# PEOPLE POWER

## Developing the talent to perform

Kim Warren and Jeremy Kourdi

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# Introduction

Much has been written about the importance of people in the success of businesses and organizations. Yet the links between people issues and performance outcomes are rarely made clear. Strategy and policy are usually treated in a generalized way, with checklists and descriptive diagrams instead of factual information about what is going on and why. In much the same way, the understanding of how people and organizations develop and adapt through time is confined to a simple qualitative focus. Small wonder, then, that this crucial area remains shrouded in mystery.

This lack of clarity makes it hard to understand how managers' choices will drive their organization's progress into the future. It also poses problems for human resource professionals when they try to explain how their efforts to grow and sustain their people will actually work. The simple conviction that such efforts and investments must be "a good thing" is increasingly inadequate for winning the support and commitment of colleagues in other parts of the business; to give you that support, they need evidence.

This book bridges the understanding gap from both directions:

- It provides the basic tools to construct a fact-based picture of how the scale of an organization's pool of people changes through time.
- It explains how to capture the solid resources at the heart of any enterprise, and reveals the basic mechanisms by which they depend on each other to develop.

This contribution to understanding organizational performance and people makes use of an underlying framework that is both rigorous and practical: the strategy dynamics approach. Building on this solid foundation will clarify the links between organizational groups and the business levers they control. Armed with this understanding, you will be able to understand how people-oriented initiatives in your organization will develop through time, track and adjust those initiatives to keep them on course, and trace their impact on your goals.

However, we don't neglect the soft factors that are such powerful drivers of performance. *People Power* enables you to understand, measure, and manage intangible factors shared by your people, such as morale and capabilities, as well as those that occur in other parts of the business, such as reputation among customers and investors. You will also see how to depict these soft factors in a way that gives them substance and connects them to the underlying engine of enterprise performance.

With practice, you and your colleagues will be able to use the tools in this book to inform your discussions about the effort and investment that must go into developing and supporting your people. The result will be better decisions about this important and costly issue, and much greater confidence in your organization's ability to deliver the outcomes you desire.

# 1

# People, resources, and performance

## Overview

*Every organization faces the challenge of building future performance, whether measured by financial results or other outcomes. Your resources are fundamental to accomplishing this continuing goal, so good strategic management requires both a deep understanding of how resources develop and interact over time and the skilled design and control of these processes. This chapter explains how your business's strategy towards its people works through the other parts of the strategy to deliver your organization's performance. It will explain:*

- **How resources drive performance,** and what "performance" means for business and other organizations. It is not an abstract, qualitative notion, but a factual, quantitative concept.
- **How people are intimately involved in delivering performance** by winning, developing, maintaining, and using the other resources.

# Resources drive performance

Before we start exploring the way in which people-related issues develop through time, it is worth reminding ourselves exactly why we are doing this. In business situations, investors are not *primarily* concerned with your people; they are largely investing for a financial return. In non-profit situations such as public services and voluntary organizations too, those who provide funding and support are also primarily concerned with what they expect your people to *achieve*, rather than with the people themselves. Investors and supporters may, of course, take into account the way your organization treats people in pursuit of its performance aims, but it is these aims themselves that are the main focus of attention. Even your staff, if they have a personal stake in your organization's performance, will not thank you for looking after them nicely today if it means the enterprise fails tomorrow.

It is common to hear managers insist that "We could easily deliver better performance if only we had the resources." This is true in a far more literal sense than we often realize: resources genuinely drive an organization's performance. Competition and other pressures may, of course, constrain what you can achieve, but for any set of external conditions, the supply of available resources *directly* determines performance. This is easiest to understand in a business context.

The "performance" we are concerned with is most often profits, and we would generally prefer these profits to grow, strongly and sustainably, into the future. Clearly, profits depend on sales revenue and costs. Sales depend on numbers of customers, and costs reflect the scale of capacity, systems, staff, product range, and other factors. These items (including customers) are all, strictly speaking, resources: valuable assets that have been built up over time and must be maintained.

Of course, we would prefer to keep the sales revenues without the other costly resources, but that isn't realistic. Trying to get away with fewer staff or products and less capacity than we really need will ultimately lead us to lose customers and sales. If we want more customers and revenue, then we usually need more of those costly resources. So managers are right: they genuinely *could* deliver better performance if they had more resources.

We will explain later how these factors together make up the business machine – or "architecture" – that drives performance, but the basic idea that profits depend on resources is sufficient for now. Similar principles apply to public services, voluntary bodies, and other non-profit organizations. Their ability to meet the demands made on them depends on their having the necessary capacity, people, and service offerings.

# The part that people play

So where do people fit in? Without them, things would fall apart. People are pivotal to winning, keeping, and using resources. Indeed, these three distinct activities dominate what people do in organizations.

## Winning and developing resources

Some examples are obvious: sales people win customers, product development people develop products, fund-raisers bring in cash, accounts departments make sure that cash is received from those who owe you money. But people have a more extensive role in building the organization's resources.

- **They develop potential resources outside the organization.** Marketing people, for example, may not directly win customers, but they create potential customers who understand and relate to your products and services.
- **They develop resources within the organization.** Development engineers takes crude prototypes and develop them into real products that work reliably and can be built profitably.
- **People develop "soft" or intangible resources.** Trainers develop skills in others.

## Retaining resources

Sales people again provide a good example. Having won customers, they have to spend time keeping these customers happy so that they stay with you. If you have too few sales people, customers may lose interest or be seduced by your competitors, and you will start to lose them.

On the same principle, accounting staff make sure cash doesn't leak out of the organization, product development people make sure your product range doesn't get out of date, and marketing people ensure sufficient advertising and promotional activity to keep potential customers aware. In charities, fund-raising departments keep donors from losing interest, and hospitals' medical specialists ensure that doctors continue to refer patients to their institution.

## Case example
## **The role of people in directing performance: Jean-Cyril Spinetta**

The airline industry provides an interesting example of the way people make an impact, both directly and indirectly, on performance. Jean-Cyril Spinetta, chairman and CEO of Air France, explained: "With an industry under pressure, expectations can vary wildly and people become extremely sensitive to any news that may be damaging – whether in reality it is or not. So, for example, one adverse set of economic indicators for one month for the US can send shock waves through markets and industries, and those industries that are already under pressure will feel this most acutely."

For the airline industry, the September 11, 2001 terrorist attacks in the United States had the immediate effect of increasing costs severely. Air France faced an additional US$100 million year-on-year insurance; greater security, including sky marshals' equipment and training; and higher operating fees charged by airports and air traffic control to compensate for the overall reduction in air travel.

Clearly, it isn't easy for a business the size of Air France to control and reduce its costs. According to Spinetta: "It is easier to reduce costs relatively and improve margins when you have a growth strategy, because you gain maximum efficiency from fixed costs and can work to neutralize variable [operating] costs. The challenge is getting the most from those fixed costs that benefit customers. The real difference is the efficiency of management strategy and understanding how resources affect each other, whether developing alliances, motivating people or gaining market share in foreign markets."

Spinetta and his colleagues regard motivation as a central driver of efficiency. "Having low cost is not so difficult. What matters is having the right cost and high motivation. If you have low costs and people unhappy, then you have bad results. In the case of Air France, things are not perfect, but because things were difficult from 1982 to 1996 and are now much improved in terms of results, growth and reputation, people are reassured, proud and more positive. To achieve this we have a corporate plan that summarizes the strategy of the company: communicating is essential, and people need to know Air France's priorities and vision. This is an important aspect of motivating people. There is an ongoing process to develop, build and communicate the plan. Building global alliances and being seen to compete also reassures and motivates people. The result is a sense of pride. This in turn leads to an enhanced ability and desire to serve customers, and an approach to providing a quality service that makes full use of IT resources."

## Using resources

Having built and retained the resources that make up your enterprise, people then decide what to do with them and how to derive the greatest benefit from them. Sales people work to get customers to buy more, finance staff make sure that cash is put to best use, product developers try to improve functionality, production staff work to increase plant productivity. In the voluntary sector, people try to stimulate more contributions from donors; in politics, campaigners try to develop active supporters.

People carry out other activities, of course, such as keeping production lines and services running. But the three activities above account for most of what people do to develop and sustain a business.

## A special case: Human resource professionals

When it comes to managing an organization's resources, HR professionals are indeed special in a number of ways:

- The resources for which they have responsibility are the other people in the organization.
- The HR function clearly has some responsibility for *winning* the people that the organization needs. This involves more than just the obvious tasks of placing job advertisements and arranging interviews. It also entails "marketing" the organization to potential employees and the outside world, setting the "price" it will offer (salary and benefits), and "selling" the organization to potential applicants.
- HR personnel are also involved in *developing* other people, for example, by meeting training and development needs and identifying career opportunities.
- The HR team plays a role in *sustaining* an organization's people, for instance, by ensuring that terms and conditions remain competitive or working with line management to maintain motivation.
- Last, and most important, HR is different because it has much less direct control over the processes involved than other functions do. With the exception of a few mundane tasks, almost all the influence that HR can have on the organization must be exerted *through other people*. Line managers are, of course, a dominant influence on employees' behavior: they determine how each person is deployed, developed, motivated, and

so on. However, individuals respond to influences from many other sources too: colleagues, senior management, subordinates. Even outsiders, such as customers, can have an impact on your staff.

If HR professionals are to understand their contribution to delivering the organization's performance, then, they need tools that clarify the connection between people and results, and explain what drives these changes. This clarity will highlight the levers available to them in order to develop their organization's people resources in ways that will improve future performance – a truly *strategic* view of HR policy.

## Action checklist
## **What are the most significant resources in your organization?**

Knowing the resources you need to build performance is an important starting point, but two other issues are also vital: quantifying them, and understanding how they affect each other.

- How many of these resources do you have?
- How do they interact and affect each other? In particular, how do they affect the quantity and quality of other resources?

When you are quantifying resources, ratios and other statistical techniques are of limited value. Rather, you need to know absolute numbers: how many you have and how many you need.

Bear in mind that resources interact and interconnect in an organization-wide system, with each resource affecting another in some way. Next, consider the impact that people have on this system.

- Do you use people to build, develop, retain, and use resources? Are you sure that your organization is configured to do this as effectively as possible?
- Do you ensure that people enhance the quality of your resources?

Resources that are vital to the business can be viewed as water in a bathtub, filling or draining away over time. This perpective not only helps to understand the nature of each resource, but also highlights how and where resources need to be developed.

# 2

# Understanding staff dynamics

## Overview

*This chapter looks at a crucial characteristic that your stock of people shares with all other resources: it fills up and drains away over time, like water in a bathtub. This characteristic is vitally important to the manner in which things change through time, affecting performance in ways that can be difficult to understand and manage. This chapter explains:*

- **What an "accumulating resource" actually means, and how such items behave over time**, with examples of staffing dynamics.
- **How this concept is extended to the development of people through several stages**, and the management challenges this can create.

# 3

# Resource interdependence

## Overview

*As we saw in chapter 1, people are essential to an organization's performance because of their influence over winning, developing, sustaining, and utilizing the resources that make up the enterprise. In this chapter we will:*

- **Explore the interdependence of resources**, and in particular how they combine to assemble the "strategic architecture" of the enterprise.

- **Highlight the impact people have** on these interdependencies.

- **Explain the significance of people as custodians of resources** in managing the wider system.

# 4

## Understanding resource attributes

## Overview

*People are different. In previous chapters, we treated all people in a single stock as if they were identical, but a greater level of detail is now required. If we fail to take account of these important differences – in skills or experience, say – then our approach will be seriously flawed. If, for example, you have too few experienced service staff and set out to double their numbers with a rapid hiring campaign, you may well end up with twice the number of people, but you won't get twice the experience.*

*What makes people different is their attributes. This applies to other resources as well, but people are the focus of our attention in this book. This chapter:*

- **Explains resource attributes:** what they are, why they are important, and how they change, and
- **Highlights the concept of the "co-flow"** as the mechanism by which the attributes of resources can be understood, measured, and managed.

# 5

# Rivalry for resources

## Overview

*We are seldom alone in our desire to capture and develop resources. Competitors will have similar aims, and since potential resources are scarce, we will inevitably come into conflict. Customers are the most obvious example of resources for which we must compete, but staff and other stakeholders can also make the choice of working with us or with rivals.*

*In this chapter, we will:*

- **Explain how rivalry operates over time,** highlighting three main mechanisms by which rivalry plays out.
- **Consider the implications of rivalry for human resources,** and in particular how it affects the ability to attract and retain the best people – the "war for talent."

# 6

# Developing your employer brand

## Overview

*A powerful weapon for waging the war for talent lies in the reputation you can build up among existing and potential employees for being an employer of choice. The idea of "employer brand" became fashionable during the severe staff shortages that afflicted technology sectors in the late 1990s, but as that particular challenge faded from memory, interest in the idea waned. This is a shame, since it has a powerful influence on organizations' ability to attract and retain the staff they need. Moreover, it is a phenomenon that can and should be deliberately and actively managed at the highest level.*

*In this chapter, we will describe the concept of the* ***employer brand****: what it is and how to make it work for your organization.*

# 7

# Intangible resources

## Overview

*Although intangible resources operate indirectly, they have a strong influence on performance outcomes. Factors such as knowledge, brand reputation, and corporate integrity are increasingly recognized as powerful and valuable. Senior executives and HR professionals must therefore understand how these intangible attitudinal resources work to drive changes in performance through time. In order to* use *this understanding, though, we must go further, and understand how those soft factors themselves are built up or lost, and what can be done to manage them.*

*In this chapter we will:*

- **Explain how intangible resources achieve the impact that they do,** giving examples of simple measures for them and showing how they operate.
- **Show how to add intangible resources to your picture of the organization,** deepening your understanding of why it is performing as it is and what you might do about it.

# 8

# Building capabilities

## Overview

*Capabilities are asset stocks, helping to develop and sustain your resources. Like resources, they also accumulate, flow, drain away, and, above all, influence the effectiveness with which people accumulate other asset stocks. They matter because they enable your organization to build, develop, and retain resources. A more capable organization will be able to build resources* faster *than a less capable organization and hold resource losses to a rate that is* slower.

*In this final chapter we look at how to build capabilities, explaining:*

- **What capabilities are and how they affect performance.**
- **How to develop capabilities** so that you establish a learning organization where people are flexible, adaptable, and successful.