CHAPTER ONE

THREE THINGS WE KNOW ABOUT PEOPLE

Whether starting, managing, or investing in a new business, I'm driven by two things: build it well, and gain a payoff. Hitting both targets, though, is tough. The government's Small Business Administration tells us that five of every ten start-ups fail in their first year.[1] Other sources put the number closer to nine or ten.[2] Reasons range from poor financing, to poor success in growing sales, to incompetent founders and management teams. In most start-ups, nothing is built, and no one sees a payoff.

The problem isn't limited to start-ups. Research shows that at least 50 percent of executives and managers in organizations fail within two years of taking on a new job.[3] Typically the organization doesn't go out of business, but the outcome is the same: nothing built and no payoff.

When we analyze these failures, we find that too often hiring staff made mistakes in choosing those they expected to do the building and generate the payoff. They made the wrong decisions

when they recruited and hired the people they now count on. And it doesn't take a new start-up, a fast-growing company, or even a high-growth stage in a business cycle to fuel these mistakes.

For example, U.S. Bureau of Labor Statistics data for December 2009 showed approximately 131 million nonfarm employees in the United States. Separation and hiring data for the same period showed about 3.3 percent of the workforce separating from a job, with close to the same number, 3.2 percent, finding a new one. That's more than four million hiring decisions, even at a time when the economy showed no growth in the size of the workforce. Even with the recession of 2008–2009, natural employee turnover and movement led the number of hiring decisions to remain within one percentage point of the December 2007 prerecession rate of 3.7 percent.[4] Awkward as it might sound, even when businesses are reducing head count, they're hiring people, and even when the workforce is shrinking, they're making million-dollar hiring decisions—and millions of them.

And two things about hiring should grab the attention of any businessperson: a relatively high-volume event (hiring) that produces a relatively high rate of errors—people who fail. These errors have a financial consequence. At one end of the occupational ladder, hiring the wrong frontline employee in a fast food restaurant might seem like a small thing. With a close-to-minimum-wage employee, how bad can a bad hiring decision be? To find the answer, ask the national chain that employs tens of thousands of frontline staff. In designing a process that puts more focus on making the right hiring decisions, we saw percentage points added to its store-level profitability.

Higher up in the hierarchy and making a bad decision in selecting a professional or manager is easier to see as a financial mistake. Here, the cost to replace a poor decision averages about twice the position's annual salary.[5] And at this level, just one bad decision can have a major consequence. An admittedly exceptional example was the twenty-eight-year-old futures trader in Singapore whose

bad bets on the Japanese market sank Barings PLC.[6] We can label that a billions-of-dollars hiring mistake.

Whenever there's a high-volume event that produces a high rate of errors with financial consequences, there's a business opportunity. For a service provider that helps employers find the best talent, there's opportunity in creating solutions to reduce errors and improve the quality of results. For an employer, there's opportunity for fundamentally changing how decisions are made, reducing errors, lowering risk, and seeing an improvement in results, including financial results.

In the chapters that follow, I draw on many of the solutions that today's recruiting and hiring professionals have created to improve the quality of hiring decisions. More important, I focus on the financial payoff these organizations gain when these tools are put to work, whether in staffing a start-up or dealing with growth and replacement in an established organization. You'll see that treating the recruiting and hiring process with the same rigor demanded in other areas of business offers more financial payoff than most managers and executives would imagine. In fact, a centerpiece in what follows is showing how to estimate the payoff that stems from improving these decisions.

Since the problem rests with people, I'll start with some things we know about people—candidates for a job and those who already work for us.

People Differ in Many Ways

People are *not* equal. This fact might not be true from a philosophical, social, and political point of view, but it is dead right when it comes to building things and producing payoffs.

Think about candidates for jobs in a manufacturing company. Some can read and use technical service guides; others have trouble reading the "Caution—Hazardous Materials" sign. Some candidates for software developer jobs are so skilled they can

almost sense where to look for an error in a piece of programming; others serve as great error generators. Some candidates for customer service jobs stick with a complaint, build rapport, and leave the customer happy. Some give it thirty seconds and ask whether the customer wants to speak with a supervisor.

Some argue that training can smooth out these people differences—that all a person really needs is a fair chance to learn the job. In fact, the research evidence shows that people differ a great deal in learning ability and in the inclination to succeed. From a business point of view, the questions are simple. Are you willing to take on the expense to train for things you might instead hire for? Do you believe you can train away differences in responsibility, drive, or intellectual curiosity, for example?

Most employers would rather act on differences *among candidates* while they have a choice than deal with differences *among employees* once they're on the books. Most employers don't want to go into the training business any more deeply than necessary.

A while back, a paper industry client told me his employment office operated too much like a revolving door. He said the department was moving two types of problems through the company that were hurting the business: "dumb asses," and "smart asses." He was describing two basic differences among people that human resource professionals deal with all the time. With more finesse, we can view them as qualities that take on a *can-do* and *will-do* character—or a *can't-do* and *won't-do* character.

Can Do

We know that people differ in a host of knowledge, skills, and abilities that yield an employee who *can*—or *can't*—do the job. These are qualities gained through education, training, and firsthand experience. Some take years to build; some result from something as simple as having a hobby or growing up in a particular setting. Malcolm Gladwell's insightful book on the success of outliers points to how some of these *can-do* attributes are a function

of how long one works at something, or even when, where, or among whom one is born.[7]

A person's *can-do* qualities can affect outcomes as basic as being able to learn a job. They can lead to success in problem solving, creativity, or the ability to see through the complexities of a situation that befuddles everyone else. Without these qualities, all the motivation in the world provides little benefit.

In the 1990s, one of the largest semiconductor manufacturers in the United States faced a *can-do* challenge. In its manufacturing workforce, many employees could not read or do math at even an elementary school level, yet quality improvement programs and increasingly sophisticated manufacturing techniques called for basic educational capabilities. Intense competition from Asian manufacturers had framed the decision: improve the skills of the U.S. workforce, or take the manufacturing operations offshore. A new recruiting and hiring program was created to make sure new hires brought the needed skills to the job. At the same time, employee development efforts began inside the company's U.S. operations. The company's internal university drove a companywide response to the challenge. Yes, *can do* really matters.

Will Do

Will-do qualities are different. Often we say these define an employee's personality. They distinguish a candidate who puts forth effort, works well with others, takes the employer's expectations seriously, and engages in behavior that helps, or at least doesn't hinder, putting their *can-do* skills to work.

Again in the 1990s, U.S. manufacturing companies landed on the concept of teams and teamwork. Quality improvement teams, customer service teams, union-management teams, and others became the zeitgeist. Problems in implementing the concepts, though, showed that many employees just didn't want to be part of a team. Hired with no attention to *will-do* qualities such as sociability, extroversion, or openness to new ideas, these employees

often stymied efforts to gain the benefits of team-based approaches. As a result, many businesses began to pay attention to recruiting and hiring employees with a strong *will-do* foundation for collaborating in a team-based setting. But today we're learning that *will-do* qualities are not always positive; some can work against success.

More Isn't Always Better

For many years, the science of personality assessment followed a more-is-better outlook. Possessing greater degrees of sociability, conscientiousness, or openness to new ideas was shown to predict success in many jobs. The more of these attributes a candidate brings to these jobs, the better his or her chances of success, it was thought.

Recently, though, a host of more-is-worse qualities—excitability, skepticism, cautiousness, mistrust, and others—have been found to predict failure in the workplace. Differences among leaders in these areas have been shown to relate to their ability to gain commitment, engagement, and retention among subordinates. In settings with the potential for job-related accidents and injuries, differences among employees in the willingness to take unacceptable risks predicts the likelihood of being involved in such events. In workplace personality, having more of some things can be worse.

Those who design today's best recruiting and hiring programs understand the range of *can-do* and *will-do* qualities on which people differ. Rather than simply talking about *can-do* qualities, hiring professionals talk about learning ability for lower-level jobs, troubleshooting and problem-solving skills for midlevel jobs, and data integration and interpretation skills for higher-level positions. For leadership positions, concepts such as business acumen, strategic thinking, and skill at allocating resources often join the list.

Rather than simply talking about *will-do* qualities, hiring professionals talk about conscientiousness for lower-level jobs,

openness to new ideas for midlevel jobs, and emotional stability for higher-level jobs. A host of other *will-do* characteristics enter the discussion as well. Again, for management and leadership positions, some of these "bright side" versus "dark side" attributes can make or derail a career or an entire company.[8]

Later, I'll review more detailed examples of the *can-do* and *will-do* differences candidates bring to an employer and ways to profile the *can-do* and *will-do* requirements of a given job. This, of course, lays the foundation for comparing candidates to the things a job actually demands, a central step in making the best million-dollar hires. For now, though, one thing we *know* is that people—candidates—differ; they differ in many ways, including major ways.

People Differences Translate to Performance Differences

Once candidates are hired and join a company, the differences continue, but now they show up in job performance. Say your company employs fifty sales reps. Those fifty reps don't all build sales pipelines of the same quality, don't all book the same volume of sales, don't all hit the same percentage of their quota, and don't all close sales that carry the same gross margin. The average performance of all fifty sales reps on any of these measures says something about the sales organization's overall effectiveness, but it's the *differences* among the fifty reps that consume management's time.

People differ in their job performance, and typically a lot. Any manager who supervises more than one employee sees the differences every day. And these aren't the differences reflected on the company's performance evaluation form where most employees range between excellent and superior, and being rated "competent" actually means god-awful. In any job, measurable differences in performance are always present.

Figure 1.1 In a highly engineered job, performance variability is generally small but still consequential
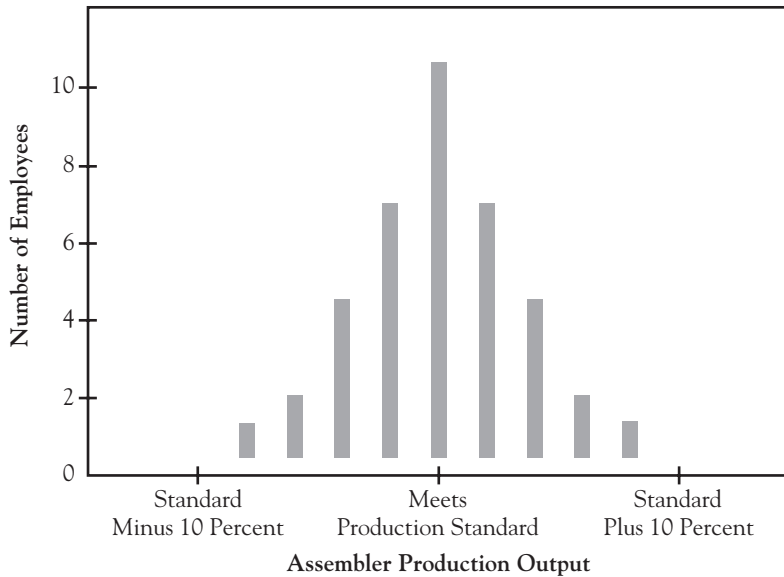
Where employees have little opportunity to influence the outcome of the work, the differences in performance can be narrowed but not eliminated. For example, a plot of individual employees' performance in a production assembly department, where work is highly automated, might look like Figure 1.1. Here, automation, engineering, and modern assembly techniques can make the job highly structured (some might say, mind-numbing). Even when jobs are simplified, though, there are measurable differences in performance among individual employees.

Figure 1.1 shows the bell-shaped distribution that measures of job performance often follow. The figure shows a few great performers at the top, a few poor performers at the bottom, and most performing in the middle of the range. In the real world, differences among employees don't always follow this perfect bell-shaped curve, but they often come close. And even small differences in performance add up. The production assemblers of Figure 1.1 who

perform at 103 percent of standard over the long run make the company a great deal more money than those who perform at 100 percent of standard, particularly when hundreds are on the job. Even small performance differences matter a great deal in the long run.

In many jobs, it's just not possible to engineer out variability in performance. Jobs calling for judgment, discretion, and creativity show more performance variability. Think about the percentage of quota achieved by each of the fifty sales reps mentioned earlier. The result might look like Figure 1.2. Here, despite training, coaching, incentives, and so on, variability in individual performance is substantial.

As a rule, when jobs become more and more complex, variability in performance among individual employees increases. Nine of ten start-ups fail largely due to variability in the performance of the company founders. Some companies grow, prosper, and reward shareholders, but most don't. Any private equity investor will

Figure 1.2 In more complex jobs, performance variability is more noteworthy
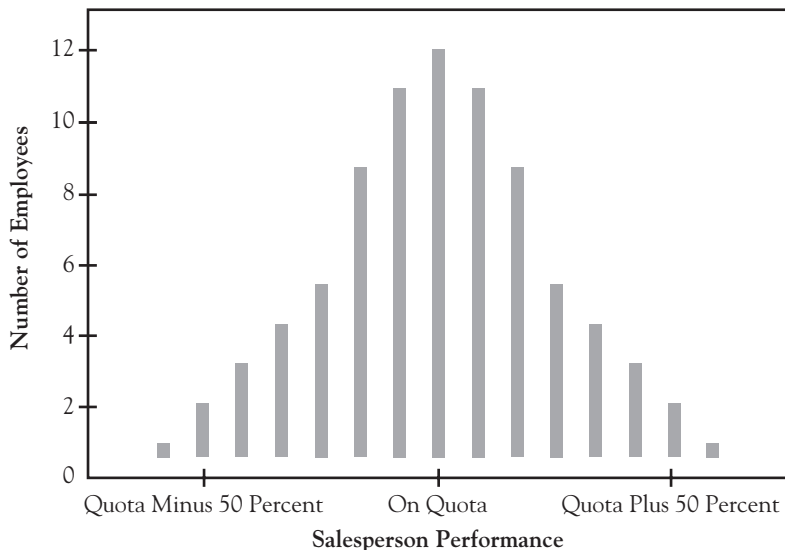
confirm that variability in the performance of newly minted CEOs has great consequences.

Variability in performance applies to high-level, single-incumbent jobs too. At these levels, though, the perspective changes a bit. It's silly to think about reducing the performance variability among your company's twenty chief financial officers (CFOs) unless it's a multinational that actually employs twenty divisional CFOs. It's not silly, though, to think about how *your* CFO performs compared to the CFOs of nineteen competitors. Here, the challenge is not about reducing performance variability *within* the organization; it's about making sure you're at the top of the performance distribution that's defined by you and all your competitors.

Performance variability leads companies to build all manner of human resource programs dedicated to *removing* it: training programs, incentive programs, disciplinary programs, and more. But think about the costs of all these "remedial" programs. All focus on removing variability among employees, particularly at the bottom of the performance distribution. All are less necessary when the quality of recruiting and hiring decisions improves.

In lower-level jobs, where performance variability is smaller, organizations typically recruit and hire the greatest numbers of employees. Here, improved hiring offers an opportunity to increase performance effectiveness by a small amount but for many employees. In higher-level jobs, where performance variability is greater, there's opportunity to improve performance for fewer employees but to a much greater degree. In short, better recruiting and hiring pay off in different ways at different levels, but both do so primarily by reducing variability in employee performance.

So another fact to build on is that whatever the job or the performance measure, people differ in the quality or quantity of performance they deliver. It's not worth arguing whether the differences always look like a bell-shaped curve. But it's important to understand the differences because they play a key role in what follows. Performance differences among employees are real, they

grow in size as jobs demand more judgment and creativity, and they have major financial consequences.

People Differences Can Be Measured

The history of measuring how people differ is a long one, particularly as the differences relate to mental abilities and personality.[9] It covers research driven by two world wars, each yielding measurement tools and screening systems used to assign millions of military personnel to jobs that could benefit from their skills and abilities. The result was an array of tools for profiling differences relevant to employers too.

Beginning in the 1950s, these tools moved into the workplace as employers introduced employment testing, interviewing, work simulations, executive assessment programs, and the like. Psychologists expanded mental measurement and personality assessment to the executive level. Human resource consultants, fueled by employers who were seeking to screen candidates better, produced new ways to set up and manage hiring systems. More recent introduction of technology and outsourcing solutions has made these processes even more sophisticated.

The recruiting and hiring industry (test publishers, assessment specialists, search firms, and others) focuses on tools that deal with people differences. Annually the industry sees billions of dollars in sales. When you add in the software technology companies that support recruiting and hiring, the industry is now among the fastest-growing businesses.

Today the ways to measure differences among candidates are many. There's a test to evaluate nearly every conceivable human quality, many of them developed, tested, and proven in the workplace. The Buros Institute's *The Seventeenth Mental Measurements Yearbook*, a bible in the testing discipline, and *Tests in Print*, a similar listing, reference nearly four thousand tools that measure people differences in research and employment settings.[10]

Employers have used many of them, including those that bridge both the *can-do* and *will-do* demands of the workplace to guide recruiting and hiring decisions for decades.

But the methods available to measure differences among people that are relevant to the job extend far beyond testing. A host of methods focuses on improving the consistency of face-to-face interviews.[11] Some use realistic simulations and hands-on tools that take on the character of the job—that is, job simulations.[12] Others use software-based approaches to do things as complex as matching and scoring résumés against a job's requirements. There are measures of interests, motivation, proficiency, mental abilities, personality factors, physical capabilities, knowledge acquired through training, and almost any technical skill you can mention.

What happens when these tools are used to measure differences among candidates? Figure 1.3 shows what happened when several thousand candidates for maintenance jobs at a consumer products

Figure 1.3 People show differences in the job qualifications they possess

Scores
Mechanical Comprehension Test
(Percentage of Test Questions Answered Correctly)
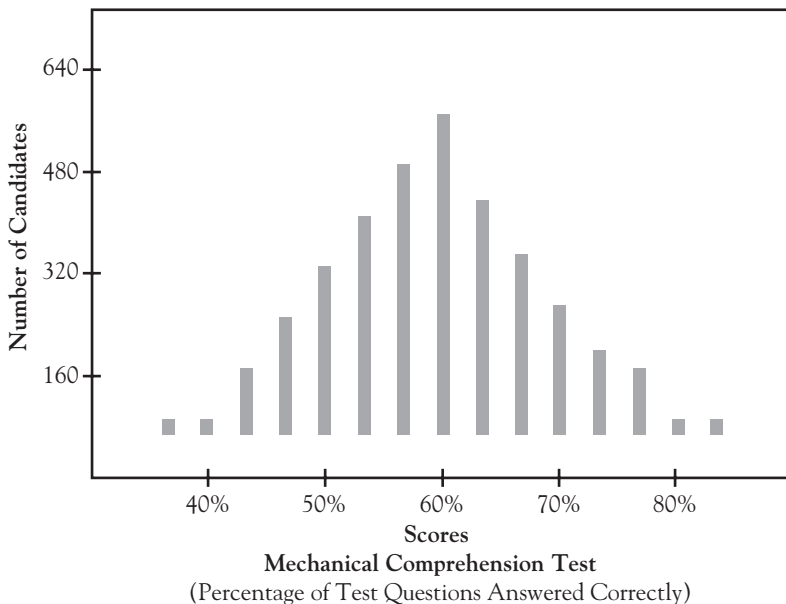
company completed a test of mechanical comprehension skills—a *can-do* measure. Scores ranged from the absolute maximum possible score to ones that would result by simply guessing. Excluding the extremes, in this case most candidates answered between 40 and 80 percent of the test questions correctly—a wide range of mastery for the knowledge being measured. And, yes, the illustration looks like a bell-shaped curve.

Candidates differ on measures of almost any knowledge, skill, ability, or personality characteristic we evaluate. For some measures, the distribution of scores is not so symmetrical, but it's often close. If an employer were to use a well-designed measure of deductive logic in screening software programmer candidates, a measure of extroversion in screening sales associates, a test of quantitative reasoning for data analysts, or a test of risk-taking inclination for the job of controller, the result would look much the same as Figure 1.3.

And it's not only tests that produce such results. Figure 1.4 shows the results when over three hundred sales candidates participated in a structured interview I designed for a recent client. In the process, teams of interviewers evaluated candidates' skills in a number of areas. The results are shown for one area: sales skills. Here, candidates received interviewer evaluations that ranged from unacceptable to superior. The total set of evaluations is close to a bell-shaped curve. Since the data are real, though, a question occurs: How did the candidates who ended up at the bottom of the distribution ever make it to a time-consuming, face-to-face interview in the first place? Was there no less costly prescreening step? Were the interviewers too critical of the candidates' skills? These are questions that carry financial implications and ones we'll tackle in detail a bit later. In this case, they're the reason I inserted a pre-screening test battery to precede the interview process.

Figure 1.5 shows that differences among candidates can be measured when all the employer has to draw on is a stack of résumés. The figure illustrates that when technology-based résumé search

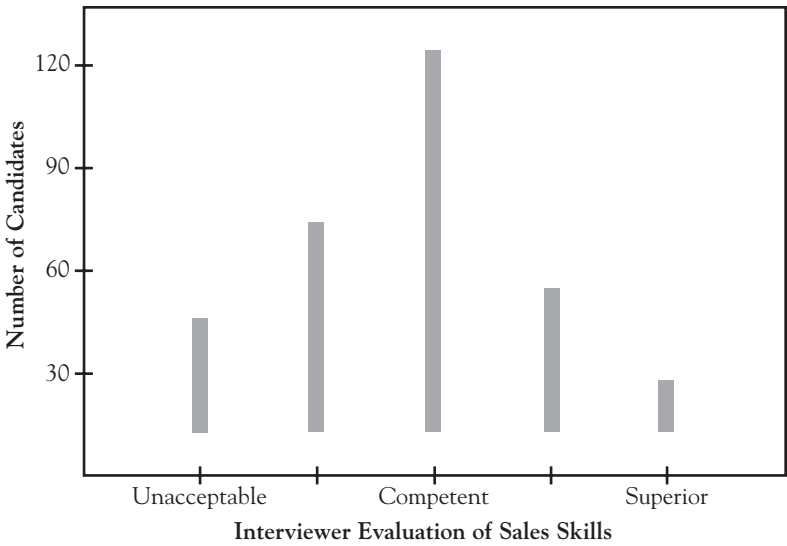**Figure 1.4** People differ in qualifications when measured by tools other than tests
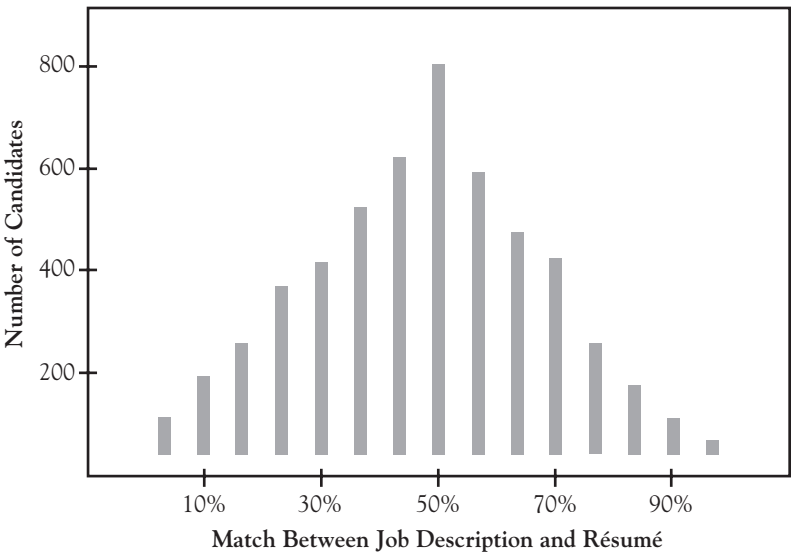

Interviewer Evaluation of Sales Skills

Figure 1.5 People differ in how well their résumés fit the job

Match Between Job Description and Résumé

software reads résumés and reads the company's job description, it can produce a measure of the degree to which the information in each résumé matches the requirements reflected in the job description. Here, a few seconds of computer time devoted to reading and matching over two thousand résumés to the company's job description for an account manager job shows a familiar picture. Actually, using such a tool early in the screening process might have helped avoid inviting some of the Figure 1.4 candidates to a costly face-to-face interview process.

And so we confirm a third key fact in making better million-dollar decisions: the noteworthy differences candidates bring to the workplace can be measured accurately, reliably, fairly, and in a way that acknowledges the financial importance of every hiring decision.

Three Facts to Build On

This is where we begin, then: with three basic facts.

1. People differ. They differ in many ways, some of them major. The differences related to *can-do* and *will-do* qualities determine success on the job.
2. Once applicants are hired, the differences among people continue and show in their performance on the job. These performance differences follow from differences that existed *before* they were hired.
3. Recruiting and hiring professionals can measure the differences among candidates accurately, reliably, fairly, and in a way that produces a payoff for the business.

Space travel aside, nearly all organizations devote more financial resources to people than to any other area. Each time an employee is added to the workforce, the business makes a major

financial commitment and takes a noteworthy financial risk. Each new hire, in concept, represents an entry on the organization's balance sheet, but it doesn't know whether the addition is an asset or a liability until after making the decision. If it's a liability, those who are hiring don't know whether it's a short-term or long-term liability until much later.

Next, we turn to some information about process improvement that can help limit the liabilities and the risk when employee commitments are made in making million-dollar hires.