



People Development; A CEO's Economic Imperative

Written By Tom Northup July 2006

The paramount challenge for a CEO is to improve revenue and profits. Successful CEOs do this year after year because they understand that people implement improvements.

Successful CEOs focus their attention on the development of key staff who make the greatest impact. They understand the economic imperative of people development: that a small improvement in the effectiveness of their people brings about a much greater impact on profitability.

Every organization has two things in common: a present and a future. Everything in between is process. The quality of the process determines future results.

Right now, your company gets the results, good or bad, that you designed it to get. If your vision of the future differs from your current situation, if you want to get better results, then you must change the process. Otherwise you can't expect results that are different from what you're already achieving.

People lead change. For positive change you must have individual and organizational growth. We need to become more effective if we are to steadily improve our results.

Most people think of personal growth as training. A more comprehensive definition of personal growth is development. There is a big difference.

Training is reactive, such as learning a new software application or gaining knowledge like we find in schools.

Development is specifically designed to change behaviors and attitudes, which is the way we act and think. Development is results based. We specify a process improvement and get predetermined results. Training improves efficiency, development improves effectiveness.

Which is more important, efficiency or effectiveness? Doing things right, efficiency, is important. Doing the right things, effectiveness, is more important. When we spend our time doing things right, but not doing the right things, we will not get the results we expect.

Economic Justification of Development

"People are our most important asset" is an overused cliché. Yet how many of us truly understand the point it expresses? Our key people drive the processes that determine our future success. To achieve stronger results we must continually develop their effectiveness. As they become more effective, we are able to significantly impact the bottom line.

The tables below give the economic justification for development. Every organization employs key staff to manage production, sales and overhead. The first chart shows representative costs for these functions. Costs lead to profit, in this case 6% of revenue

Key staff employed to	Cost
• Produce	33% of Revenue
• Sell	15% of Revenue
• Control	15% of Revenue
• Profit	6% of Revenue

If key staff members achieve a 10% performance improvement, we will generate a much larger increase in profit.

A 10% improvement in the effectiveness of key staff reduces cost.

	Cost	Reduction
Produce	33.0%	3.3%
Sell	15.0%	1.5%
Control	15.0%	<u>1.5%</u>
		6.6% reduction
Original Profit	6.0%	
New Profit	6.0% plus	6.6% = 12.6%

The 10% improvement has a profit impact of 110%.

Of course every organization is different. However, a small improvement in the effectiveness of key personnel always has a much greater impact on profitability.

In most organizations the largest overhead cost is the combined salary of key staff. We budget for improvements in technology and process. Yet how many of us budget for improving the effectiveness of our key people? And I don't mean just improving skills; I mean developing their effectiveness to manage and lead.

Successful CEOs understand the economic value of development and its relationship to profit. They do not consider development a cost but an investment similar to investments in technology, equipment or process.

A Challenge

A CEO's challenge with any investment is to realize the projected ROI. When they invest in buildings, equipment or processes, CEOs have control. The project's momentum builds until it permeates the organization. As momentum builds, the CEO's direct involvement may be reduced.

Realizing a ROI in people development is different. People control themselves and have differing needs. Changing personal behaviors and the attitudes that drive development takes a lot of time and effort. In this environment the CEO must maintain continuous leadership.

Employees will not continue the effort to make changes if the CEO is not actively involved in their progress.

A Caveat

One critique we often hear about people development is, “We develop our people, they change jobs and we don’t get the benefit.”

In fact, good people don’t leave a job to get higher salary and benefits. They leave because they don’t feel appreciated or effective in their position.

Good people have career options. The challenge of the CEO is to build a culture where people want to pursue their career the best way they possibly can.

Good people want challenges. They enjoy working in an environment where management seeks their expertise and values their contributions. The effective CEO shares power by encouraging his key staff help develop initiatives and set direction. People who are part of the solution become intellectually and emotionally committed to the organization.

Good people expect to meet their personal goals as they help the organization meet its goals. An effective CEO recognizes that people follow a leader because of what the leader can do for them. He understands his staff’s individual motivators and works to help them achieve personal success.

Summary

A CEO’s challenge is to continually build revenue and profit. To accomplish this year after year, successful CEOs change the processes that drive their business.

People lead change. There is a definite relationship between organizational growth and personal development.

Successful CEOs understand that personal development is an investment where they can expect a positive ROI. They understand that their personal involvement and leadership is required to ensure the positive return on their investment in people.

Successful CEOs understand that a small improvement in the personal effectiveness of key people has a much greater impact on the bottom line.

The unavoidable conclusion: personnel development is a catalyst bringing a competitive advantage in your market place.

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