What is Power within a Human Capital Context?

Who really holds the power in your bank? Which department really sets the bank's direction? Who are the people that are "in favor" with the current leadership, and who are the people rebelling? How are you trying to influence others and consolidate your authority? These are the types of questions that a lot of people think about, but never openly talk about. For whatever reason, discussions on who holds power, the political games we play, and how we influence others are left to the water cooler, a closed door meeting, or a beer after work. For the next couple of months, we are going to try and take the stigma away from these topics, and present the psychological, sociological, and management science on understanding the power structure within your bank, and what you can do to influence it.

This whole concept of power is something that has been kicking around in my head for a long time. Having worked for large international companies I am always fascinated by a leader's ability to concentrate and hold large amounts of authority. I was also continuously dumbfounded by candidates that were promoted into executive leadership roles. About half of the time, these executives were uninspiring department wreckers, who could turn an efficient business into a quagmire of indecision. In most definitions of leadership, these executives fail, except that no matter how bad they did, they always got promoted. On the other hand, I saw numerous leaders who were truly inspiring, cared for their employees, and performed at a high level, but they didn't play the political game. These were the leaders who could transform a business using the Human Capital principles, but were often overlooked. It took me a long time to realize that power and playing the political game are necessary aspects of being a visionary leader, and building the human capital of your bank. It is my hope that by understanding how power and influence works, you can use that power to make your bank better, and build it to its visionary potential.

So I started reading books, articles, and different leadership theories. And I varied the sources of material from political science, to psychology, to sociology, to the current management theories. And even though I found a lot of fluff, I did find 4 books that I can endorse under our Human Capital brand. I will be referencing these 4 books throughout this series of articles. If you find the next few articles interesting, I recommend that you go out and purchase these books, since I will only be able to share with you the large concepts and apply them to the banking reality. The 4 books are:

- **Power** by *Jeffrey Pfeffer* – This book tries to understand how people obtain and wield power within an organization. It does a great job at breaking down the concept of power into meaningful sections, and explaining modern research in a non-scientific manner. One of the key learnings in the book is that powerful leaders are able to shift their performance objectives to the few things they do really well, and then continuously manage upwards. More will come on these concepts.

- **The Dictator's Handbook: Why bad behavior is almost always good politics** by *Bruce Bueno de Mesquita & Alastair Smith* – This book looks at how dictators and democratic leaders come to power and hold power (which is more similar than you want to imagine). It also has a great section on how the power is held and maintained by a CEO and board of directors. By the end of this book, you will see that most business leaders follow the Dictator path. This book does a great job explaining the common quote, "a business is not a democracy."

- **The New Machiavelli: How to wield power in the modern world** by *Jonathan Powell* – This book was written by the chief of staff of Tony Blair. Usually I tend to prefer books that are based on research and science, not just telling one person's story. But here I make an exception. It provides an interesting take on an old concept, and is an easier read than the original Machiavelli "The Prince". Whether or not you agree with Tony Blair's politics, the book is a great demonstration of using power to achieve your vision.

- **Influence: The Psychology of Persuasion** by *Robert Cialdini* – This book tries to break down why persuasion, influence, and sales work. Anyone thinking about your bank's brand, marketing, sales, or customer service should read this book. At the end you will see the little tools and methods that are used every day in order to influence your mind.

Please join us over the next couple months, as the Human Capital articles focus on the power structure within your bank, and what you as a leader can do about it.

Getting over the Stigma: Let's Talk Power

We like to think we live in a "just world". We like to think that our performance is what defines our achievement. We tell ourselves "If I do a good job then I will be promoted." We want to believe that life is fair, and that if I follow the rules then I will be all right. But this isn't the reality we live in. Research shows that good performance isn't enough to guarantee you power.

Lets look at the factors that go into being chosen for a promotion. We would hope that performance is the driving factor in promotion decision, but study after study have shown that promotion decisions are more linked to factors like job tenure, educational credentials, overtime work, absences, race, and gender. Think about that for a minute… You are more likely to receive a promotion because you work overtime and don't miss work, then you are because of your job performance. Another study showed that a candidate's education level was a larger factor in promotions then whether or not the candidate had a proven performance record. The best candidates for the job are not always the ones chosen.

So what does your top performance get you? The answer is not much. One study found that employees rated as "top performers" were only 12% more likely to be promoted then employees rated "average performers." All that effort in performing beyond expectations might not be worth the 12% increased chance of being promoted. So if a high need for achievement isn't going to help you be promoted, what is?

The two behavior traits that are most connected to being promoted are having an ambition for power and being political savvy. One of my favorite studies looked at the motivating forces within managers, and compared it to their job success. They grouped managers into three categories; 1) motivated by a need for affiliation (the need to be liked by others), 2) motivated by a need for achievement (being the top performer), and 3) motivated by a need for power. The researchers found that people motivated by power were not only more likely to attain positions of influence within their own company, but they were also more likely to be rated a top performer than the managers who were motivated by performance achievement. The managers motivated by power not only achieved more success, they were seen as better performers, even if they actually weren't. This is why we need to get over the stigma of talking power, because the motivation for power is the unsaid driving force of business today. Performance will not lead you to power.

In fact, performance becomes less and less important once you have achieved power. Lets start by looking at CEOs. The Journal of Financial Economics presented a study that showed that a CEO being fired was more connected to power then performance. In fact, they found that CEOs who led their company through 3 years of poor performance and into bankruptcy, only faced a 50% chance of being fired. How did they do it? Power and influence over the board. Now imagine the same performance record isn't the CEO, but a front line teller. The front line teller poorly performs for 3 straight years. The likelihood that the teller is fired is much higher than 50%. Poor performance will not cause you to lose power.

Now let's look at the rest of the executive team. You would like to believe that a poorly performing company holds its executives accountable, but this isn't reality. One study of the C-level executives (CEO, CFO, COO, etc…) of 450 companies, found that these executives were even less likely than the CEO to be terminated in a poor performing company. The only real factor in C-level executive turnover was when an outsider CEO was hired. New CEOs tend to fill executive roles with people who will be loyal to them, and regardless of performance, the old executives are a threat to the new CEO. High performance will not guarantee you remain in power.

Who Chooses a Leader?

The more you research how politicians and business leaders maintain power, the more you realize that almost all the decisions a leader makes are designed to ensure they remain in power. The first rule of political survival is that getting and keeping power is the number one priority. It is naïve to think a politician does something without some self-serving motive. Every law they pass, every press conference they hold, and every deal they make is designed to help them keep their power. By writing laws the people like, they are ensuring more people will vote for them, and thereby ensuring that they maintain their grasp on power. Politicians know who keeps them in power, and works to give them what they want.

To better understand the dynamics on power, let us look at the Selectorate Theory of power. The Selectorate Theory is a concept described by Bruce Bueno de Mesquita in his books the Logic of Political Survival, and the Dictator's Handbook (my recommendation). In these books, Bruce explains that power is controlled by three main groups: the Nominal Selectorate, the Real Selectorate, and the Winning Coalition. He convincingly shows that leaders hold and maintain power by influencing these three groups. These definitions are excerpts from the Dictator's Handbook.

"The Nominal Selectorate includes every person who has at least some legal say in choosing their leader. In the US, it is everyone eligible to vote, meaning all citizens aged eighteen and over. Of course, as every citizen of the US must realize, the right to vote is important, but at the end of the day no individual voter has a lot of say over who leads the country. Members of the Nominal Selectorate in a universal-franchise democracy have a toe in the political door but not much more." These people are also known as interchangeables, as they are part of the group but could easily be switched with another person.

"The Real Selectorate is the group that <u>actually</u> chooses the leader. In today's China (as in the old Soviet Union), it consists of all voting members of the Communist Party; in Saudi Arabia's monarch it is the senior members of the royal family; in Great Britain, the votes backing members of parliament from the majority party." In the US, the Real Selectorate are the members of the party the candidate represents. For each party, candidates must first be chosen by the party officials to represent the party. A lot of power is held by the party on who to support and who to avoid. It is for that reason that these people are known as the Influentials, as they don't have the final say in selecting leaders, but they do have a lot of authority over the decision.

Finally, the Winning Coalition is made up of a fraction of the Real Selectorate. "*These are the people whose support is essential if a leader is to survive in office. In the USSR the winning coalition consisted of a small group of people inside the Communist Party who chose candidates and who controlled policy… In the United States the Winning Coalition is vastly larger. It consists of the minimal number of voters who give the edge to one candidate over the other."* You don't have to win over everyone; you only have to win 1 more vote than everyone else. These are your essentials, and are the people critical for obtaining and maintaining power.

Who is your Bank's Winning Coalition?

By now most of you are wondering what this has to do with you. You are not a politician. You work for a bank. But as you will see, this same power structure can be found within your bank, and how you as a leader manages these three groups will determine your level of power, and you overall ability to implement your bank's vision. Let's see how Bueno de Mesquita connects the Selectorate Theory to the modern CEO.

"Most publically traded corporations have millions of interchangeables (their shareholders, a considerably smaller set of influentials (big individual shareholders and institutional shareholders), and a small group of essentials, often not more than ten to fifteen people… Who makes up the essentials in a corporation? The coalition typically includes no more than a few people in senior management and the members of the board of directors. These directors are drawn from a mix of senior management in the company, large institutional shareholders, handpicked friends and relatives of the CEO (generally described as civic leaders, no doubt), and the CEO."

Now let's think of your bank's CEO. You bank's shareholders are your Nominal Selectorate. They have the right to vote for the board of directors, who in turn has the right to select the bank's leadership. But in many cases, most shareholders do not hold enough shares to really have power. Owning 1% of a bank gives you 1% of the vote, which isn't much. At the other end of the spectrum are your bank's Real Selectorate. These are the shareholders who control sizable portions of the bank stock. These are your shareholders who hold influence over the bank. They are the ones who really decide upon the board of directors. Finally, we get to the CEO's Winning Coalition. Usually the Winning Coalition is compromised of the majority of the board, and some members of the senior management. This small group of people is the true source of the CEO's ability to gain power, and in order to maintain power the CEO needs to keep this coalition loyal, and focused on the strategic vision of the bank.

No one leads by themselves. No one has absolute authority. You as a leader need to identify the members of your Winning Coalition, and work to make them loyal to you and to your vision of the bank's future. These are the people that need to share your core values, believe in your vision, and work towards the strategic goals of the bank. If they don't believe in you, then they won't be loyal to you. And it they are not loyal to your vision of the bank, then you need to replace them with someone who will be. This may sound harsh and Machiavellian, but research shows this is a far more common practice then anyone wants to admit. It is commonplace for a new CEO to reshuffle and reshape his/her senior management team, and when possible the board of directors. The board of directors technically is the boss of the CEO, but study after study shows that the CEO holds a lot of power and influence on the selection of new board members. Most CEOs use this influence to select fewer independent board members, and more board members who will be loyal to them.

Why does a loyal board matter? Disloyal members of the Winning Coalition lead to power struggles, and the firing of the CEO. Research has shown that as more independent outsiders are appointed to a board the more likely the CEO will be fired. So it stands to reason that any CEO that wants to keep his job should strive to keep his board free of independent members. But what is good for the CEO doesn't always translate into what is good for the bank. In fact, the same research that shows that CEOs benefit from fewer independent directors also shows that more independent directors are connected to increased returns to shareholders. In this manner the interests of the CEO are opposite the interests of the shareholders. How many independent directors do you have, and who has influence on new board members?

Power Matters

I hope by now you have seen the value in talking about the taboo subject of power and playing politics. These power dynamics are a driving force within your bank, and a critical aspect of leading people. If you don't understand the game, then you can't play the game! If you don't play the game, then you are at the mercy of others! You can't be a visionary leader and truly impact your bank if you don't play the game.

Over the next two months we will continue to expand and explore this concept of power in your bank. Next month we will look at how loyalty is maintained among the Winning Coalition. The short answer is you need to reward loyalty to your bank, to its core values, and to its strategic vision. The month after we will look at different ways to influence people, and how certain actions will make dramatically improve your influence and eventually your power.

Cary Bailey – Findley holds a Masters degree in Industrial and Organizational Psychology. He has spent the past 8 years building the Human Capital within two Fortune 500 companies. He was the HR leader for the $1 billion European Thermo King division within Ingersoll Rand. He currently is the Learning Manager for Maersk Line, and is leading the project to change the culture within customer service. His specializes in talent development, culture change, and building HR models to drive business strategy