and marry our life partners. And, in the workplace, we start making decisions about people. We start deciding things about colleagues, clients, and vendors.

Once you become a manager, you start working through others, and therefore your people decisions become essential for your own unit’s performance. As you take on larger responsibilities—from running the shop to running the ship—the stakes get higher, because the only way that you can exercise control is through the team of people you’ve put together. As you move from manager to senior executive and eventually to CEO or company chairperson, people decisions are both your highest challenge and your biggest opportunity.

Now I’ll restate my punch line: After 20 years of practice, research, and reflection, I am firmly convinced that the ability to make great people decisions is the most powerful contributor to career success, as illustrated in Figure 1.1. And note that the farther along you get in your career, and
FIGURE 2.1 Distribution of Performance, Simple Job

FIGURE 2.2 Performance Spread as a Function of Job Complexity
performers into senior positions will achieve a level of performance several times higher than that of firms that promote only average executives into those positions. Put another way, organizations that hire or promote mediocre executives will suffer greatly from the relative incompetence of those individuals. Those who are able to make great people decisions, however, will be able to achieve a very strong source of competitive advantage, as illustrated in the figure.

Quantifying the Expected Return on Great People

To summarize so far, organizations have a very poor track record of making the right people decisions, despite the huge potential value in meeting this challenge successfully. But how big is that value? Is there a way to quantify the expected return on investing in great people decisions?
length. How can we have a high error rate when we are pretty good, even very good, at assessing? The answer is that high selectivity is very hard to achieve.

To understand this point, ask yourself the following question. Assuming that you want to hire only the top 10 percent of candidates for a position, and that you are 90 percent accurate in assessing them, what will your success rate be? Many people might expect it to be 90 percent, but the true answer is just 50 percent. Here’s why. If you assess 100 candidates, then 10 of those will be top 10 percent (although you don’t know which 10). Of those 10, you will rightly assess nine as “top” because you are 90 percent accurate. So far, so good; but the problem is those other 90 candidates. Your 10 percent assessment error will have you wrongly categorize as “top” another nine candidates who don’t belong there. (See Figure 3.1.) So out of the 100 candidates, you will have classified 18 as
FIGURE 3.2 Decreasing Performance of CEOs—Median Normalized Annual Return to Shareholders

Tenure (years)

FIGURE 3.3 Decreasing Performance of CEOs—Median Annual Return to Shareholders
Such appointments, while common, can have a devastating effect not only on the company’s performance, but also on its morale. No one likes to work in an organization dominated by cronyism or other kinds of internal politics.

To summarize, we’ve reviewed the four factors that make it so difficult for companies to make the best people decisions at the top. Figure 3.4 lists these factors.

It’s a long list; collectively, these factors help explain why making people decisions is so damnable difficult.

**Statistical Odds**

**Difficult Assessments**
- Impact of assessment errors
- Unique jobs
- Changing jobs
- Intangible traits
- Inaccessible candidates

**Psychological Biases**
- Procrastination
- Overrating capability
- Snap judgments
- Branding
- Evaluating people in absolute terms
- Seeking confirmatory information
- Saving face
- Sticking with the familiar
- Emotional anchoring
- Herding

**Wrong Incentives**
- Candidate circumstances
- Political pressures

FIGURE 3.4  Why Getting the Best People Is So Hard
same market, which had none of the complexities of a joint venture with two technical operators and several partners representing three different nationalities.

Developing and Implementing New Strategies

By any meaningful measure, the pace and scope of change in organizations has grown enormously over the past several decades. I’ve already touched on the impact of powerful global economic and technological forces that push companies to reduce costs, change business processes, improve the quality of products and services, locate new opportunities for growth, and increase productivity. Very often, the scope of change extends even to the core corporate strategy.

A recent book, *Breaking the Code of Change*, presents a very comprehensive review of change in human organizations, including purpose, leadership, focus, and implementation issues. It includes a chapter by Jay

![Diagram](image-url)
the key competencies needed for success—given your understanding of the present and the future—and assess as objectively as possible your current management against these needed competencies.

The first large management appraisal I ever conducted was for a petrochemical company. It had been extremely successful, but its long-standing monopoly was about to be challenged by a new entrant. In other words, a new scenario was being imposed by macro changes and a new strategy was required. Figure 4.2 illustrates a simple picture of the scatter diagram of the top management in the petrochemical company.

---

**FIGURE 4.2** Strategic Classification—Individual Distribution
What Do You Do After You Know?

Let’s face it: Even when people changes are justified, it’s usually very difficult to implement them. This is especially true when it comes to moving out people whom we ourselves have hired, or with whom we’ve worked for extended periods.

Once again, your goal should be to define your decision-making process in advance, so that it will be as disciplined and objective as possible. I’m assuming, of course, that you aren’t being driven by inappropriate motivations, and that you truly want the best outcome for your organization. Well, if that’s true, then your real challenge is to make your processes transparent and predictable—in other words, to reflect your
Forces that Fight Change

Let’s assume that you know exactly where you stand, and (based on that understanding) you know exactly what you need to do, in terms of the people changes that are required to move your organization forward.

Unfortunately, that’s still not good enough. It’s one thing to know, and quite another to act on that knowledge. I’ve already mentioned the difficulty of implementing change when close subordinates or long-time colleagues are involved in a proposed reorganization. Now let’s look in greater depth at the powerful forces that tend to work against change. I’ll point to three such forces.

The first is the universal human impulse to favor short-term comfort over a possibly-better-yet-uncertain future. In my own industry, the professional-services sector, our real problem is not to come up with the right strategy. Rather, our challenge is to implement the chosen strategy.
Jim Collins was asked how “good to great” companies decide who should get off the bus, and how they implement those difficult decisions, this was his answer:

They are rigorous, not ruthless. To be ruthless means hacking and cutting, especially in difficult times, or wantonly firing people without any thoughtful consideration. To be rigorous means consistently applying exacting standards at all times and at all levels, especially in upper management. To be rigorous, not ruthless, means that the best people need not worry about their positions and can concentrate fully on their work.32

Rigor without ruthlessness; honesty without brutality: When you realize that it’s time for a change, these are excellent watchwords. Figure 4.5 summarizes the key points discussed in this chapter.

**Change is usually needed in the case of**
- New businesses
- Mergers and acquisitions
- New strategies
- Performance problems
- Growth and success
- Anticipating future challenges

**In order to diagnose the need for change you should**
- Assess the competence and potential of your key people.
- Clearly draft your decision process.

**Once you have diagnosed the need, you should**
- Be aware about the forces against change.
- Stay honest.

**FIGURE 4.5  When Change Is Needed**
Those Difficult Tradeoffs

A few years ago, I was working with a client who decided to change the overall management of a large financial institution. A new scenario, sketched out with the help of a strategy consulting firm, had persuaded this client to completely change the financial institution’s strategy.

In the first year, the company swapped out all six of the key reports to the CEO. Two years after that, this CEO (to whom the six new individuals had been reporting) was moved to a nonexecutive position within the same group. The plan was to promote one of the six direct reports to succeed the outgoing CEO. But all six were talented and ambitious executives. How would the company choose? What was it looking for?

Figure 5.1 profiles the six internal candidates. It summarizes the

![Diagram showing ranking of candidates based on experience, leadership and relational skills, and IQ.]

FIGURE 5.1 Choosing the CEO’s Successor, Part I
Profiles of Six Internal Candidates
And finally, “strategic orientation” enables leaders to think beyond the pressing issues of the day, and beyond their own sphere of responsibility. It enables them to think Big Picture.

In addition to these four core key competencies, there is a second group of five second-tier competencies, which may also contribute to success at the top. These include “commercial orientation,” demonstrated by the drive to make money; “change leadership,” which means leading people in an effort to transform and realign an organization; “developing organizational capability,” which is about developing the long-term capabilities of others in the organization; “customer impact”; and “market knowledge.”

Figure 5.2 summarizes the frequent competencies of effective leaders.
There are, of course, other competencies that can be particularly relevant in specific situations. But these nine (the core four plus the second-tier five) cover most of the waterfront.

**Setting the Targets**

In addition to identifying the relevant competencies for each job, it is important to determine what level of each competency is necessary for each position. While the topic of scale competencies exceeds the scope of this book, you ideally should try to identify a target level for each relevant competency for successful or outstanding performance for each job.

For example, Figures 5.3 and 5.4 depict the circumstances of a life sciences company that was having a difficult time finding the right managers for the key position of project manager within its technical ranks. As Figure 5.3 summarizes, few heads of laboratories could make it to the...
project manager level, let alone become a senior R&D manager. An analysis of the requirements for each of these positions confirmed that the profile of the project manager differed in highly significant ways from that of the laboratory head, particularly in the areas of teamwork, customer focus, change leadership, and strategic orientation. Briefly stated, much higher target levels in each of those competencies were needed for success in the new position.

Learning from My Own Failures

Now let’s return to my own explorations of competencies and emotional intelligence.
First, as illustrated in Figure 5.5, the most frequent combination I realized I was usually looking for was relevant experience plus high emotional intelligence (EI), which turned up in 40 percent of the cases. These candidates turned out to be extremely successful, with a failure rate of only 3 percent. Stated slightly differently, when I went looking for candidates with outstanding EI and a very relevant experience, 97 percent of the cases had been successful, despite the challenges of appointing a new manager.

As also illustrated in Figure 5.5, the other two typical combinations (either experience plus IQ, or EI plus IQ) each were present in one out of four of my searches. Notably, however, when candidates excelled in terms of IQ and relevant experience, but did not have a high level of EI, they failed 25 percent of the time!

I found this startling, and illuminating. As a result, I did additional analyses on this data, such as that illustrated in Figure 5.6, which displays the profiles of failures versus successful managers, indicating the

<table>
<thead>
<tr>
<th>Profile</th>
<th>Frequency</th>
<th>Failure Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience + EI</td>
<td>40%</td>
<td>3%</td>
</tr>
<tr>
<td>Experience + IQ</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>EI + IQ</td>
<td>24%</td>
<td>4%</td>
</tr>
</tbody>
</table>

FIGURE 5.5 Failure Rates for Various Profiles
Some of the obvious conclusions to be drawn from Figure 5.6 are:

- **Experience counts.** A full 70 percent of the successful individuals had a relevant previous experience.
- **Experience alone is not enough to predict success.** In fact, 83 percent of the failures also had relevant experience as one of their two most salient characteristics!
- **IQ is not enough of a predictor for success.** Two-thirds of the failures had IQ as one of their two most salient characteristics, while only 50 percent of the successful managers were in that category.
- **EI was present in successful managers with a higher frequency than IQ as one of the most salient characteristics (almost two-thirds vs. 50 percent).** It seemed that for successful managers, EI mattered more than IQ.

---

**FIGURE 5.6 One of the Two Most Salient Characteristics, Part I**

Profiles of Failures vs. Successful Managers

1. 23 cases from Latin America.
2. 227 cases from Latin America.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Failure</th>
<th>Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience</td>
<td>83%</td>
<td>70%</td>
</tr>
<tr>
<td>EI</td>
<td>0%</td>
<td>63%</td>
</tr>
<tr>
<td>IQ</td>
<td>65%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Finally, while EI was one of the two most salient characteristics of successful managers in two-thirds of the cases, none of the failures in that sample had EI as one of their two most salient characteristics. In other words, lack of EI is very highly correlated with failure.

**Dealing with Tradeoffs**

Fascinated by this evidence, I processed this data in yet another way, looking at the combination of the two most salient characteristics of successful managers and failures. This is presented in Figure 5.7, which summarizes the relative frequency with which success and failures respectively present each possible pair of combinations within the three categories referred to earlier (experience + EI; experience + IQ; EI + IQ).

![Figure 5.7](image_url)

**FIGURE 5.7 Combination of the Two Most Salient Characteristics Profiles of Failures vs. Successful Managers**

1. 23 cases from Latin America.
2. 227 cases from Latin America.
gories, some of the choices for the decision of internal promotion would have been:

- **Manager A**, the “traditional” choice: top in experience and in IQ
- **Manager C**, the “experience” choice: very strong in terms of experience and EI, but not one of the smartest in the room (fifth in terms of IQ)
- **Manager B**, a “safe” choice: highly intelligent, acceptable experience, average EI
- **Manager E**, the “EI” choice: top leadership and relational skills, above average intelligence, limited experience

The decision was to promote Manager E, the “EI” choice. While Manager A was more experienced and clever, his extremely low EI would
different cultures analyzed, indicating the relative frequency with which both successes and failures exhibited each of the three broad categories referred to as one of the most salient characteristics. For example, 71 percent of the successful managers recruited in Germany had a very relevant previous experience as one of their two most salient characteristics.

As you can see in Figure 5.9, the success profiles were almost identical across these three highly different cultures, which I took to be a significant validation of the conclusions from Latin America alone. (The minor differences in the left side of the figure, which present overall the same basic shape, are probably due to the small sample size of the failure cases.) In other words, each of the conclusions listed earlier as bullet points held true. Finally, when looking at the combination of the two most salient characteristics, once again, all of the

![Figure 5.9](ccc_people_117-156_ch05.qxd_4/3/07_1:11_PM_Page_139)
Third, EI-based competencies are absolutely essential for success in the contemporary world of work, and are particularly essential for success in senior managerial and leadership positions.

Finally, when hiring at the lower levels of the organizational pyramid, always look at potential, in addition to near-term job readiness. By hiring individuals with high potential, you most likely will be strengthening the organization for the long term.

For very senior positions, experience assumes more importance. Executives typically don't have enough time to learn in highly challenging and visible positions—and the organization can't wait for them to get up to speed.

---

**FIGURE 5.10** What to Look For in a Candidate, Part I

The specific competencies will be different for each position, but each of these categories should be properly addressed.
Knowing what to look for is important because
- Some characteristics are better predictors of success.
- You need to focus your efforts.
- You will avoid discrimination.
- You will be faced with difficult tradeoffs among real candidates.

All of the following characteristics are important
- IQ (although most candidates for senior positions already have high levels)
- Relevant experience, particularly for senior positions
- Emotional intelligence–based competencies, particularly for senior positions
- Potential, particularly for junior to middle-management levels
- Values, in all cases

A highly disciplined process must be followed
- Confirming the managerial priorities
- Identifying the key competencies required
- Clearly defining them in behavioral terms
- Agreeing on the required levels and relative weight for each key competence

I should say that this search began with relatively low expectations, in part because of an array of business challenges and political obstacles that were plaguing the business at the time. But a highly disciplined search process, made possible by an absolutely clear sense of what the organization was looking for, turned a potential disaster into a highly positive learning experience for the company and its leaders.

Figure 5.11 summarizes the key points covered in this chapter.

Once you have properly defined what to look for, the next step is to figure out where to look for candidates, both inside and out. This is the subject of our next chapter.
The Problem with Averages

So the answer is simple, right? You should promote an internal candidate following a natural succession, and go outside when the previous incumbent was fired, right?

Not exactly; Khurana’s and Nohria’s study reports the average conclusion. But as I was taught in Statistics 101, if you’re unlucky enough, you can manage to drown in a pond that is only 20 inches deep, on average.

When Robert A. Iger was promoted from president to CEO of the Walt Disney Company on March 13, 2005, replacing the embattled Michael Eisner, many observers questioned the decision to promote the Number 2 person when the Number 1 person was all but forced from office. Most experts agreed that to succeed, Iger would have to define and deliver on his own vision—in other words, act like an outsider.7

FIGURE 6.1 Performance Impact of CEO Turnover
Change in Industry-Adjusted Operating Returns, Percentage Points

*Changes for insiders were not statistically significant.

a low value of two standard deviations below the average, and a high of two standard deviations above.

Figure 6.2 suggests several key conclusions:

- When things were going well, the promotion of insiders led to a huge spread in terms of performance impact, with some outstanding successes and some formidable failures. So you should be particularly careful, when things are going well, to look at the future, and make sure that the person you are promoting has the necessary capabilities.

- While the range of performance impact was also very large in the case of hiring outsiders, with the potential both to add and to destroy significant value, the spread of these ranges was lower. This suggests to me that these outsiders were more carefully scrutinized.
with the sample size. Once your sample size is large enough, however, the expected value of the maximum won’t grow significantly with larger samples. If you consider a standardized normal distribution (which has a mean of 0 and a standard deviation equal to 1), and you take a sample of size 1, by definition the expected value will be 0. With increased sample sizes, one can calculate the expected value of the maximum of the sample. If we were to take a very large sample, the maximum would quite likely be a number of 2 or slightly higher (a number of 2 by definition would be 2 standard deviations above the mean, which in a normal distribution would happen with low probability).

Figure 6.3 shows the expected value of the maximum of such distri-

![Graph showing expected value of the maximum of a standardized normal distribution]

FIGURE 6.3  Expected Value of the Maximum of a Standardized Normal Distribution
Likewise, similar studies have been made on the roughly 8,000 directors who sit on the boards of the U.S. Fortune 1,000 companies. While 80 percent of these directors belong to only one board, every individual in the entire network of directors was actually connected to the others through a short chain of co-directors—not most of them, but all of them.

The point is that short chains make sourcing an extremely powerful way to effectively reach the most qualified potential candidates, while amassing valuable qualitative information. At the same time, they also make for an extremely efficient search.

Let’s assume that you would consider a “real” candidate to be someone who (1) is in the top 10 percent of the pool, in terms of qualifications, and (2) might be persuaded to change jobs. As shown in Figure 6.4, if you approach potential candidates randomly, by definition you would have a 10 percent probability of finding a qualified candidate. If you assume, generously, that 1 in 5 (20%) could be interested in exploring a new job, the probability of finding a real candidate through a random contact growing out of “cold” research (i.e., with no inside information) is only 2 percent. In other words, if you relied on cold research, you’d need to make more than 110 contacts in order to achieve a 90 percent probability of finding at least one real candidate.

In my experience, however, a good source would produce much better candidates in terms of qualification, and also be able to indicate those who might consider a new job, even if they are still not actively seeking to make a change. If you combine conservative estimates about the expected qualification and motivation information from a good

<table>
<thead>
<tr>
<th>P (qualified)</th>
<th>P (interested)</th>
<th>P (real candidate)</th>
<th>Contacts Needed*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cold Research</td>
<td>10%</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>Sourcing</td>
<td>30%</td>
<td>50%</td>
<td>15%</td>
</tr>
</tbody>
</table>

**FIGURE 6.4  The Efficiency of Sourcing**

*Contacts needed to achieve a 90% probability of finding at least one real candidate.
Knowing where to look is important because
- Generating candidates sets the upper limit for people decisions.
- Research shows that more candidates should be considered.
- Demographic and economic trends are reducing the relative supply of qualified candidates.

Some of the challenges include
- Where to look: inside and out.
- How many to consider and when to stop.
- Dealing with the problem of mutual choices.

Where to look: inside and out
- Typically, outsiders are recommended when entering new fields or dealing with new problems or major change.
- However, the best practice is to always consider a wide pool that includes both insiders and outsiders.

Knowing when to stop
- The key is to obtain a benchmark of the best potential candidates.
- Targeting the right population, considering some 20 candidates should produce at least one highly qualified alternative.

How to look for candidates
- Large companies should continually invest in succession plans and inventories of talent and key competencies.
- In addition, special internal and external efforts should be made for specific needs, particularly at the top.
- Despite the proliferation of advertising options and the promise of the Internet, direct contacts continue to be extremely powerful.
- Clever sourcing is both an extremely effective and efficient way to identify highly qualified real candidates.
- In many cases, you can generate most candidates on your own.
- Professional help can be useful for senior positions, new jobs, when you need to cast a wide net, or for confidentiality reasons.

FIGURE 6.5  Where to Look: Inside and Out
In Chapter 2, I described how to quantify the return on people decisions, referring to models that can be used to calculate the expected value of investments in finding, assessing, and recruiting the best potential candidates. If you are interested in the details, Appendix A explains how to calculate that value, based on the example of a medium-sized company. In that example, using very conservative assumptions, a company with an expected profit after taxes of $50 million can increase the expected value of the yearly profits by 34 percent ($17 million).

The relevant point for this chapter is that, by far, the largest opportunity for capturing that value lies in conducting better appraisals. Continuing with that same example, a sensitivity analysis shows that an improvement in the quality of the assessments is more than three times more valuable than increasing the number of candidates generated, and more than six times more valuable than reducing the cost of the hired candidate. (See Figure 7.1.)

It quickly becomes clear that the typical cost of a search becomes negligible when compared with the expected return. Specifically, a 10

![Figure 7.1 Sensitivity Analysis of Search Effort](image-url)

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Change in Yearly Profits (million $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment Quality</td>
<td>1.9</td>
</tr>
<tr>
<td>Number of Candidates</td>
<td>0.6</td>
</tr>
<tr>
<td>Cost of Hired Candidates</td>
<td>0.3</td>
</tr>
<tr>
<td>Search Cost</td>
<td>0.014</td>
</tr>
</tbody>
</table>

**FIGURE 7.1** Sensitivity Analysis of Search Effort
Change in Yearly Profits Assuming a 10% Improvement in Each Parameter (million $)
Assumptions and model: See Appendix A.
unique jobs, where intangible traits frequently make the difference between average and outstanding performance, you need to do the homework described in Chapter 5: identifying the relevant competencies and describing them in behavioral terms. This process is described in Figure 7.2.

Past behaviors are the best basis for predicting future behavior. So if you could find an individual who has achieved the level of performance you want in a job identical to the one for which you are making the assessment, your problem would be quite simple. But that’s not easy. In addition, it assumes that this perfect candidate would be motivated to uproot himself or herself only to undertake the same thing all over again somewhere new. And if everyone followed this approach, then no one would ever be promoted to larger or different jobs.

So in the real world, you first need to confirm what you’re looking for (as described in Chapter 5), and come up with the list of the key competencies required for the new job. Then you need to assess the performance displayed by the candidates in different jobs. You need to ex-

![Figure 7.2 Predicting Performance from Competencies](ccc_people_193-228_ch07.qxd 4/3/07 1:13 PM Page 202)
Structured interviews are the result of careful planning and disciplined implementation. In fact, we have found that for a two-hour interview to yield meaningful information, it could take at least that much time to get ready for it. The most important part of preparation is creating a list of questions that will identify whether the candidate has the competencies required for the position. It means asking the candidate about his experiences and behavior, and yet most interviewers usually just let the candidate tell his story. In a search for a marketing director for a fast-moving consumer goods company, we identified five competencies relevant to the position, as well as a series of technical qualifications. Below are examples of some of the questions—focused on facts and behaviors, not opinions or generalities—which we used to measure each:

<table>
<thead>
<tr>
<th>COMPETENCY</th>
<th>SOME QUESTIONS ASKED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results oriented</td>
<td>? Have you been involved in a business or product launch?</td>
</tr>
<tr>
<td></td>
<td>What were the specific steps you took to contribute to the success of the launch?</td>
</tr>
<tr>
<td></td>
<td>? Describe the most successful marketing communications project you’ve led. How did you measure results?</td>
</tr>
<tr>
<td>Team-centered leadership</td>
<td>? Describe a time you led a team to be more effective. What did you do? How did the team and the organization benefit from your actions?</td>
</tr>
<tr>
<td></td>
<td>? Describe a time you were asked to lead a particularly challenging team project. How did you overcome the obstacles you faced?</td>
</tr>
<tr>
<td>Strategic thinker</td>
<td>? What are the top three strategic issues that your current company faces?</td>
</tr>
<tr>
<td></td>
<td>? Describe a situation in which you personally have been involved in addressing one of these issues. What actions did you take?</td>
</tr>
<tr>
<td>Change agent</td>
<td>? Describe a time when you received organizational resistance to an idea or project that you were responsible for implementing. How did you handle it? What resulted from it? Would you handle it any differently now?</td>
</tr>
<tr>
<td></td>
<td>? Given our organizational culture and the changes we need, can you think of specific examples from your experience that would demonstrate that you would perform effectively in, and enjoy, this position?</td>
</tr>
<tr>
<td>Ability to respond to deadline pressure</td>
<td>? Describe a time you made an extraordinary effort to meet a deadline. What were the results?</td>
</tr>
</tbody>
</table>

FIGURE 7.3 Beyond Conversation: The Hard Work of a Structured Interview
Think of HOT SHOT as an assessment checklist. Are all of these factors at work in your organization? Is your organization getting all the stated benefits? If not, what has to change?

### Invaluable References

A few months after our firm conference in Pontresina, near the end of 1994, we held a meeting of our firm’s global Professional Development Team in Amsterdam. Participants included myself, several colleagues from all over the world, and our CEO, Dan Meiland. By that time, we had conducted significant external and internal research, and were analyzing in detail what made for the outstanding performance of several of our offices. Indeed, there was a small group of offices that had compiled amazing track records and built stellar reputations for themselves.
He knew the reality of Quilmes, and its current challenges, inside out. The second interviewer was David Ganly, the incoming CEO of Quilmes, who was transitioning in as we were conducting the search. While new to the company, he was extremely knowledgeable about the key marketing and sales issues in a fast-moving consumer goods company, and had a deep understanding of local consumers. The final filter was the CEO of the holding company Quinsa, Norberto Morita, an outstanding judge of people.

What happened in that case illustrates another extremely powerful best practice for improving the accuracy of assessments: having a few highly qualified assessors interview *sequentially* and *independently* the finalist candidates. I call this strategy the “sequential filters model,” illustrated in Figure 7.5.

The rationale for this strategy builds on a point introduced in Chapter 3, when I analyzed the impact of assessment errors. As you may remember from that analysis, if we want to hire only “top 10 percent candidates,” even if our assessments have a very high level of accuracy (on the order of 90%) we would still have a 50 percent error rate in our hiring decisions (as illustrated in Figure 7.5) as the result of just one filter. But if you add a second independent filter to those candidates initially assessed as “top,” you can reduce your 50 percent error to only 10 percent.

How does this work? Assume that you have 100 candidates before this second filter, of which 50 percent are really top-notch. Your 90 percent accuracy would make you assess as “top” 45 of the right ones, while your 10 percent error would make you assess as “top” another 5 from the
wrong category. Out of the 50 candidates who would have passed this second filter, 45 (or 90%) would already be top. Following this same logic, if you work out the numbers, you will find that adding a third sequential filter reduces your final assessment error to just 1 percent.

**Too Many Cooks Spoil the Broth**

Perhaps you're tempted to take this logic to its extreme, by adding even more appraisals to the process, and pushing the assessment error closer to zero. Don't! This would have significant negative consequences, for two reasons. First, you would eliminate too many qualified candidates. Second, you would need to generate a huge number of initial candidates, in order to get even one through all the successive filters! This is illustrated in Figure 7.6, which presents the consequences of three sequential independent filters with different accuracy levels of the assessors.

In the example we just discussed, with three filters and an accuracy level of 90 percent, the probability of assessing as “top” a bottom candidate would only be 1 percent, which is certainly great news. Meanwhile, though, you'd be wrongly eliminating 27 percent of the top candidates! In order to be able to find one top candidate, in fact, you'd need to generate 14 and to conduct a total of 17 assessments—hard work! Adding

<table>
<thead>
<tr>
<th>Accuracy of Assessors</th>
<th>False Positive(^{(1)})</th>
<th>False Negative(^{(2)})</th>
<th>Number of Candidates Needed</th>
<th>Number of Assessments Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>1%</td>
<td>27%</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>70%</td>
<td>42%</td>
<td>66%</td>
<td>17</td>
<td>25</td>
</tr>
</tbody>
</table>

**FIGURE 7.6 Example of Three Sequential Independent Filters with Different Accuracy Levels of the Assessors**

1. Probability of assessing as “top” a bottom candidate.
2. Probability of assessing as “bottom” a top candidate.
You won’t get it right every time—and you don’t have to get it right every time. Early-career assessment mechanisms turn out to be as important as hiring mechanisms, since the only way to know for certain about a person is to work with that person. Meanwhile, though, you can work on getting the pipeline filled with great people, through great assessments.

Figure 7.7 summarizes the key points covered in this chapter.

**Improving appraisals is key**
- Current practice is very poor.
- Improving appraisals is even more valuable than generating more candidates or reducing their expected compensation.
- Powerful research has proven that assessments can be significantly improved.

**The best techniques for assessments include a combination of**
- Structured interviews
- Rigorous reference checks

**Other key issues, however, can be even more important than the assessment techniques, including**
- High-caliber assessors, with the right level of competence and motivation
- The right composition of the selection team
- A disciplined process, from the initial confirmation of the key competencies all the way to the final decision

**You can significantly increase your organizational capability in this critical area by**
- Selecting the right assessors
- Training them following proven practices
- Reviewing assessments before confirming the hiring or promotion decision
- Following up over time the results of these decisions, for individual as well as organizational feedback purposes

FIGURE 7.7 How to Appraise People
tion packages are at risk of becoming badly misaligned with the criticality of the most senior resources. This proved true in the case of this telecommunications company. Figure 8.2 compares for each key manager his or her criticality with the market competitiveness of the compensation package. While the competitiveness of the compensation packages should have been aligned with the managers’ respective criticalities, there was almost no correlation whatsoever, putting the company at real risk of losing some of its most critical resources over the coming years.

Given this situation, we analyzed the retention risk for each of the
FIGURE 8.2  Critically vs. Compensation

<table>
<thead>
<tr>
<th>Manager</th>
<th>Job Criticality</th>
<th>Market Demand</th>
<th>Compensation Risk</th>
<th>Retention Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager A</td>
<td>●</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Manager B</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Manager C</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Manager D</td>
<td>●</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Manager E</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Manager F</td>
<td>○</td>
<td>●</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>Manager G</td>
<td>○</td>
<td>●</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>Manager H</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Manager I</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Manager J</td>
<td>○</td>
<td>●</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>Manager K</td>
<td>○</td>
<td>●</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

- ● High
- ○ Low
- ○ Med.

FIGURE 8.3  Retention Risk
In more than 300 executive search assignments, I have recommended golden parachutes and signing bonuses only in exceptional cases. And I would never recommend them to overcome a lack of trust on the part of the candidate. Nobody should work for someone they don’t trust. While special situations actually demand for these types of components, they should be the exception rather than the rule. A manager should join a new company feeling confident that both sides will deliver, and that they will feel mutually comfortable with each other. If these two conditions are met, these types of incentives shouldn’t be needed.

Again, objectively analyze the major risks, and deal with them by sharing information very openly and eventually making sure that your contract properly addresses them.

Figure 8.4 illustrates the conceptual analysis of the package put to-
Moving from assessment to recruiting is a critical step
- The whole opportunity can materialize or vanish all of a sudden, for both parties.
- Expectations, doubts, anxiety, and concerns reach the limit.
- The best combination of reason and emotion needs to be displayed.

Classic mistakes at this stage include
- Failing to understand the other side
- Underinvesting in your selling efforts
- Giving up too early when the best candidate has doubts
- Focusing only on money issues
- Paying too much or too little
- Setting up the wrong incentives

Best practices for attracting and motivating the best people include
- First, understanding the candidate’s motivation, concerns, and alternatives
- Sharing your passion about the opportunity
- Paying competitively for the relevant market, without overdoing it
- Setting up the right incentives, with great care in their design
- Properly dealing with any special risks
- Having enough courage to do exceptional things in exceptional cases

Following the practices set forth in this chapter, you will be able to close the deal and hire the best candidate.

But your job is not done yet! By properly planning and supporting the integration process, you can significantly enhance the new hire’s chances of success, as well as his or her expected performance. This is the subject of our next chapter.
Two important points grow out of this Three Wave model. First, taking charge takes time. Yes, time is money, and we would all like to accelerate these processes, but particularly for senior positions, acceleration is just not feasible. Building the right diagnosis, establishing trust, clarifying mutual expectations, and achieving influence—all of this takes significant time. Most of the managers in Gabarro’s study expected a faster integration, but they were disappointed. The three-year integration period seemed to pertain across very different industries, and even across a range of industry outsiders and insiders. (It should be noted, however, that industry insiders typically achieved more change in each of the waves.) Likewise, the duration of the process was relatively similar for turnarounds and normal successions (although turnarounds involved greater change in each wave, reflecting the higher pressure to improve performance).

A second conclusion I draw from Gabarro’s findings is that new managers face a dilemma: how quickly to take action. On the one hand, if
significant action happening in those first 100 days, as illustrated in Figure 9.2. As can be seen in the figure, one-quarter of the CEOs decided within the first three months or so to restructure the company, cutting costs and eliminating fat. A second early step involved rearranging the team, with nearly one CEO in five taking this kind of action.4

In 2006, we conducted a similar study of the first three months on the job of 70 top managers working in the financial sector in Europe, Australia, Asia, and the United States. While in some cases there was significant action in the first three months (consistent with Gabarro’s findings), on average it took about five months for these managers to feel comfortable in their roles, and this was true both for internal and external candidates. In this sector, the focus in the first months was mainly internal (structural and people decisions), while an external focus in the

---

**FIGURE 9.2 Activities in the First 100 Days of Biotech CEOs**

it to do again. Their answers are summarized in Figure 9.3. Most thought that they should have done more of just about everything. *Acting* and *learning* at the same time is almost always a tough challenge!

The third thing that hired candidates should keep is mind is that they can and should demand the kinds of organizational support outlined in the previous section. Most companies provide only minimal integration support. It’s not because they’re cheap or malevolent, but simply because they don’t know any better. Asking for this support and helping the company plan for it can make a big difference.

Fourth, new hires should start by focusing on a few key areas, rather than being pulled in every direction at once. A recent study by McKinsey & Co., written as a guide for the CEO-elect, highlighted three essential areas:

1. Understanding the organization and its other leaders more fully
2. Diagnosing and addressing their own weaknesses
3. Identifying resources that can smooth the transition, including the right advisors\(^{11}\)

"In the first 100 days, my focus on …

(a) … understanding the market …
(b) … understanding the organization …
(c) … understanding the abilities of the company …
(d) … meeting key people of the company …
(e) … meeting key customers …
(f) … communication to shareholders …
(g) … meeting key stakeholders outside the company …
(h) … broad communication into company …
(l) … reshaping the strategy …
(j) … rearranging my team …

...should have been lower*:  
1  2  3  3  1  1  3  3  3  1  1  1

...should have been higher*: 
10 13 13 7 11 12 10 15

FIGURE 9.3 Attention in the First 100 Days—Revisited

an outsider, with whom we worked closely to plan and implement a successful integration process.

Why do I close this chapter with this story? Because unlike most companies in the McKinsey study, this family-owned company managed to achieve the best of both worlds. They maintained their long-term strategic perspective, but gave up the pressures of delivering quarterly results to investors, and hitting short-term earnings targets.

Integration of a new manager is a critical step
- The process is long and risky.
- Most organizations don’t provide the right type of support.

Several traps can sabotage this process, including
- Minimizing the challenges of acting and learning
- Becoming kidnapped by stress
- Mismatches of management styles
- Underinvesting in the development of strong relations with key people
- Legacy actions of the predecessor
- Wrong hiring decisions
- Lack of proper organizational support

Companies can do several things to support integration
- Being proactive at internal communication and candidate preparation
- Properly preparing the ground within the organization
- Closely following up the process at regular intervals, monitoring the level of organizational support, relationship building, working of the business model, and setting the stage for early wins

Candidates should also take charge of their successful integration
- Ensuring the right sponsor
- Realizing that the integration work is harder than expected
- Asking up front for the type of organizational support required
- Focusing on a few key areas
- Properly managing expectations
- Confirming the new team
- Spending enough personal time with all relevant stakeholders

FIGURE 9.4 How to Integrate the Best People
### GREAT PEOPLE DECISIONS

\[ \text{Expected Value} = e_n \cdot \sigma \cdot V \cdot \rho - C_n - X_c \]

<table>
<thead>
<tr>
<th>Factor</th>
<th>Definition</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>(e_n)</td>
<td>Expected value of the maximum of a random sample of size (n) from a standardized normal population</td>
<td>A large number of potential candidates should be generated.</td>
</tr>
<tr>
<td>(\sigma)</td>
<td>Standard deviation of the candidate's performance</td>
<td>The more complex the job, the higher is the expected value of investing in people decisions.</td>
</tr>
<tr>
<td>(V)</td>
<td>Validity of the assessment criteria</td>
<td>Understanding the competencies required for unique jobs becomes critical.</td>
</tr>
<tr>
<td>(\rho)</td>
<td>Reliability of the assessment of candidates</td>
<td>For senior positions, highly competent evaluators need to be involved, in a process of high integrity, including reliable reference checking.</td>
</tr>
<tr>
<td>(C_n)</td>
<td>Cost of generating, assessing, and hiring the best candidates</td>
<td>Given the low frequency and high specialization needed, professional help is usually highly cost effective for senior levels.</td>
</tr>
<tr>
<td>(X_c)</td>
<td>Extra cost of the hired candidate compared with the average candidate</td>
<td>In order to maximize value, conflicts should be avoided (such as percentage fees for search services).</td>
</tr>
</tbody>
</table>

### Example

An investment \(C_n\) is made to generate a number of candidates \(n\), assess them, and hire the best.

#### Company Values and Assumptions

- Average profitability in the sector (ROA) = 5%
- Company’s assets = $1 billion
- Standard deviation of ROA = 10 percentage points
- Leader effect = 25% of standard deviation
- Company valuation = \(20 \times \text{Profit After Taxes}\)