

Flipping the Coin for Talent: How Well Are You Hiring?

“Having the most talented people in each of our businesses is the most important thing. If we don’t, we lose.”— Jack Welch while CEO of GE

How do great leaders of successful companies spend half of their time?

They spend it on people: recruiting new talent, picking the right people for positions, grooming young stars, developing global managers, dealing with under-performers, and reviewing the entire talent pool.

Everyone agrees that talent is an important competitive advantage, but surprisingly, three out of four companies do not make their talent management programs a high priority. Hiring practices often are random and decisions often are based on intuition. In many cases, hiring decisions have success rates similar to flipping a coin!

Executive turnover is at an all-time high. Fifty-eight percent of large and medium-size companies changed CEOs between 1998 and 2001, according to an international study of 481 corporations conducted by Drake Beam Morin, a management consulting firm. The median tenure of CEOs is now 2.75 years, down about a year from 1999. Only 12 percent of CEOs have held their position for 10 years or longer.

Low performing companies have nearly twice as much turnover among top performing employees as high-performing companies, according to the consulting firm, Watson Wyatt Worldwide. These low-performing companies will soon be in great jeopardy because a large personnel shortage is looming. The U.S. Bureau of Labor Statistics projects 151 million jobs in the U.S. by 2006, but only 141 million people will be employed.

Yet despite all the rhetoric about the war for talent, most companies don’t have effective hiring practices. A McKinsey & Company survey of talent management practices from 1997 to 2001 surveyed 7,000 managers and only 26 percent strongly agreed that talent was a top priority at their companies.

In this comprehensive survey, (*The War for Talent, 2001*), what distinguished the high-performing companies from the average-performing firms was the fundamental belief in the importance of talent and the actions they took to strengthen their talent pools. But without this talent mindset,

recruitment is an activity with less than favorable outcomes, attrition rates are high, and performance suffers. Companies that scored in the top quintile of the talent management index earned, on average, 22 percentage points higher return to shareholders than their industry peers.

Even in a slower economy, the war for top managerial talent is persisting.

The way that companies have managed talent in the past will not be sufficient in the future. Talent is a critical driver of corporate performance. A company's ability to attract, develop and retain talent will continue to be a major competitive advantage in the coming years.

Three factors contribute to the growing need for improving an organization's talent reserves:

1. The irreversible shift from the Industrial Age to the Information Age
2. The intensifying demand for high-caliber managerial talent
3. The growing propensity for people to switch from one company to another

The Increasing Demand for Talent

The war for talent began in the 1980s with the expansion of the Information Age. Companies' reliance on talent has increased over the last century. In 1900 only 17 percent of jobs required knowledge workers; now over 60 percent do. More knowledge workers means it's more important to attract and retain great talent, since the differential value created by the most talented knowledge workers is enormous. The best software developers can write ten times more usable lines of code than average developers, and their products yield five times more profit. A world-class engineer with five peers can out-produce 200 regular engineers.

The demand for talent is made more challenging because globalization, deregulation and rapid advances in technology are changing the game in most industries. In the McKinsey & Co. surveys, in 2000, 99 percent of the corporate officers said that their managerial talent pools needed to be much stronger three years hence. Only 20 percent agreed that they have enough talented leaders to pursue their companies' business opportunities.

Although the size of the total workforce in the US will grow a total of 12 percent over the ten years from 1998 to 2008, the number of 25 to 44-year olds – the segment that will supply companies with their future leaders – will actually decline 6 percent during the same period. Similar statistics are evident outside the U.S. To some extent companies will be able to rely on older managers, as the number of 55 to 65-year olds will increase 45 percent during the same period; but they will leave a large gap after they retire.

The propensity to switch jobs is increasing, and the ability for people to search for jobs using the Internet has helped make it easier. The old taboos against job-hopping have disappeared. Portability of retirement plans helps facilitate this.

Today, many managers have become passive job seekers with their antennae up all the time for other opportunities. When surveyed, 20 percent of managers said there is a strong chance they will leave their current company in the next two years, and another 28 percent said there is a moderate chance of leaving. This is compounded by the fact that younger managers are 60 percent more likely to leave their jobs than older managers.

The new reality is that it is becoming more critical for companies to hire talented managers in order to maintain a competitive advantage, but that talented people are scarce, more mobile and demanding. The best people are those who can combine intelligence, data, and skills in a way that enables them to synthesize data into information and apply their knowledge to address new and emerging problems. What can leaders do to ensure that their organizations have sufficient talent to drive their success?

What's Wrong with Most Hiring Practices?

Most managers find employee recruitment and hiring to be frustrating and time consuming. With this negative attitude, they hire impulsively, basing their decisions on the feelings they experience in interviews with candidates. However, a study conducted by John Hunter of Michigan State indicated that the typical employment interview is only 57 percent effective in predicting subsequent success. This is only 7 percent better than flipping a coin!

In a survey by Lou Adler, (*Hiring with Your Head*, 2002), 95 percent of managers said they had made bad hiring decisions, 95 percent indicated that hiring is number one or two in importance, and 95 percent admitted to not liking the hiring process.

As important as hiring talented people is, not enough time or energy is being allocated to establish a reliable process. With a 40 to 50 percent error rate, hiring processes are not much better than random. No other processes in organizations are permitted to be random – companies spend hundreds of thousands of dollars to reengineer flawed processes that have only a 5 to 10 percent error rate.

A major problem revolves around the interview itself. This is a random process that doesn't work very well, and is one of the reasons most managers find the whole effort frustrating. Emotions, biases, chemistry and stereotypes play too big a role. True knowledge of the performance requirements of the job usually is weak. There is an over-reliance on the interaction between the

candidate and the interviewer, and too little on the candidate's ability and motivation to do the job.

A candidate is often hired because of his or her ability to interview well; presentation is more important than substance. The candidate is judged on first impressions of his or her personality, social confidence, assertiveness, appearance, extroversion, and verbal skills. Instead, the candidate needs to be assessed for initiative, team skills, achieving objectives, technical competence, management and organizational skills, intellect, leadership and emotional intelligence.

It is hard work to counteract the natural tendency to judge people based on first impressions, personality and a few select traits. Overcoming this problem can eliminate 50 percent of all hiring errors.

Lack of real job knowledge is another major part of hiring mistakes. It is necessary to know the required competencies of the position, based on the performance requirements of the job.

When an internal person is promoted, the predictability of his or her performance is very high – 80 to 90 percent. Performance predictors for an external hire are only 55 to 70 percent accurate. Predictions about the success rate of internal hires are more accurate because the person's past performance is known: attitude, work habits, intelligence, leadership and team skills, ability to learn, management style, potential, commitment, and other intangibles such as ability to handle stress.

But with external hires, there is often an over-emphasis on skills, academic record, personality and first impressions. There is insufficient analysis of what they have actually accomplished with their skills.

The Importance of Performance-Based Job Descriptions

Effective hiring starts with a performance-based job description that reflects what needs to get done. This is an outcome-oriented approach. The ability to achieve measurable objectives is a better predictor of future performance than the candidate's level of skills and experience. Comparable past performance is a leading indicator of future performance.

Many leading companies are now switching their job description criteria to an emphasis on performance and potential over skills and experience: Microsoft, Intel, and EDS to name a few. Here is an example of a traditional vs. a performance-based job description:

Traditional	Performance-based
Have 3-5 years experience in controlling expenses	Reduce operating overhead by \$30,000/mo. within the first six months

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The goal is to achieve a better understanding of the expected outcomes of a job. These specific job performance objectives form the basis of the hiring interview. Candidates can be asked how they would achieve the objectives required. Later, the performance-based job descriptions guide the new hires as they transition into their new jobs, and help track performance reviews and promotional processes.

In addition to performance-based job descriptions, the second tool in attracting talented people is a message that appeals to their fulfillment needs. Talented people may want big money and perks, but more importantly, they want to feel passionate about their work. They seek ways to have the freedom in their work to create something of value and meaning on a larger scale. They want to be enriched by their career opportunities, uplifted by the company's leaders, inspired by the company's stated mission.

Executive teams have many tools and techniques available to them to improve their talent pools. They can hire consultants who can help them keep objectivity in the interview process and to help with performance-based job descriptions, job analysis, competency modeling, and pre-employment testing. Providing executive coaches to new hires is also a great benefit that attracts top talent.

The most important factor, however, is the realization that an organization can not prosper in the long run without attracting and retaining outstanding talent. This can be accomplished by prioritizing talent management and devoting time, energy and resources to attracting good people. According to the authors of *The War for Talent*, there needs to be a *talent mindset*, a passionate belief that to achieve the vision and aspirations of your business, you must have great talent. To have better talent in the organization, every executive must commit to attracting, hiring and retaining the best people and accept responsibility for making this a very high priority.

Attracting Talented People: What is Your Message?

"I judge my people on two people leadership questions: Are the people in their group happy working for them? And, do they bring in great people? If managers can't help us attract and retain the best people, then they aren't doing a good job." – Ken Ryan, CEO DoubleClick

When surveyed, talented managers responded that they wanted the following elements in their jobs:

1. Exciting work

2. A value-driven culture in a great company
3. A company that is well-managed by great leaders
4. Wealth and rewards
5. Opportunities for growth and development
6. The ability to meet personal and family commitments.

To create an exciting recruiting message, a company must provide these core elements and articulate them well in their recruitment literature. A few more benefits or a great health plan won't make the difference when a talented candidate is choosing between your company and another. A strong message appeals to talented people when it outlines the facts: work with the company is interesting and challenging, there is a value-driven culture that inspires passion, the compensation is attractive, and there are opportunities to develop and learn.

The authors of *The War for Talent* promote the idea of attracting talent through an "Employee Value Proposition". An EVP is similar to a customer value proposition. It is the sum of everything people experience and receive while they are part of the organization – the culture, values, work satisfaction, leadership, compensation and more. It's about how the company can fulfill employees' needs, expectations and dreams. When a company has an EVP that addresses candidates' higher needs, it is very attractive. A strong EVP excites people by appealing to their passions and needs for fulfillment.

The EVP message is not about benefits and perks. It is about what people experience on a daily basis in your organization. It is a strong answer to the compelling question "Why would a highly talented person choose to work here?"

Recommended reading

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