

# Hiring and Market Performance

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## Selection Synergy

This overview is meant to challenge your thinking about enterprise-wide hiring and its link to market performance.

In principal, everyone agrees that it is people (human talent) who create and implement the services and products that dominate markets. But then the consensus breaks down and it becomes difficult to gain agreement on what defines 'talent,' let alone the true value that it has in an organization.

The reason for this confusion may be that we lack an accurate understanding of how talent relates to market performance. To add clarity, consider the following paradigm which indicates that competitive performance is a result of very incremental talent superiority:

- On average, the dominant player, team or company is only 1 to 5 percent more talented than the nearest competitors.
- All else being equal, if your organization's talent is 1 to 5 percent superior than your competition, you will eventually dominate your market space due to Selection Synergy.

**Selection Synergy:** The inevitable and steady ascendance of a competitive entity that continues to add people who are incrementally more talented than the competition.

**Selection Entropy:** The inevitable and steady deterioration of a competitive entity that continues to add people who are incrementally less talented than the competition.

**Talent Synergy:** Overall superior, competitive performance resulting from leveraging superior talent.

Note that Selection Synergy assumes that the competitive entity has processes in place to utilize the talent being added. Talent and the systems to leverage talent are both necessary.

## Selection Synergy and the New York Yankees

The concept of Selection Synergy is well documented in the statistics driven world of professional sports where there is tremendous data to show the impact of incremental talent improvement on team success.

One of many examples of Selection Synergy comes from baseball. There is little argument that all professional baseball players are talented athletes. However, the teams who average a base hit 30 percent of the time versus those who average a hit 25 percent of the time have a significantly different scoring percentage. This 5 percentage point difference may seem trivial, but it is this type of incremental improvement across a team, at all positions, that is proven to result in championships versus last place finishes.

The New York Yankees, love them or hate them, excel at leveraging Selection Synergy. They won the 2009 World Series and are in playoff contention almost every season. The Yankees are clearly better than the Pittsburgh Pirates, who own the North American record for the most consecutive losing seasons in any professional sport. But when one compares the Yankees to the Pirates in terms of daily performance statistics such as batting average, ERA, slugging percentage, fielding errors, stolen bases, etc., the difference in performance is less than 5 percentage points. However, for the Yankees, those 5 percentage points equate to winning records, playoff births and, in 2009, their 27th World Series championship. At the same time the Pirates have spiraled downward into an entropic state.

A closer look shows us just how Selection Synergy/ Entropy works. The Yankees have a strong farm system and an extremely effective targeted talent strategy at top levels. The Pirates, on the other hand, 'save money' by trading away top talent to more synergistic teams and replacing them with lower paid players who are incrementally less effective. This difference in selection practices has resulted in such

an enormous performance gap that many would say that the Pirates are no longer a contender in baseball. In fact, if the Pirates had to survive in a 'normal' business environment—instead of one that props-up operations through revenue sharing—they would likely have gone out of business years ago.

On game day it looks like this: when a Yankee player gets on base, he experiences the synergy of having another player come to the plate who can hit him in. In your organization you may think of this as a person coming up with an idea and another person close by to build upon the idea and make it better. The Yankees support their offense with a defense that pitches and fields as well or incrementally better than the competition. These small differences allow them to hold the competition in check and often come from behind and win games, if only by a single run. Although the talent differences, from a statistical perspective, are tiny, the overall result is enormous – championships.

Admittedly, the Yankees have a much higher payroll than other teams and are able to attract better talent. But the key point in this analogy is that the Yankees' highly paid talent is statistically only a little better than the worst team in baseball.

The lesson here is that in baseball, business and life, small differences make all the difference. The entire city of Las Vegas is built on this very constant principle: the house wins incrementally more than the player. Interestingly, in every area of operations, organizations make an art form out of being incrementally better. They go to great lengths to cut costs and improve productivity through continuous improvement groups, Kaizen efforts, and detailed operational analyses. It seems that one of the only areas where this passion for being incrementally better breaks down is in hiring the talent. Requests come to HR to fill positions in a fatalistic fashion with those making the request not really believing that great applicants will be found.

While it is very common for leaders to publically state a strong belief that talent makes all the difference, the proof is in the budget. Take a look at an average company starting up a one billion dollar facility. The budget may look something like this:

Item	Investment %
Land, roads, infrastructure	99.8%
Building construction	
Equipment and technology	
Hiring The Right People	00.02%

In fact, in many cases, the organization defers to the state to screen and hire most of the people for them. They concede that the state 'seems' to have a good program for hiring 'good' people.

How does it happen that organizations who would not think twice about spending or saving a few million dollars on operational needs struggle with the idea of making a significant investment into hiring their most valuable resource, people? A meeting I had with an executive sheds some light on the matter.

Two years ago I had dinner with an executive from an organization that was building one of the largest manufacturing start-ups in North America at the time. He was the Senior Vice President of Human Resources and ultimately responsible for hiring 4,500 new employees. He expected over 125,000 applicants to apply. I almost fell off my chair when he told me that his goal was to use a very basic tool to screen out the bottom 60% and then hire from the remaining group. He said, "Does it really make a difference; our employees are assembling pieces of metal? This isn't rocket science." I said with a look of disbelief, "Yes! It makes all the difference in the world! You are making a terrible mistake to hire from the top 40% when you could hire from the top 10% or 5%. For crying out loud, you are an employer of choice, why would you do this?" I went on to explain that, all else being equal, incrementally superior talent will result in superior performance in quality, safety, production output and improvement ideas. The net result will be millions of dollars of additional profit every year for the life of the facility. So yes, investing the extra dollars, time and effort to hire the very best makes a huge difference. From a financial perspective, there are few investments that have a larger ROI.

The lesson here is that the last thing anyone in any organization should do is settle for hiring good people when, with the right technology and approach, they can hire great people. The very worthwhile challenge to undertake is committing to implementing a process that accurately differentiates between poor, average, good and great applicants, understanding that it is nearly impossible to make this differentiation using a simple interview.

**The lesson for business is to never settle for good talent when you can hire great talent.**

## Toyota and Hyundai

It does not matter where you look, you can find the 5 percent synergy formula at work. For example, in spite of the 2010 recalls, Toyota is arguably the most successful and respected car company in the world, but are Toyota vehicles really that much better than those of GM, Ford, Chrysler, Hyundai, Subaru, etc.? Are Toyota's tires, engines, frames, transmissions, windows, gas mileage, price points, warranties and service twice as good as the competition? The data would say no. Especially when you consider the challenges Toyota has faced in 2010. But overall, have they been 1 to 5 percent better? Yes. Has this been enough to become the market leader? Yes. In fact, in spite of the recalls, there is little doubt that Toyota will continue to hold a place of dominance in the auto industry. They have built an entire company on the principles of talent and process. This will ensure that they stay incrementally ahead of the competition, especially those competitors not employing such outstanding processes.

Recall the tongue in cheek saying that tells us if you and I are being chased by a bear, I don't need to be faster than the bear, I just need to be faster than you (the competition).

## The Competition

So what does the competition need to do? The simple answer is that they must become incrementally better. Hyundai, which the consumer once associated with lower quality vehicles, understands this concept and has begun the process of capturing market share. Hyundai never stops hiring incrementally better talent who in turn provide incrementally better designs, manufacturing methods, sales strategies and service methods. This is selection synergy at its best and it works the same way in every industry. It all begins with a continual influx of incrementally better talent at every level, in every geographic location and in every position across the entire organization.

To be clear, not every Toyota or Hyundai vehicle produced is going to be awarded "Car of the Year" honors, and the Yankees can still lose to the Pirates on any given day. But all else being equal, Selection Synergy eventually wins the long-term battle for market dominance. At the end of the day, Toyota is still selling more cars at higher price points, Hyundai is still capturing market share, and the Yankees are still going to be in the playoffs and have a chance to win the World Series. Why? Because these organizations are 1 to 5 percent better, everywhere and at every level.

When it is working correctly, incrementally superior talent does everything just a little better. Research and Development creates incrementally better ideas, leaders keep employees more focused

and motivated, Operations is more productive with less waste, and Sales and Marketing promote and sell products and services a little better than the competition. Unless you are selling water in the desert, talent synergy will be one of the key ingredients to your success. As noted earlier, superior talent without systems, training and infrastructure is useless. However, mediocre talent with good systems is equally wasteful.

## Selection Synergy vs. Training and Development

The concept behind Enterprise-wide Assessment is powerful—use science to systematically screen out poor performers rather than spending years and large dollar amounts trying to develop them. In essence, instead of trying to train a dog to fly, hire a bird. Amazingly, companies invest millions into hiring and training people every year who are never going to perform at the intended level. Training for sales people who do not possess basic EQ is useless. Bonuses for leaders who historically make bad decisions are wasted. Salaries for customer service representatives who cannot control their interactions is counter-productive. Enterprise-wide Assessment shows that these people should never have been selected in the first place and could have easily been substituted with stronger performers.

The true cost is not in the money spent trying to develop the wrong people, but rather the opportunity cost of not having more of the right people in jobs across the entire company. This cost is conservatively estimated at 10% of the total cost of salaries in the average global 1,000 company. By implementing Enterprise-wide Assessment, organizations affect massive bottom line metrics improvements through the interaction of talent improvements across the company. Just as bringing in a great shortstop to an average team will only yield small improvements, combining that new shortstop with strong supporting players will have an exponential result.

Training and development are critical but should be used on people with the right potential. The sobering, age old, truth is that you cannot make a silk purse out of a sow's ear. Even Michael Jordan, one of the greatest basketball players of all time, could not transfer his skills from the basketball court to the baseball diamond. The problem wasn't that he lacked the right coaching or a big enough training budget. He simply could not hit a 90 MPH fastball and no amount of training would ever change that fact.

But let us for a moment give the development side the benefit of the doubt and say that with unlimited time and money, Michael Jordan could make a professional level baseball team. Would it not make infinitely more sense to forgo this monumental effort and simply hire people who already have the ability to hit 90 MPH fastballs?

Okay, you are now tired of sports analogies and you are thinking to yourself, “but I am not trying to hire professional athletes.” To that I say the difference is only in degrees. The truth is, it matters little if you are trying to select baseball players or executive leaders, retail associates or sales professionals; every person in your company, like every athlete on a team, will be more accurately selected using an in-depth, structured assessment.

Athletic performance, like business performance, requires important mental abilities. There is a reason why professional teams spend untold hours assessing talent before making hiring decisions. In addition to physical skills, professional level teams assess decision making, temperament, tolerance for stress, ability to learn and critical thinking skills. All of these traits go into making a world-class, team athlete and none of them are fully trainable. That is, if the applicant is not starting with a certain level of potential, no amount of training will help. Hence, the reason I could never be the Steelers’ next quarterback and why many people in the wrong job will never be fully successful. However, once a person with the right potential is selected, then training becomes a powerful fuel to power the raw potential.

### Multi-Level Assessment (MLA)

Talent Synergy is real in every organization. You can start at any point and watch the ripple affect caused by hiring average versus great talent. Better talent results in better performance. The concept seems so easy, by simply hiring people who are 1 to 5 percent better than the competition, voilà, market dominance. How hard can it be?

Actually, it’s not easy, but the results are worth the effort. At the heart of the matter is a desperate need for organizations to view talent acquisition exactly like operations and ask the following fundamental questions: How can we be more accurate, consistent and efficient in our approach to hiring? Are we tracking the right data? Are we investing appropriately? Are we using the right hiring tools and processes, everywhere? Is every hiring manager using the system the same way, the right way? How do we know if we are succeeding? What are the key measurements we need to make?

The first step in Selection Synergy starts with having the right big picture perspective. That is, the objective must be to optimize talent acquisition in the entire facility or organization.

Multi-Level Assessment or (MLA) is the term used to describe improving talent acquisition on a large scale. MLA is a facility-wide or company-wide evaluation approach that encompasses every job at every level. It is a technology enabled approach that brings tools to the hiring process to ensure that everyone is hiring

the best available talent in a legally defensible and fair manner. It is a practical operating philosophy that says that talent acquisition is as important as operations and continuous improvement.

### Multi-Level Assessment (MLA): Optimizing talent acquisition at every level.

MLA is a ground breaking process used to secure raw talent at every level to lead the organization, build better products, service demanding clients and generate tomorrow’s strategies. More importantly, it is a safeguard against allowing the wrong talent to enter your company resulting in years of blocked positions that could have been filled by more productive workers.

Currently, many organizations use their hiring tools with a ‘hit or miss’ strategy. They may employ a powerful assessment process for hiring sales people but then nothing for executives, or one location uses assessment and another does not, or one hiring manager uses a valid structured behavioral interview and others use gut feel. This is akin to the Steelers using a robust, structured assessment process for hiring wide receivers and tight-ends but allowing coaches to use whatever favorite technique they like for hiring linebackers and defensive ends. The bottom line is that miss-hires in any position weaken the entire team. The new philosophy is that less than optimal hires are not permitted in any position at any level.

### Why Selection Synergy is Sometimes Missed

The first reason why Selection Synergy does not happen is that executive leadership does not always understand the power of employing incrementally better talent. They have come from the school of talent that says, hire reasonably good people and train them. Put the real focus and attention on R&D, Operations, Marketing and Sales. The thought of being able to actually make a significant positive improvement by hiring incrementally better people versus investing more money in operations does not seem real to them. Executives are often surprised and intrigued that there are proven tools for predicting an applicant’s performance and potential in regard to competencies such as leadership, business acumen, safety orientation, problem solving ability, service ability, adaptability, tolerance for stress, creativity and the list goes on and on. I always tell them that once the mystery is removed, they will see that it is not much different than going to a doctor and having him or her evaluate your condition using health related assessment technology.



I attribute some of the misunderstanding to the superb marketing efforts of the billion dollar, U.S. training industry, who would like for us to believe that with enough training, anyone can do anything. Of course, nothing could be further from the truth. In fact, there are many competencies that must be present in critical mass to make training worthwhile. Many of these involve important areas such as ability to learn, safety, conscientiousness, problem solving, work pace, attention to detail and even leadership. In fact, most competencies, aside from technical skills, while developable to a certain extent, can only be improved a relatively small amount. It is always a better idea to hire the best talent available and then provide training.

The second reason that selection synergy does not happen is that strategic, talent-driven hiring, for the most part, is not viewed as an enterprise-wide, tier one system. To exacerbate the situation, in many companies, hiring is largely decentralized – virtually ensuring that each geography, job level and, in some cases, hiring manager, implements selection processes that are different. When various approaches are used, the result is variance in the quality of hiring steps, competencies evaluated, screening assessments, applicant experience, testing approach, interview format and, most significantly, quality of hire. A good analogy to demonstrate this hiring challenge would be to take an organization's highly structured GAAP accounting practice and allow everyone to use their own system for tracking and reporting debits and credits. The folly of this approach would be evident at tax time. Your hiring system requires the same robust standards as your accounting practices.

The list below identifies the five most common reasons why companies not only miss out on Selection Synergy but often fall prey to Selection Entropy:

- **Inconsistent/decentralized hiring practices:** Selection must be a consistent, system-wide application implemented at the enterprise level. Every job level and geographic location must use the same structured, validated hiring processes and tracking approach, without exception. It should be clear where and when HR and hiring managers are involved in the process, the tools they are to use, the training they must have and the timeline for completing tasks.
- **Weak competency foundation:** Poor hires result from selection systems built from weak competencies. Competency profiles must uniformly build from level to level and be written specifically to support enterprise-wide selection. It should be clear where and how each competency is evaluated in the hiring process.

- **Invalid evaluation tools:** Every hiring tool must be thoroughly vetted, validated and correlated to hiring competencies. The tools then must be consistently used across all levels and locations. When individual hiring managers choose their 'favorite' testing and interviewing technique, the result is almost always Selection Entropy.
- **Inadequate training:** Hiring is not intuitive in the sense that the best candidate is very often not obvious. Many poor hires are a result of misinterpreting data due to lack of training. Therefore, it is necessary that everyone involved in the hiring decision be trained to use the selection tools and to interpret candidate data.
- **Lack of measurement and user accountability:** Selection Synergy must be a highly valued, closely watched, constantly measured program. It should be on the weekly radar screen at the highest level and viewed as a top organizational priority. There should be clear accountability and no one should feel comfortable circumventing, abusing or neglecting the process.

### Multi-Level Assessment in Practice

It just so happens that most things worth achieving require a good plan and hard work. Let's go back to the original point; hiring people who are 1 to 5 percent better than the competition is hard, especially if your organization reflects the type of challenges cited above. Regardless, Talent Synergy is worth the effort because it is the power behind market performance.

Organizations determined to leverage Talent Synergy must implement a selection strategy that addresses all of the challenges above. The goal is not to hire superhuman people who never make mistakes. That is impossible. Derek Jeter does strike out and even the best CEO's occasionally make bad decisions.

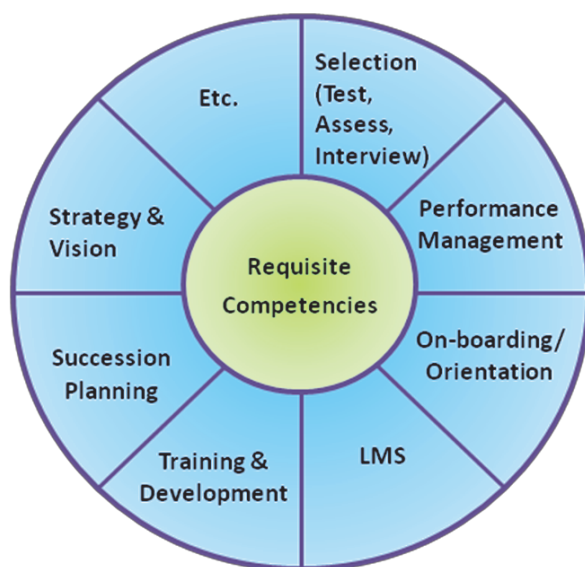
MLA provides the structure, content, processes and technology to facilitate talent synergy. It is a standard for daily selection decisions and can be invaluable for M&A initiatives, downsizing events and green field start-ups. There are four key components that make up an MLA implementation.

### Component 1: Competency Hub

A common language is needed for integrating HR programs and creating a consistent, higher standard for selecting and moving people across the company. In essence, the common language is the hub of the model and your HR systems are the spokes. In the

diagram below, the hub consists of clear competencies at each key level of the organization. These competencies build on one another from entry-level through executive-level.

As a result, you are able to see the competencies required for any job and where those competencies fit into each HR program. In essence, any employee can look at another job level and see what is expected.



Most importantly, they provide a legally defensible framework of knowledge, skills, abilities, motivations and values required for each job profile and incorporated into each HR program.

While consulting firms have convinced us that this process of 'competency analysis' is rocket science, the truth is that building out accurate, legally defensible competency profiles across and between levels can be a sensible, straightforward activity. For a company with 10,000 employees, a competency analysis that encompasses every single job title at every level should be accomplished within six weeks and easily updated so that job titles can be added or removed as needed. Equally important is the ability to update the entire profile every three to five years in less than three weeks. When the competency analysis is complete, there is a simple language that is used by all people systems.

## Component 2: Selection

The next part of the MLA model is the selection spoke. Traditionally, companies have used evaluation tools and methods in a somewhat random manner. They may have a powerful approach for selecting sales people and engineers but

nothing for call center reps, managers and executives. MLA is about making it easy for everyone to access a standard, validated process for making selection decisions at all levels regardless of the purpose, (e.g., hiring, promotion, development, downsizing, start-up, acquisition).

## Component 3: Legal Rigor

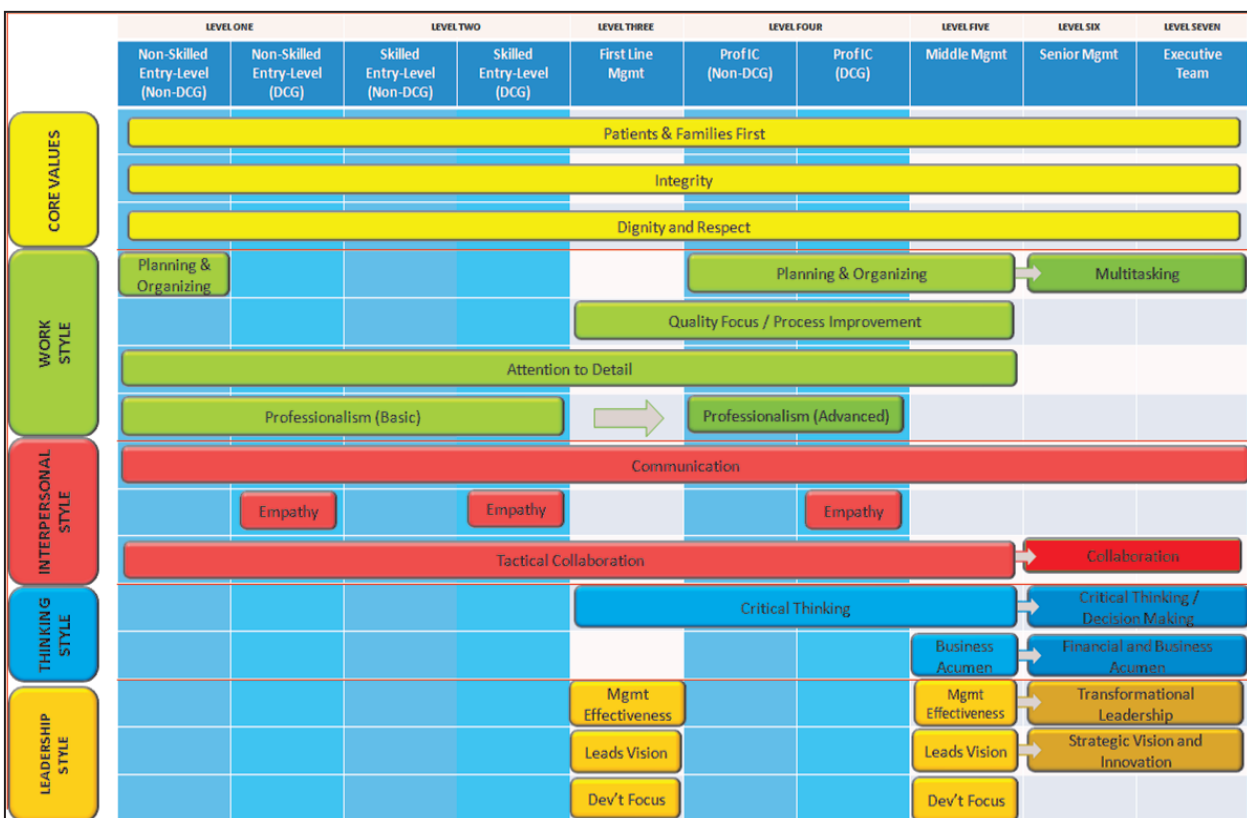
When something is strategically critical to your organization, the question is not whether to do it, but rather how to do it in an appropriate manner. For example, international partnerships, mergers and acquisitions generally involve many complicated legal issues but can also be highly strategic, necessary initiatives. The fact that there are M&A challenges does not generally deter an organization from pursuing the needed acquisition, but rather alerts them that they need to make it happen in an efficient, legally appropriate way. MLA is no different. Having the right talent in the right place is necessary and strategic but must be accomplished in an efficient, legally appropriate manner.

There are proven methods for making the legal over-site of MLA cost effective and highly accurate. Therefore, organizations need not shy away from optimizing their workforce, which can mean confronting challenges such as eliminating poor performers, moving people internally and implementing the appropriate systems to support hiring top talent for future growth.

## Component 4: Technology

By now everyone knows that technology dictates much of what we use. Research shows that when people visit a website they become frustrated if they have to click more than twice to find information. MLA understands that one of the most significant deterrents to any organization using a consistent, legally defensible selection approach is usability. We understand that when a manager needs to select someone, she wants to click on a desktop icon and have everything at her finger tips.

MLA is designed with this concept in mind. HR professionals, hiring managers and others with access are able to type in any job title and immediately have everything they need to conduct the evaluation process using valid testing, assessment and interviewing tools. Behind the scenes, the desktop icon connects to a secure micro-site containing all of the selection tests, assessments, links, tools, updates, instructions and interviews for your company.



These tools can be linked to your ATS and other internal databases. This makes it extremely easy for everyone to use the optimal tools and methods for making these important decisions.

As we discussed earlier, you can imagine the challenges that would ensue if one day your company told its leaders to use whatever quality approach, programs, manufacturing system or CRM they choose. In the field of making talent decisions, this is what many of us have done and it has resulted in suboptimal decisions at best and, in some cases, litigation and significant class action law suits. MLA brings the same rigor and standards to making selection decisions that 'lean' has brought to operations, GAP to accounting and JIT to inventory control. The result is better standards, increased reliability and stronger legal protection.