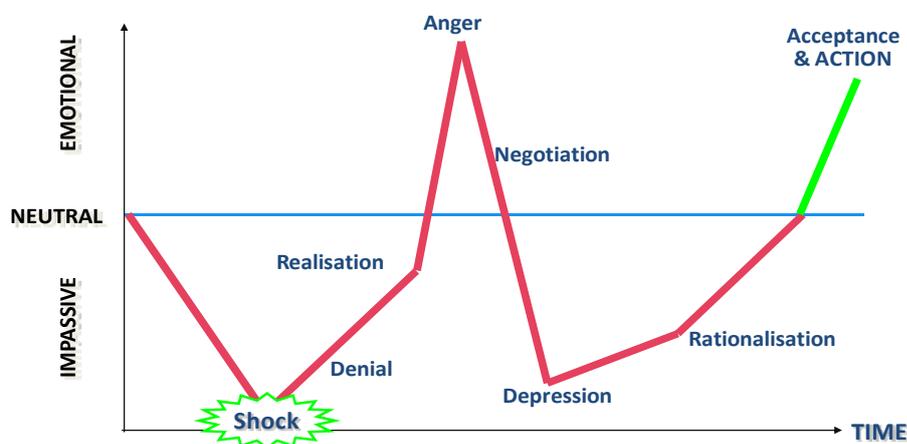
Golden Rule – Aim for excellence. Measure the effects of changes to recruitment and training programmes on the customer experience and use the results to feed back into recruitment, induction and ongoing skills training.

Negative Curve to Change

Harding & Yorke training programmes involve delegates in learning by encouraging them to experience service as the customer does. This means that we share with our clients' actual soundbites, videoclips and excerpts from emails or letters that represent typical examples of their own interactions with customers. This has an incredible catalytic effect and raises self-awareness - "if I had known that it had that effect I wouldn't have done it that way at all" – "I had no idea we sounded so bored".

Some of the most well known and documented 'life changing' moments are in childbirth and in bereavement. The change that people experience is known as 'The Negative Curve to Change'.

The Negative Curve to Change



It is often said by our clients that Harding & Yorke deliver a similar process to provide the necessary 'crisis' and catalyst to change.

Initially we deliver 'Shock' which in turn leads to 'Denial' and, as we present evidence to back up our findings a 'Realisation' that what we are reporting is true. There follows a period of 'Anger' or 'how could someone talk to a customer like that' before the audience begin to realise that the reason behind the reported customer experience goes far deeper than any one individual. 'Depression' sets in as it is clear that all the hard work done so far is, perhaps, the driver of the current customer experience. We facilitate the way forward and a sense of 'Rationalisation' sets in as people begin to slowly realise that there is a way forward and finally an 'Acceptance' coupled with a real desire to make a difference. This is the catalytic effect we aim to achieve and this more than anything evokes a real change and creates the 'life changing' moment needed to sustain any subsequent initiatives.

This saves you a considerable amount of time and effort in getting your people to buy into and engage in new, and more productive, working practices.

Golden Rule – allow all the emotions to play their part to get the full effect – don't over-react too quickly

The Interaction

The key advantages of developing (and releasing) empathy skills in your people can be seen, heard and felt during an actual interaction. To some extent this is reflected in the correlation with ROCE as it is clear that the more empathy displayed by an organisation the more profitable it is. However, there are several other key considerations that ought to be taken into account.

First the ability to listen to what customers say and then hearing what is meant. So often agents are encouraged to assume what a customer is calling about (based on expectation) and completely miss the point. Alternatively they immediately look for the physical needs or requirement of the customer without taking into account their emotional state or needs that have led the customer to call in the first place.

To listen without hearing and to assume a client's need can be very expensive in terms of both customer loyalty and the time spent on the phone. Both **first direct** and **Norwich Union Healthcare** reported to Harding & Yorke that empathetic interactions were proving either 20% quicker than the more un-empathetic ones or at least 20% more productive.

In addition **first direct**, in particular, reported that by appropriately asking 'is there anything else we can do for you?' at the end of the conversation, they reduced the number of incoming calls by 20%, thus reducing OPEX even further. As a result of this well reported phenomenon, many companies blindly copied their example with disastrous results. They failed to recognise that it was not the phrase in itself (for this would simply add 11 seconds to every incoming call), but more the sentiment behind it that counted – or put another way – the empathy directed towards the customer.

It is clear that First Time Resolution is a key ingredient in the minimising of 'avoidable contact' as is the ability to direct your customers to the most appropriate place for them to get the right information. This is not as simple as it might first appear. Customers expect brand consistency and by applying and measuring empathy as a value across all your channels and touchpoints, you can make the customer feel entirely comfortable, at home and hassle-free, irrespective of how and when they choose to contact you.

We will continue to look at the financial impacts of these figures on overall OPEX. These Customer Experience (empathy) levers can dramatically change your operational OPEX fundamentals. Technology elements such as hardware, software, licences, buildings, data networks etc are all impacted by call volume metrics and process elements such as customer yields and opportunities are impacted as well.

Culture

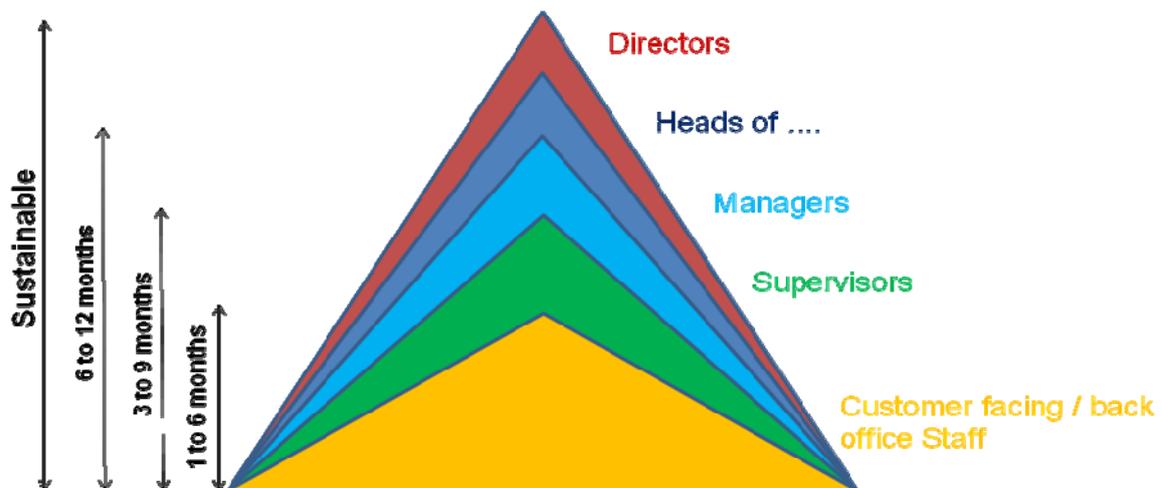
Ok, so we can evidence that creating an empathetic environment can increase productivity, reduce costs and is directly correlated to profit. Of course these benefits can be achieved both in the short- and long-term. Short-termism certainly pays dividends – however, if you can generate an empathetic culture across your entire organisation then the benefits will be repeated year on year without the corresponding and associated costs – continually decreasing your OPEX.

Based on the outputs of the ERIC measures, we can draw some conclusions as to the length of time that customer interactions will be effected by specific interventions or change programmes. We call this the 'half-life' of an intervention. These half-life models reflect the time periods during which financial benefits derived from investments in actionable programmes.

Cultural initiatives targeted only at customer-facing staff and their immediate first-line managers tend to have the shortest half-life as the rest of the organisation has not been involved or bought into the initiative. Conflicting priorities and pressures from different parts of the business mean that these kind of initiatives are not fully supported at senior levels, or implemented across the whole of the organisation, and when the going gets tough, they get abandoned.

Only initiatives that are supported by the whole of the executive team, implemented from the top and targeted at the entire organisation will survive beyond 12 months and therefore reap the additional benefits of sustainability.

Half-life of targeted interventions



Half-life is described at the point when half the outputs of the initiative have been eroded.

The true value of embedding empathy into your culture is that it will impact on everything you do. We have only touched the tip of the iceberg.

Golden Rule – Lead from the top and engage the entire organisation. It might take longer, but it'll last longer as well. Organisational change programmes that do not engage the whole organisation and are not supported by the entire executive team tend to be less cost effective because they have shorter lives.

Financial benefits of Empathy on HR

Recruitment

- Attraction = Makes your organisation an 'Employer of Choice'
- Retention = Saves on recruitment costs
- Retained
- Competence = Biggest saving of them all

Training

- Monitoring = Target and sustain training initiatives
- 80/20 rule = Identify the key areas to work on / progressive training
Make sure all your people buy-in to the solution and
- Engagement = contribute

The Interaction

- Productivity = 20% more productive interactions
- Call Length = 15-20% faster interactions

Culture

**EMPATHY = PROFIT via Increased PRODUCTIVITY
Decrease in COSTS
Greater Customer Loyalty**