Service Operations (Global)

Bringing out the best in people

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Bringing out the best in people

Providing good service has never been easy. Meeting rising customer expectations requires companies focus on building the capabilities their people need to make full use of their talents.

Providing good service has never been easy. And service expectations are only rising: unprecedented technological change and access to data have made customers better informed and more demanding than ever, while the rise of social media gives them more power to publicize their experiences—making each customer interaction more important.

As organizations get larger, moreover, the sheer number of customer interactions becomes a disadvantage in that the risk of a customer-experience problem increases. The rapidly consolidating US banking industry is a case study: for 20 years, customer satisfaction at the largest banks has usually underperformed that of the rest of the sector.[1]

With services accounting for an ever-increasing share of economies from Canada[2] to China,[3] improving service quality has never been more important to more large organizations. And the way many organizations are achieving this impact—in sectors from banking and retail to government and telecommunication—is by adopting lean-management systems, which reinforce four integrated disciplines across the whole organization (see sidebar "What are lean-management disciplines?").

One of the four—enabling people to lead and contribute to their fullest potential—is especially critical in transforming a large organization at adequate scale and speed, as well as in ensuring that it will continue improving into the future. At its core is a strong focus on capability building at all levels, which then becomes an integral part of how the business operates.

An example is a regional financial institution whose transformation reached more than 15,000 employees over the past four years. By investing heavily in capability building, the leaders changed the way the organization worked. Faster processing times and fewer errors meant that customer satisfaction rose by 11 points while the company's cost-income ratio fell by 20 percent. At the same time, employee satisfaction rose: the proportion who scored the strength of their affiliation to the company as four or five on a five-point scale rose by 15 percent, to almost 80 percent of employees.

To make these results possible, however, the organization did more than just build the right capabilities, which can fade surprisingly quickly. It also followed several success factors that helped the capabilities persist even after the core transformation work was complete.

The importance of capability building

Why is capability building so important in a services context? Much of the answer concerns variability. In services, the work itself tends to be highly variable—both in terms of content (such as the wide range of questions customers may have) and in form (such as the major swings in demand that may occur depending the time of day or year). Moreover, providing services usually means relying mainly on people, who are far more variable than machines. This compounded variability can make consistent delivery appear almost impossible, unless people are able to perceive the issues that are produced by variability, react to them, and provide solutions on a continuous basis.

Over the long term, these capabilities become even more important so that the organization can identify new customer needs, take advantage of new opportunities, and create new value. Senior leaders and managers cannot know everything about what their customers want or how their products are doing. The closer people are to the front line, however, the more likely they are to have a real answer—but only if they have built skills in listening to customers and analyzing problems.

Capability building thus involves more than just teaching people how to complete their day-to-day tasks. Instead, it focuses on a broader set of skills that increase each employee's value to the organization, such as learning to reach problems' root causes, or providing effective feedback. With the greater value that more skilled people can create, the organization will enhance its unique competitive position. That means tailoring the capability building to the organization's business context, culture, and needs—especially to the factors that allow the organization to create value.

1   "Benchmarks by industry: Banks," American Customer Satisfaction Index, 2013, theacsi.org.
2   "Goods and services' share of GDP," Statistics Canada, March 12, 2009, statcan.gc.ca. *The World Factbook*, Central Intelligence Agency, 2000, 2006, 2012, cia.gov.
3   "Services, etc., value added (% of GDP)," World Bank, 2014, data.worldbank.org.

What are lean-management disciplines?

In working with large organizations, we have found that those that renew themselves all seek to execute four essential lean-management disciplines exceptionally well (exhibit):

- delivering value efficiently to the customer

- enabling people to lead and contribute to their fullest potential

- discovering better ways of working

- connecting strategy, goals, and meaningful purpose

When leaders design systems that enforce these disciplines effectively, they reinforce one another to create what lean has long envisioned: an adaptive organization that consistently generates the most value possible for all stakeholders from all of the resources it can bring to bear.

Exhibit The lean-management system is articulated through four integrated disciplines.

Connecting strategy, goals, and meaningful purpose

Discovering better ways of working

Enabling people to lead and contribute to their fullest potential

Delivering value efficiently to the customer
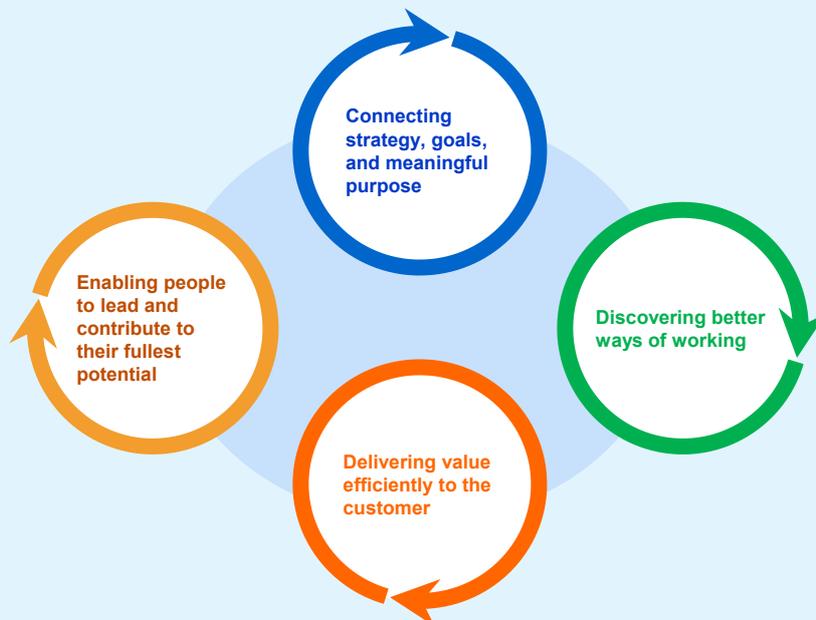
Source: McKinsey Service Operations Practice

This sidebar was adapted from David Jacquemont, "The organization that renews itself: Lasting value from lean management," February 2014, mckinsey.com.

A Latin American bank, for example, sought to build on its service reputation by enabling employees not just to respond to customer requests, but to anticipate them based on a combination of external circumstances (such as the level of activity in the bank), emotional cues (such as the customer's visible stress or fatigue), and the customer's history with the bank (such as a record of the customer's interactions and their outcomes). For employees to respond effectively from the moment they encountered the customer, they needed greater interpersonal awareness, faster information gathering, and a deeper understanding of the bank's own products and processes. Together these formed the core of a new capability-building program that comprised more than two dozen initiatives, ranging from in-person training for the front line on how to provide clear product explanations to a new performance-management system and in-house "university." In one year, customer satisfaction rose from second to first place in the market across all three of the bank's major segments: corporate, small business, and retail banking.

Once an organization knows which capabilities it must build, though, the next challenge is to start building them quickly and at scale—two prerequisites for a transformation to build credibility across an organization and sustain its momentum. That's where additional factors come into play.

Four success factors

Those large organizations that have most dramatically accelerated their capability building have integrated four success factors, which together support the transformation and the organization's continued progress once the major changes are in place (exhibit).

Engage every level of the organization

The first success factor concerns the scope of the capability building. Too often, leaders assume that the capability gaps that matter are only at the front line. But in fact, capability building is necessary at every level, all the way to the executive suite. Indeed, with role modeling critical to sustain almost any organizational change, a clear example from the top is usually the most important success factor in a capability-building effort.

Coaching direct reports is an essential skill for every executive, up to the CEO. At a global asset manager, the CEO began convening a recurring problem-solving meeting for the top team, underscoring for everyone in the company the importance both of the new skill, and of capability building more generally.

Support from the next level of leaders, who may head entire businesses or functions, will also be critical for persuading the rest of the organization to embrace the new capabilities. These executives should be involved as early as possible in designing curricula to help their respective teams become more effective. At one US insurer, the resulting development program started yielding results so quickly that the CEO is now accelerating the transformation across the enterprise worldwide.

Exhibit Capability-building programs multiply transformations' effects.

Source: McKinsey Service Operations Practice
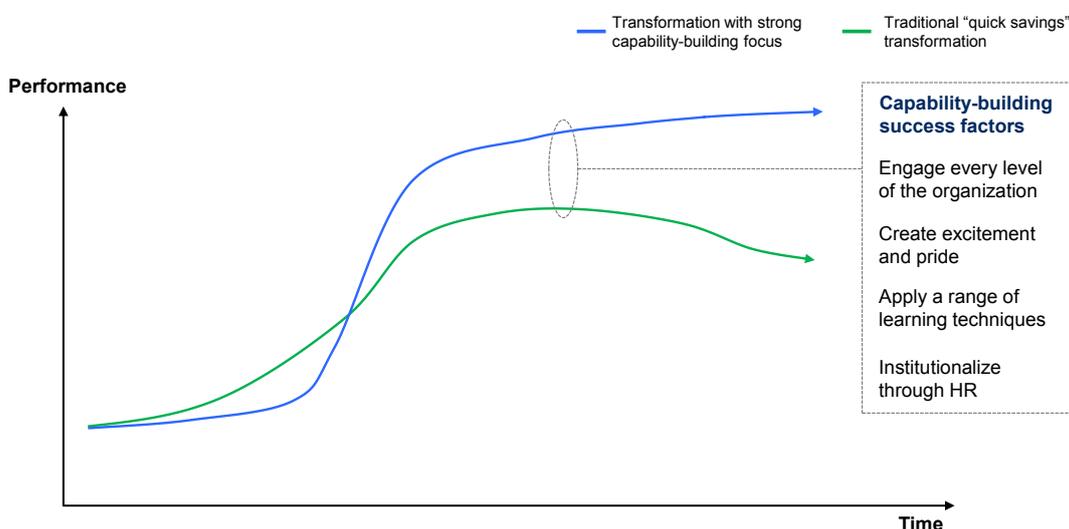
The middle-management level is where scale starts to become especially difficult. Middle managers' development needs involve more customization than is typical at the front line, but there are so many middle managers that the type of one-on-one counseling offered to senior leaders is not feasible. The content differs as well. Like senior leaders, middle managers need to understand the enterprise-level picture, but they also must translate that understanding into the detailed, concrete actions that the front line is taking every day.

Accordingly, the insurer's mid-level curriculum centered on these "translation" skills—such as how to analyze the leadership team's strategic messages into operational trade-offs. For example, if leaders announced that they were reviewing the company's privacy policies, a service-center manager would need to be able to recognize the resources implications for her contact-center teams (see sidebar "The pressure for capabilities"). What could they de-emphasize to provide additional capacity? What would the balance look like between the telephone and instant-messaging channels?

Create excitement and pride

For capability building to endure, people must see it as representing an opportunity for the future rather than a critique of past practices. The best programs therefore communicate a well-defined value proposition that encompasses each level of the organization and reaches well beyond promises of career advancement.

In this type of environment, people see capability building not as just a mandatory box to tick, but as a way to build an individual reputation. Leaders can reinforce the message by celebrating their organization's programs: serving as faculty, hosting graduation ceremonies, and boosting exposure for the program throughout the enterprise. These symbolic measures are especially important in the first few years after launch, when the capability-building program is still developing its reputation and people need reassurance that their leaders are truly committed to it.

Over the longer term, robust capability building can raise the profile of a company as a place to work and deepen the connection people feel to their employer. One of the

The pressure for capabilities

Jeanette is a group manager at a customer-contact center for a large US bank. She started as a teleservice operator ten years ago, but now she has six teams reporting to her—about 80 people total. She's proud that for five consecutive quarters, her group has won a Service Star, the bank's award for exceeding customer-service and revenue targets.

Lately she feels a little overstretched. Two of her team leaders are new to the role and struggling. That means more turnover among the frontline workers, and more time Jeanette spends to smooth over mistakes and solve staffing problems. She wishes she could just clone her best team leader, Marco, who's being promoted to a manager position in another part of the center. Instead, she wonders how she'll cope with three new team leaders instead of two.

And the targets are only getting higher. A low-fee, mobile-focused competitor is expanding quickly. Service is going to be even more crucial for the bank to differentiate itself, but margin pressure means it will need to be even more careful in deploying its resources. Jeanette understands the implications.

What if Jeanette could "clone" Marco—by helping him strengthen the skills of her other team leaders? What would that mean for her group?

What could the bank do if it could create more workers like Jeanette and Marco at every level of its organization?

To find out, the bank will need a consistent system for building its people's capabilities. It's an investment whose payoff typically grows over time, as people like Jeanette and Marco improve both their own skills and those of their colleagues.

insurer's ambitions has been to become known in the financial-services industry for its capability-building opportunities, so that it can both retain and attract the high-potential individuals who are most committed to learning. That message is reinforced at the start of every curriculum the company offers, so the entire organization knows that the program's goal is to make the company an even more attractive place to work. Employees see the value, with more than 90 percent of participants saying they are satisfied with the program.

Apply a range of learning techniques

Traditional corporate training programs still rely on classroom learning, even though researchers have long found that the classroom alone is a poor fit for adult learning patterns. Most adults instead need a mix of concrete experience, reflective observation, abstract conceptualization, and active experimentation.

In practice, this means that as much of the learning as possible should occur in the actual workplace, ideally based on actual work during the course of the workday. Leaders, managers, or even peers can work with the "student," providing immediate feedback as he or she practices the new skills—such as at a multinational retailer, where each store manager now confirms standard procedures with employees while they are performing the relevant tasks. The approach works for virtually any skill, ranging from how to handle a particular type of customer request in a store to how to provide coaching for senior executives.

When "sit withs" such as these are not possible, capability building works best in settings that resemble the actual work environment as closely as possible: an office or retail floor, for example, rather than a classroom. These surroundings allow for realistic role playing that tests real problems in the workplace. Indeed, a model setting can allow people to envision solutions that might not seem possible under the constraints of their current offices.

One European company with more than 50,000 employees has built an advanced "model office" to increase the capabilities of about 3,000 leaders and managers, who are overseeing the company's transformation. The office uses actual company data to set up real problems that particular regions or businesses are facing—and that participants learn to solve over the course of their training.

As people progress through each module, the underlying IT system replicates the work environment by generating

e-mails setting up realistic scenarios for role-playing exercises. Participants then use the lean-management techniques they are learning to understand and address the issues and to think more critically about the issues they deal with every day. Once they return to their roles, program graduates report that they can recognize difficulties at a far earlier stage and have a far easier time thinking of solutions.

Institutionalize through HR

The final step is to embed capability building in HR processes so that they become part of the organization's culture. A financial-markets company started by redefining required competences and skills for all leaders, including problem solving, daily-meeting facilitation, and coaching, with personalized follow-up from HR. In parallel, HR revamped the company's compensation systems to reward capability-building efforts and progress, with lean-skills development incorporated into performance objectives for all employees. Over subsequent years, the changes made lean management so fundamental to the organization that it became simply the way it operated. The impact is visible through almost every measure: volume of completed work increased by 30 percent and errors fell by 80 percent, while client and employee satisfaction both rose by more than 10 percent.

Finally, the regional financial institution mentioned previously illustrates how the four success factors come together. The CEO launched the company's transformation by describing how he wanted everyone—including him and his leadership team—to learn new approaches for understanding and acting on customer expectations. The core of the new capability program was squarely in the middle of the organization: in addition to 200 "change agents," 500 middle managers went through intensive capability building. The organization also developed a new internal brand, supported by a comprehensive communications platform encompassing all media from wall posters to sophisticated video presentations. Their collective message emphasized what teams were achieving with their new skills, and thereby generated new demand for the changes. As the program expanded, the company built an experiential-learning center that could train about 1,000 people per year. Company leaders now require all managers above a certain level of seniority to complete the program, which certifies them in their new skills.

Four years into the program, the changes have helped increase the company's return on equity and cement its leadership in customer services in its market.

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The experiences of these organizations demonstrate what companies can achieve when they build their transformations around the capabilities that their people need in order to make full use of their talents. Once people see the value they can create, they engage more deeply in their work in ways that give an organization not just short-term performance, but the long-term flexibility and resilience that are essential to thrive over the long term.

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