Leveraging the People Value Chain: e-Business Necessity

by Jay Cross, Internet Time Group

Executive Summary

e-Businesses are being held back by a lack of people with the ability to execute. Execution requires people who are innovative, fast, decisive, and focused. Looking at investing in people holistically, as a "people value chain," offers a solution.

A radical example drives home the point. Imagine linking into a learning environment that enabled your people to devote half their time to learning to do a better job. The author suggests that gains in productivity, reduced attrition, easier recruiting, greater loyalty, and a stronger team outweigh costs two to one.

Yesterday's assets are tomorrow's liabilities. Today's knowledge becomes tomorrow's garbage. Distance is dead. Time itself has sped up. Cycles are faster. Competitors sprout up like bamboo in the tropics. Everything happens on Internet time.

Leaders have shifted their focus from static to dynamic, from physical to virtual, from financial results to financial expectations, from machines to people, from goods to services, from analytical to intuitive, and from institutions to individuals.

Knowledgeable, can-do people are the heart of competitive advantage. Keeping them informed and inspired is vital. More than ever, people matter, for human ingenuity is today's scarce resource.

Just keeping up steals the time we need to plan for the future. We fall further behind with every step forward. A prominent Silicon Valley CEO said, "We're racing down the highway at 150 mph, and we know there's a brick wall up ahead somewhere." That was two years ago. Today the speedometer is approaching 500 mph.

Let's slow down for a few minutes to think about what makes an enterprise successful and what you can do to improve your firm's overall value.

Improving shareholder value

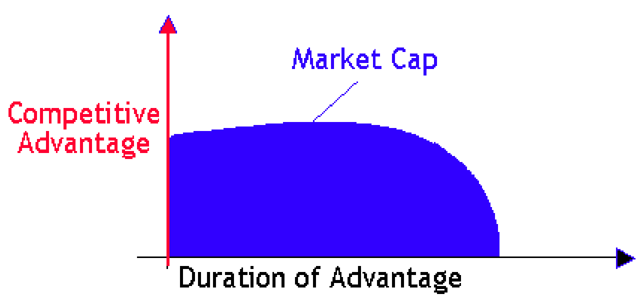
Shareholder value (AKA market capitalization) is a function of competitive advantage, and organizations achieve it by focusing on core functions. Everything else is an unnecessary distraction. This is the thesis convincingly described by Geoffrey Moore in his recent book, *Living on the Fault Line*.[1]

When Moore makes his case, he describes a world turned upside down by the Internet. Money, software, and service providers, once scarce, are now plentiful. Today's scarcities are time, talent, and management attention.

Scarce Resources

Industrial Age	New Economy
Money Software/computing Service providers	Time Talent Management attention

"Managing for shareholder value" means focusing on strong, sustainable competitive advantage. Drivers of high-tech industries now visit us all as the fever pitch of Internet time drives a seismic fault[2] under commerce of every stripe. All businesses must concern themselves with market segment leadership, execution focus, and differentiated offerings.



How do you maintain that focus? By putting today's new scarcities – time, talent, and management attention -- to best use. Invest where you will get the highest return. Concentrate time and talent on core activities. Outsource everything else. (Your context is someone else's core. ADP can process your payroll cheaper than you can. SmartForce can train your people faster and better than you can.)

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[1] *Living on the Fault Line* by Geoffrey A. Moore, 288 pages, (May 2000) Harperbusiness; ISBN: 0887308880

[2] The offices of Moore's Chasm Group are about four miles from the San Andreas Fault. The Redwood City headquarters of SmartForce is six miles from the San Andreas. Internet Time Group is three blocks from the Hayward Fault. Silicon Valley knows earthquake talk.

Talent and attention relate to the human ecology of your organization. Focusing on core boils down to leveraging your human capital value chain -- getting the right people and getting the most from them.

In the new economy, the yardsticks used by Warren Buffett and *his* mentor, Benjamin Graham, no longer jive with equity valuations. Today what is off the balance sheet is often worth more than what is on it.

Sixteen months ago, Forbes joined the search for new yardsticks, saying:

> "Intellectual capital has yet to be adequately measured. Intangible assets live up to their name. They are typically amorphous, subjective, and hard to pin down.[3]

What really counts?

An extensive number-crunching exercise[4] isolated these as the most important non-financial determinants of value:

1. Innovation
2. Ability to Attract Talented Employees
3. Alliances
4. Quality of Major Processes, Products, Or Services

People skills make all the difference. Isn't it ironic that in the Internet age, technology doesn't have any impact on valuation?

Forbes/E&Y confirms that leveraging your people is the key to shareholder return.

The People Value Chain

For decades, executives have said that people are their most important assets. What's different now is that they mean it. Merrill Lynch makes a convincing argument that:

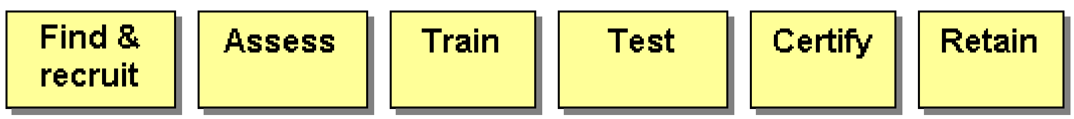
> At no previous time has human capital been so important, meaning finding, developing, and retaining knowledge workers will be mission-critical functions – and high growth sectors – in the new economy."[5]

[3] Forbes ASAP, April 3, 2000
[4] See Introducing the new Value Creation Index, Forbes ASAP, April 3, 2000.
Statistically, the real intellectual-capital drivers are not what most people think Ernst & Young Center for Business Innovation and the Wharton Research Program on Value Creation in Organizations. By Geoff Baum, Chris Ittner, David Larcker, Jonathan Low, Tony Siesfeld, and Michael S. Malone
[5] Merrill Lynch, *The Knowledge Web*, May 2000.

The average Fortune 500 industrial has a market capitalization of about $600,000 per employee. The average public company in Silicon Valley has a market cap of $38,000,000 per employee. Are high-tech employees worth **sixty times** their manufacturing counterparts? The market seems to think so.

Are we investing sixty times more…or even ten times more…in our people? No. Why not? For the last half-century, senior managers have taken people issues personally. Frustrated by irascible human nature and befuddled by the fact that they are people too, executives wring their hands over their lack of control in their organizations. They flip a switch at the top of the company but the lights don't go on below. Organizations cry for better circuitry.

Current doesn't flow if any portion of a circuit is broken. That's why executives need to rethink human resources holistically, looking at all the factors that link people to value production. The elements of this "people value chain" are interrelated. Changing one area impacts the others.



The People Value Chain

Managers must approach people issues systematically. A dollar spent on assessment may save three dollars in retention. A dollar invested in training may lower recruiting costs by five times that amount. Better-trained people produce superior results, increasing compensation, and lowering turnover. Word gets out, and top talent begins pursuing the company rather than the other way around.

The objective is to create an environment that empowers individuals by networking them and giving them the tools to solve problems. Hierarchy is dead. Everyone now needs to make decisions on the basis of a gut understanding of the goals of the business. This replaces bloated bureaucracy with dedicated, sure-footed teams. Lights go on before the switch is thrown.

We used to think of people as costs. The leaner the payroll, the better the business, right? An urban legend of the early sixties told of a factory owner who replaced cantankerous, striking workers with robots. He gleefully toured his efficient, people-free factory. Imagine this guy trying to adapt to Internet time, where some products seem to have the lifespan of a fruit fly.

People are assets we invest in to make them more valuable.

Investing in people

The issue is no longer how little can we spend on people. It's how much.

Companies looking for loyal workers who take orders, understand discipline, and put the welfare of the company above their own will be disappointed. Workers like this no longer exist.

Today's workers are out for themselves. Not selfishly but realistically. Free agents. They recognize that their careers will last many times longer than their employer. *Fast Company* exhorts them to look out for "Brand You." Tom Peters encourages everyone to consider herself a separate business. Our market-driven world drives people to increase their personal marketability.

While some decry high turnover, other companies turn the mindset of the new recruit to their advantage. After all, they want innovators, not followers. They prefer self-starters who will do what's right rather than wait for instructions. They need people more concerned with getting the job done than punching the clock.

The wise approach makes the interests of the worker and the needs of the organization congruent. Both make the worker a more valuable asset.

"Internet Age companies rely on the initiative and smarts of individual employees to foster decisions that are closer to the customer and therefore more responsive to the market. The ultimate goal is flexibility, an open mind, and transparency of organization."[6]

For too long, we've looked at investing in people through the wrong end of the telescope. Instead of trying to keep the cost of training and development down, what if we were to try to keep it up?

How much time should a company invest in training?. The old rule said one week a year on company time, plus a few professional conferences here and there. For managers, perhaps a trip back to campus to master new techniques or rev up the spirit. For techies, the company footed the bill for technical training but workers had to do most of it on their own time. Maybe throw in an offsite bootcamp to learn a new language.

This notion of a week or two of annual training, like many other rules, is without foundation. It reminds me of the saying that 2% is a good response to a mail campaign, as if there's some sort of generic mail campaign where the offer makes no difference.

What might happen if an enterprise adopted a no-cap learning policy? Learn whatever you want, however much you want. If you're growing into a new area of capability, you may spend half your time learning.

Recruits would flock to such a company. Its investment in their future is clear. How would you pay for it all? Use the money now spent on recruiters, finders'

[6] Jorma Ollila, CEO of Nokia

fees, bidding wars for scarce talent, signing bonuses, and other incentives that coerce someone to join your organization rather than the company down the street.

The people joining you would be the curious, go-getter learners who want to better themselves. Why would you want anyone else?

Retention would soar. Why leave a company that makes you more valuable the longer you stay? A solid learning organization fosters a sense of belonging. Christopher Bartlett puts it very well:

> “People engaged in learning and creating the future together can move beyond the old structure, strategy, and systems philosophy of running the business. Instead, everyone can focus on a common goal, no longer a mere contractual employee of an economic entity so much as a committed employee of a purposeful organization.” [7]

Picture two people. Over the last six years, one person has learned your culture, gotten to know the people in your organization, understands your competitive positioning, knows the territory and has figured out the way to get things done in your shop. The other is a new hire who doesn’t know who does what, is unclear about the dynamics of your market, and hasn’t figured out how to program her phone. Put these two in a competition to see who can come up with the best ideas and get the most accomplished. It’s no contest. The person who’s been around a while is four or five times more productive than the new hire – yet they probably cost about the same in salary. It would be doubly productive to retain the long-term employee by offering 20 weeks of learning a year.

To attract and retain the great people, create a place to belong, not just a place to work. And how do you tie those middle elements of the human value chain together, the steps of assess, learn, test, and certify? The coming generation e-Learning environments do it for you.

It’s not training

Training has earned a bad reputation in executive management. Get over it. Here we’re talking about the continuous, integrated, systematic flavor of development called e-Learning.

In addition to traditional learning, e-Learning encompasses keeping informed, honing existing skills, certifying expertise, building working relationships, forming teams, discovering what you don’t know you don’t know, researching new areas, staying ahead of the competition, improving the quality of decision-making, smoothing down one’s individual rough edges, grabbing information on the fly,

[7] *Organizational Overhaul* with Christopher Bartlett, an interview in LiNE Zine, www.linezine.com

planning one's development path, testing one's knowledge, capturing and sharing intellectual capital, attracting new recruits, and retaining the people already on board. e-Learning plays a role in every step of the human value chain[8]:

The returns on leveraging the human value chain are staggering. On the factory floor, if you could double the output of a particular machine, you'd be hailed as a hero. These days, we're working with humans instead of machines. And leveraging a truly with-it knowledge worker can produce hundred-fold gains rather than a paltry 100%.

A cornerstone of e-Business is reorganizing to focus on the customer. The People Value Chain is an e-Business process. So, to optimize the return on your investment in people, treat the employees, upstream suppliers, and downstream users as customers.

Herein lies the promise of e-Learning. You may have heard that in e-Learning, "Content is king." That's wrong. **The learner is king.**

e-Learning doesn't replace training. Rather, it puts training and instruction under the same umbrella as knowledge management, collaboration, performance support, assessment, competency management, and other activities. e-Learning helps integrate people functions across the enterprise.

School's Out

We're so accustomed to the school model, with an authority figure at the front of the classroom spoon-feeding us the "right stuff," that it's difficult to appreciate what being "learner-centric" really entails.

David Garvin tells of a professor at West Point[9] who, having stated the precise number of troops in Korea in 1954, was corrected by a cadet doing some real-time fact-checking on the net with his laptop. At first, the professor was miffed to be corrected. Then he "got it." Now he challenges the class to provide all the details to support his lectures.

The training most of us grew up with was class of the instructor, by the instructor, and for the instructor. Think back. Who decided what would be on the test?

Collaboration was discouraged. Old ideas were more highly valued than innovation. The curriculum set the limits of what was to be learned.

It's academic.

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[8] Ibid, p. 23
[9] David Garvin, *Learning in Action*, Harvard Business School Press, 2000.

That's fast becoming history.

e-Learning focuses on the learner. A network of libraries, collaboration, the Internet, a peer network, virtual classes and seminars, and a learning management system to knit it all together are joined by the converging technologies of the interactive web, real-time chat and messaging, conferencing, and email. e-Learning works because it listens to the learners, learns about their needs, and then answers their questions individually and in person. It's a case of customers driving the development of new products instead of the boys in the lab.

In the past, some corporations planned training in a fashion similar to Stalinist Central Planning. No, I don't mean purges and Siberia. Rather, I refer to plans created by bureaucrats for a system whose dynamics they did not understand.

The result for the Soviet Union? Shortages. Cheating the system. Unsatisfied demands. Extremely low productivity. And sometimes nothing to eat but potatoes grown in the back yard.

The result for corporations? Workers who lack the skills to perform their jobs. Workshops no one wants to attend. Coveted workshops not available. Low productivity. And sometimes nothing but memos to help the sales force learn a new product.

What do learners want?

Empowering the learner puts individual self-interest in charge of making decisions about what to learn. Training managers no longer have to guess what people need to learn.

What does the learning customer want? Not training. If people could take a smart pill and magically know everything they needed without one more workshop or web page pill-makers would replace trainers overnight.. People don't want training; they want the skills and knowledge to perform. They want it on their schedule. Less is more. Chunks are better than whole days or even weeks at a time. They want choice and convenience. They want a meaningful learning journey, not a one-shot training fix.

Today's learners want a satisfying learning experience. They want to be fully engaged.

Giving people the freedom to choose what and how they learn brings many of the economic benefits and efficiencies of e-Business e-Learning provides these benefits: [10].

- learner relationship management integrated into career pathing and HR planning
- knowledge management geared to individual interests and job requirements
- self-service e-administration in lieu of forms, copies of forms, and re-entry of forms
- collaboration in learning that transfers to collaboration on the job
- individualized e-procurement from a central online learning store
- mass customization to personalize learning but with economies of scale
- reducing the time to disseminate new product knowledge, processes, competitive information, and customer needs from months to minutes.

e-Learning eliminates e-Business bottlenecks by connecting business processes, information, and people.

Let's sum up.

Suggestions

Treat your people like customers. Make it easy for them to learn, to join, to take part. Sell them on the idea. Build lasting relationships with all learners, be they outside customers, suppliers, or employees. Make your Learning Management System perform like your CRM system.

Speed matters. Getting a quick solution is more important than finding the perfect solution. The key is to get a solution that works. Now. Weigh the trade-off of time vs. cost toward time by considering the cost of lost opportunity by not acting sooner.

Focus on core. Unless you are in the e-Learning business, e-Learning is not your core. Hand it off to a reliable partner, but be certain to choose a partner you can trust to stick around.

Nothing is forever. Listen carefully to learners so you'll be prepared for the inevitable changes that will come. Maintain flexibility by avoiding standalone, proprietary solutions. Choose easily networked, linked, standards-based structures you can grow with.

Make decisions for your entire b-web. Don't take a piecemeal approach to an enterprise-wide issue. Put everyone in the picture. On the clue train,[11] real talk forces out high-fallutin' buzzwords, and substance trumps fads.

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[10]. Here we're talking about holistic, integrated approaches to e-Learning, as exemplified by SmartForce e^3. See the companion white paper *Designing the Next Generation of e-Learning*.

Leverage your entire people value chain. Evaluate the impact of e-Learning on your workforce, suppliers, and customers.

Jay Cross has been passionate about harnessing technology to improve adult learning since the sixties. Fresh out of college, he sold mainframes the size of Chevy Suburbans. Later, he designed the University of Phoenix's first business degree program. He has managed several software startups and is the former president of MegaMedia WorldWide. Jay advised CBT Systems during its transition to SmartForce, the eLearning Company, and helped Cisco e-Learning Partners plan, implement, and market their initial web-based certification programs. Jay serves as CEO of eLearning Forum, a 450-member think tank and advocacy group in Silicon Valley. He is a graduate of Princeton University and Harvard Business School.

Internet Time Group provides hands-on advice on implementing eLearning, developing information architectures, advising management, and accelerating sales. Jay and his team also provide out-of-the-box, results-oriented marketing advice to eLearning companies. Five hundred people visit www.InternetTime.com for eLearning information every day.

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[11] *The Cluetrain Manifesto* calls for honest, clear, personal communication in place of corporate bafflegab and buzzwords. www.cluetrain.com