EJ+ Live Content Session: The Science of Great People Decisions
Claudio Fernández-Aráoz with Ryan Drew
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Live Event Transcript

Ryan Drew:

Well, good morning everybody. Welcome to this Evergreen® Journal Plus live event on the Science of Great People Decisions, hosted by myself, Ryan, here with Claudio Fernández-Aráoz. I'm delighted to welcome Claudio today, who, as many of you may know, is a globally recognized talent expert whose work has shaped how the world's most enduring companies think about hiring, promotion, and succession.

Claudio was very gracious to join us here in Sun Valley in 2025 and spoke on this topic, and today's session is going to go a bit deeper. Claudio has put together some material focused on how to move beyond basic evaluation to properly assess the specific competencies a role requires, and the indicators of potential that tell you who's ready to grow. Once you've surrounded yourself with the best, Claudio's also going to share how you help them become even better every day through deliberate development.

Claudio's going to walk us through a handful of real-world talent puzzles pulled from the challenges Evergreen leaders like yourselves face every day, and hopefully offer some practical guidance for auditing your own team with the same discipline you apply to your business.

So, with that, Claudio, thank you for being here — I'll turn it over to you. I think you may be muted there.

Claudio Fernández-Aráoz:

Here I go. Okay, can you hear me now?

Ryan Drew:

Yes.

Claudio Fernández-Aráoz:

Perfect.

Ryan Drew:

Welcome.

Claudio Fernández-Aráoz:

Thank you very much. It's a pleasure being with all of you. I really admire enormously the purpose and the human and professional quality of the Tugboat Institute® members. After our session at the Summit, we decided to have this one to go really deeper, as Ryan was saying.

I'll try to go through a presentation in about half an hour, to leave some 20 or 25 minutes for Q&A and discussion. Some of this material is going to be rather rich and complex — I'll go through the essential points, but you'll all receive a copy of the slides with links so that you can continue studying and digging further.

So let me start with a story about one of the people I've admired the most. I think she was one of the best CEOs ever on the planet. Her name is Katharine Graham.

She was the daughter of the founder of the Washington Post Company. In those days, the Washington Post Company was much more than just the Washington Post — it included a series of TV channels and radio stations. It was, in fact, a Fortune 500 company. Back on August 3, 1963, Katharine Graham was 46 years old and at their family ranch in Virginia. In the middle of the night, she woke up to a bang in another room in the house, went to look, and found her husband, Phil Graham, who had shot himself with a 28-gauge shotgun. Her husband was the president and CEO of the Washington Post Company, and Katharine, at 46, was suddenly a widow, a mother of four, with no business experience.

Everyone told her, "You should obviously look for a CEO." And she said, "No way. I am not going to look for a CEO. I owe this to my father, I owe this to my mission — I am going to be the CEO." Luckily, she had a great advisor, who happened to be Warren Buffett, and he helped her properly surround herself with the best. She actually became the first female CEO of a Fortune 500 company, the first female publisher of a major American newspaper. With Warren Buffett's help, she successively hired and fired four COOs until she found a great one, and in that company, over 28 years, she led an extraordinary period of brilliant business performance.

She actually beat the S&P 18 times over — not 18%, 1,800%. Those were good years for media companies, but she even beat the media companies, her peers, six times over — 600%. In addition, she had an extraordinary social impact. She, for example, presided over the Washington Post brilliantly and bravely through the Watergate scandal, which ultimately led to the resignation of an American president. She died at 88, after a fall at the Sun Valley Resort, where many of you in the audience go every year for the Summit.

I'm starting this session with this story because I think Katharine Graham's case summarizes what you really need to build lasting greatness with purpose. She had just two things: a clear purpose — she felt a mission to be the editor of the Washington Post and the CEO of the company — and she mastered people decisions. As long as you have the purpose, you can achieve anything if you master great people decisions and surround yourself with the best. That's what I'd like to discuss over the next 25 minutes.

So, first: great people decisions are the key to success. Some colleagues at Harvard Business School did one of the best pieces of research on what factors really impact company value. They analyzed 250 factors and found that about two-thirds of the variance in company value can be explained by just four: the year you're in — there are good years and bad years; the industry you're in — today, if you're in AI, you're in a great industry, and if you're in oil, you're probably in a decent one, but there are bad industries too; a company effect, which is like the legacy of all the previous CEOs — a great brand, like Coca-Cola, means people will buy your product because of that legacy; and finally, the leader effect.

Of the factors with a measurable impact on company value, these four explain two-thirds of the variance. The leader effect alone accounts for up to 40% of that variance, and it's by far the most important controllable factor. You can't travel in time, you can't easily switch industries, but you can change your leaders at the top.

Many years ago, we did a wonderful analysis when I was working with Egon Zehnder, partnering with McKinsey, and we found this pattern holds in any market. Let me show you three examples. When we analyzed telecommunications companies in Germany, the market was booming — 12% compounded annual growth. But the company with the top talent, Deutsche Telekom, was growing 30% a year — imagine that, more than doubling in size in under three years. Even in stagnant markets, like banking in Europe, where the market was only growing 2% a year, the bank with the best talent at the top was growing 31%. And even when a sector was shrinking — energy in Norway, at negative 4% growth — the company with the best talent, Statoil, was growing almost 20%.

So regardless of the business, the market, or the country you're in, if you have great talent at the top, you'll have outstanding results. People who have the discipline to make great people decisions, over and over, create extraordinary value. The first time HBR ranked the best CEOs in the world, the top three were people I got to know, all outstanding at systematically making great people decisions. Number one was Jeff Bezos, founder and, at the time, CEO of amazon.com. Number three — and I shared this example at the Summit last year — was Roger Agnelli of Vale.

You cannot compare anything about what these two individuals were leading. Amazon was high-tech; Vale was a mine, in one of the oldest industries in human history. Amazon was a startup — startups are very challenging, and several of you in the audience are leading startups, but they have one advantage: you start with a clean slate, a blank sheet of paper, with no legacy. Vale, on the other hand, was an old, state-owned Latin American company, where a lot needed to be corrected.

The countries were completely different — Amazon was born in the U.S., then and still today the most competitive nation on earth, while Vale was born in Latin America, a totally unpredictable, unstable, and challenging environment. Over the first ten years covered by that ranking, Amazon only grew organically, in the huge U.S. market, domestically, while Vale grew through significant acquisitions globally, all over the world — both organic and inorganic growth. Completely different businesses: Amazon, in those days, was B2C, selling products over the internet, while Vale was B2B, selling raw materials for other industries to transform.

Despite this, you may remember Agnelli's extraordinary performance — he created $157 billion in value over ten years, the largest value creation per decade in history up to that time, anywhere in the world. And of course, Amazon became one of the most valuable companies on the planet, at certain points the most valuable. None of this had anything to do with their industry or the country they were in — when you look at industry-adjusted returns, they're astronomical for both. So it's all about surrounding yourself with the best, with great discipline.

Now, one problem is that people decisions are very hard — extremely hard. I'd like to start with an exercise, and we'll have our first poll, to illustrate how difficult it is to get assessment right.

Let's assume, for this exercise, that you want to hire only top-10% players — say you're looking for salespeople, and you have a distribution, and you only want to hire those in the top 10%. Let's also assume you're outstanding at assessing people — 90% accurate — meaning that when you see someone who actually is top 10%, 90% of the time you'll correctly identify them, and you'll only be wrong 10% of the time. And vice versa: when you see someone who isn't top 10%, 90% of the time you'll correctly identify that too.

So here's the question, and here's the poll: if you only want to hire top players, and you're 90% accurate, what percentage of your hires do you think will actually be top 10%? Ryan, can we go to the poll? Try to respond quickly — we want to move fast.

Ryan Drew:

No problem. Looks like we have 19 people who've submitted — if anyone else is out there, there we go, we've got a few more responses coming in. Okay, I think we've got enough here, Claudio — I'm going to end the poll.

Claudio Fernández-Aráoz:

Perfect, fabulous. Can we see the results? All right, so we have quite a spread. About 25% of you thought you'd be right only 10% of the time — that's quite pessimistic. But 20% of you thought you'd be right 90% of the time. So we have quite a spread. Actually, 30% of you thought you'd end up hiring top-10% candidates only 50% of the time — and that group is right. But look at that spread — it's not obvious how hard it is to be selective.

Let me show you why. Let's say you have 100 salespeople to assess. On average, 10 of them will be top 10%, but you don't know which ones. When you assess those 10, because you're 90% accurate, you'll correctly retain nine of them — but you'll wrongly reject one good candidate. So far, so good. Here you're 90% accurate. But the problem is the other 90 — they're not top 10%. When you assess them, your 10% error rate means you'll wrongly consider nine of them to be top 10% when they aren't. As a result, you'll retain 18 people total, and you'll be wrong 50% of the time.

So realize how difficult this is: you're 90% accurate, and you still get it wrong half the time. It's very difficult to be selective.

The second reason great people decisions are so tough — and I explained this at the Summit last year, so this is one of two slides I'm repeating — is that we have an old brain for a new job. When primitive humans sat by the campfire deciding whether to welcome someone or fight or flee, they would basically welcome a person if that person was similar to them — probably from the same tribe — familiar, hadn't attacked them before, and felt comfortable in their gut. That instinct helped us survive, by not getting close to enemies.

But the problem is we became hardwired, and even today, we tend to unconsciously surround ourselves with people who are similar to us, familiar to us, and comfortable to be around. That's the opposite of what great teams need today. Great teams need complementary skills and diversity, which is the opposite of similarity and familiarity. In today's complex world, you want people who will challenge you — which isn't comfortable. That's why people decisions are so hard: statistically, the odds are against us, and we have the wrong hardware, the wrong brain.

Now, the good news: if you have discipline — like Jeff Bezos, who always insisted on a high hiring bar, like Roger Agnelli, like all the great leaders I've known — making great people decisions isn't an art, isn't the result of intuition or gut feeling. It's a discipline that can be mastered for your own individual and organizational success. You need to do four things: know what to look for in a candidate, know where to look for the best candidates, know the best way to assess them, and finally — as Ryan mentioned in the intro — make the best even better each day.

I'll go quickly through each of these four points. First: what to look for in a candidate. When you have a new job, you want to predict how a candidate will perform in it. It would be easy if the candidate had done exactly the same job before and was a great performer — but typically, you can't rely on that. Jobs are very different, and why would someone want to do the exact same thing over and over again? So what you need to do is decompose the new job into the competencies, the abilities required for it. You look for candidates who may be in different jobs but have demonstrated the competencies you need, and you predict performance based on the competencies the candidate has already demonstrated elsewhere.

This is the second slide I shared at the Summit, where I said that for any leadership role, these are the typical competencies required: strategic orientation, market insight, results orientation, influence and collaboration, talent management — meaning great hiring and development — and team leadership.

For example, this was the CEO of a traditional financial institution who wanted to set and drive a new company vision for the digital era — this was right before the pandemic, so it was very timely. For someone like him, the most important competency is strategic orientation — thinking about the bank of the future. For his CFO, who was also chief strategy officer, again the most important competencies were strategic orientation and change leadership, plus collaboration and influencing, since she was working from a staff role. But for her, building organizational capability wasn't very relevant — she had a small team and would hire very few people.

If you look at the heads of the business units, the list of competencies is the same, but the target level — the amount of each competency required — is different. For the head of a business unit, strategic orientation is the least important competency; the strategy is already defined by the CEO, the chief strategy officer, and the management consultants. For them, it's all about different competencies, like results orientation and talent management, since they have a large team reporting directly to them, and team leadership, and so on.

So that's the first step. The second is that you also need to look beyond competencies. Because even if someone has a perfect competency fit today, in this extremely volatile, uncertain, complex, and ambiguous world, the job itself will rapidly change. So even if someone has all the competencies today, if they don't have the potential to keep growing and learning, they won't be able to keep performing.

You may remember the model I researched and developed over more than 30 years for assessing potential, where the four key indicators are: first, curiosity — to ask the relevant questions; then insight — to draw the right implications; then, as a result of curiosity and insight, you arrive at a creative vision, and the third element kicks in — the ability to engage others' minds and hearts toward that compelling vision; and finally, determination. High potentials don't crack under pressure — they're resilient individuals who keep striving toward challenging goals in good times and bad.

In addition, and most importantly, you also want people with the right type of motivation — what Jim Collins would call the distinctive characteristic of a Level 5 leader: that paradoxical blend of fierce commitment together with deep personal humility. Someone who isn't doing it for a selfish reason, but because, like all of you, they have a purpose and want to make a dent in the universe — to make the world a better place.

So that's what to look for in a candidate: competencies and potential. Now I'm going to present something I haven't presented before — where to look for the best candidates, which I'm sure is a question you have. And here's our second poll. Ryan, if you can put it up: in general, what's best when you're looking for senior leaders — to promote from within, or to hire from outside? You can only vote for one of the two options — you can't say "it depends."

In general, what's best — promote from within, or hire from outside? We'll give it a minute, then show the results and continue.

Ryan Drew:

Looks like we have a pretty active crew here, Claudio.

Claudio Fernández-Aráoz:

Perfect.

Ryan Drew:

I think we've got almost all of our results in.

Claudio Fernández-Aráoz:

Thanks for being so fast. Great — show the results.

Ryan Drew:

All right, here you go.

Claudio Fernández-Aráoz:

Okay — 87% of you believe it's better to hire from within. Now, I was a headhunter for 34 years, so you can imagine I have a bias — but I actually agree with you. And if you really do great hiring at the bottom of the pyramid, you should have great candidates to promote from within in general. It's amazing how few companies do this properly today. Even if you look at the S&P 1500, more than half of them last year hired their CEOs from outside. Ridiculous — companies with thousands, some tens of thousands, some hundreds of thousands of employees, and half the time they had to go outside to find one person. Didn't they have anyone internally? Ridiculous.

So, in general, you believe it's good to promote from within — let me show you the research. This was done by two great friends and former colleagues from Harvard Business School: Nitin Nohria, who used to be the Dean of Harvard Business School, and Rakesh Khurana, who used to run the undergraduate program at Harvard Business School.

This was actually Rakesh's PhD thesis. They segmented CEO changes — hiring from outside versus promoting from within — under two circumstances: one, when the company was doing poorly and the predecessor was fired; and two, when the company was doing well and the predecessor retired naturally.

What they found: when companies promoted from within, you're looking at a change in industry-adjusted operating returns, in percentage points, where a healthy company might have about 5% industry-adjusted operating returns. When a company was doing poorly and hired from outside, the outsiders actually created great value — about five percentage points, bringing the company from roughly breakeven to a healthy level of profitability. However, when the company was doing well and they parachuted in an outsider, that outsider actually destroyed great value.

So it is true that, on average, it's better to promote from within when your company is doing well, and to go outside when the company is doing poorly. That makes sense — you only have one bullet and one shot, you really want to get this right, and there's a mandate for change; people would welcome an external savior.

When I looked at this research, I went to Rakesh and said, "Rakesh, these average results remind me of the joke about the person who was unlucky enough to drown in a pond that was only 30 inches deep, on average. But averages can be meaningless if you have a big spread around the mean — can you give me the data?" So he gave me the data, and I added two standard deviations each way around the average.

For example, I found that when a company was doing poorly, on average it was better to hire from outside — but look at the spread. Some outsiders created enormous value, but some outsiders destroyed massive value. Look at the other case, too: when the company was doing well and you parachuted in a stranger, they destroyed great value on average — but again, look at the spread. Some outsiders created enormous value, and some destroyed even more.

But look at the most dramatic case: when you promote from within. On average, the value doesn't change much — but look at the spreads. What I found most striking is that you get the biggest surprises in the cases that look the safest. The company was doing well, you promote someone from within, and in the best-case scenario — extraordinary, you multiply the value of the company by eight. But in the worst-case scenario, that company goes bankrupt within a couple of years.

So the conclusion is: even though on average it seems better to promote from within, averages are irrelevant when you have high variance. What you should always do, for a senior position, is consider both insiders and outsiders — assess your best internal alternatives and compare them with the best outside candidates. If your best insider outperforms your best outsider, promote from within. If your best outsider outperforms your best insider, go outside.

So, where to look for candidates — inside and out. This is an extremely complex formula, and it's the first time I've ever presented it, but I think it's important to share it simply. I calculated the expected value of investing in an executive search — whether you do it with internal resources, spending time and money generating and assessing candidates, or with the help of a headhunter. The expected value increases dramatically with the complexity of the job.

Why? Because if you look at a very simple job — a blue-collar worker — the standard deviation, the difference between an average worker and a star worker two standard deviations out, is about 40%. For a more complex job, say, an insurance salesperson, the standard deviation isn't 20%, it's 120% — so a great salesperson would be 240% more productive. For a partner at a consulting firm, the standard deviation is 600% — a star player would be 1,200% more productive. So it's worthwhile to invest in a search when the job is complex — this applies to senior roles.

A second factor is how many candidates you generate, and we'll come back to that. A third is the accuracy of your assessment. And then you have two costs: the cost of the search itself, and the premium you'll pay if you're looking for the best candidates.

Let me show you how these factors should shape your decisions — when to run a search, and whether it's more important to generate many candidates or to invest your time in deep assessment. To my surprise, I found that, of course, more candidates help — but look at the diminishing returns. After you've generated a dozen or so candidates, you already have a 95% probability of having one of the top performers among them. So there are diminishing returns.

Where all the value really lies is in the quality of the assessment. This is a sensitivity analysis — you'll get the details in the slides — and it shows that assessment quality is by far the most important factor in a search. It's three times more valuable than generating more candidates, and the extra cost of a thorough search is negligible compared with the expected return.

To illustrate this, many years ago I did a global analysis of every search Egon Zehnder had done over two full years, worldwide. I wanted to know the relationship between the number of candidates we presented in a search and the "stick rate" of the hired candidate. Stick rate measures what percentage of the candidates we placed for a client are still with that client, in the original role or promoted to a higher one, after three years.

For a typical search, we'd present three to four candidates, and the stick rate was very high — about 85%. You'd think that presenting more candidates would increase the stick rate, but it actually goes down. What this shows is that more is less — when you're considering 15 candidates, it means neither you nor the headhunter has a clear idea of what you're looking for. And the most dramatic finding was that the highest stick rate occurred when we had a client with such deep knowledge of and trust in us that we could say, "Listen, this is the best candidate for your need" — that had the highest stick rate of all.

So the point is: don't go boiling the ocean looking for more candidates. Make sure you invest in accurately assessing the ones you have.

Now, how to assess them. The most frequent assessment process is the interview. The most common type is unstructured — little planning, different questions for different candidates. That's the worst. Then there are planned, structured interviews, and there are two types: one is situational, where you ask, "What would you do if you were in this situation?" — that's better. But the best is behavioral: you check whether the person has actually done what the job requires, in the right way, in the past. So if you're looking for someone who needs to influence people who don't report to them, you ask, "Tell me about a situation where you had to influence people who didn't report to you. What was the situation? What was your role? What did you do? How did you do it? What was the outcome?"

In addition to having the right methodology, you need to involve the right people. A perfect assessment — where the correlation between the assessment and performance on the job is 1.0 — doesn't exist. Flipping a coin has a correlation of zero. The best professional interviewers have a correlation of about 0.7 between their assessment and actual performance.

My question to you — and it's our next poll, Ryan — is: what's your guess for the correlation of the worst professional interviewers? People like myself, who've spent their careers as headhunters or CHROs. If the best professional interviewers have a correlation of 0.7, and flipping a coin has zero, what's your guess for the worst? Is it close to 0.6? 0.5? 0.4? 0.3? 0.2? 0.1? And remember, statistically, you need to square the correlation to see what percentage of variance it explains — so a correlation of 0.6 only explains 36% of performance, and 0.5 only explains 25%. These are really low values. What's your guess?

Ryan, let's give it 15 seconds — they're usually fast.

Ryan Drew:

Great, we're waiting for maybe eight more people — looks like some thinking time on this one, Claudio.

Claudio Fernández-Aráoz:

Oh yeah, it's more complex — sorry about that.

Ryan Drew:

We've got a couple more people still thinking, and then we'll close it. Okay, give it five more seconds if anyone's still deciding, and then I'll end the poll. All right, here we go — here are the results.

Claudio Fernández-Aráoz:

All right. So, most of you thought the worst professional interviewers would be pretty bad — 0.2, which only explains four percentage points of variance. Some optimists said 0.5; 0.4 was the second most voted. And actually, 20% of you said lower than 0.1 — and you were right. The worst professional interviewers are actually worse than flipping a coin — they have a negative correlation.

I mean, if you knew who these people were, you could ask them what to do and then do the opposite. If they said, "Promote this person," you'd fire them. If they said, "Don't hire this person," you'd hire her and give her a retention bonus.

So the important point is: you not only need to look at the right competencies and potential, and conduct the interviews properly — you need to involve the right people in the assessment. Because if you involve, essentially, a monkey with a machine gun randomly shooting at candidates, they can create a disaster — they can even reject the right candidate for the wrong reason.

Assessment is about looking at the right things, with the right type of interviews, with the right participants, and the right number of participants. Remember, if you were only 50% accurate, you'd get it wrong half the time. Being 90% accurate, if you use sequential filters — meaning a second, independent assessor reviews the candidate, and you only proceed with candidates approved by both — your error rate drops to 10%. Add a third independent assessor, and it drops to just 1%.

But here's the problem: by adding sequential filters, you reduce the chance of hiring the wrong candidate, but you also increase the chance of rejecting the right candidate for the wrong reason. Remember, at 90% accuracy, you had a 10% chance of wrongly rejecting a good candidate — with three filters, that goes up to almost a third. So my recommendation is to involve just three people in a senior hiring decision — it could be the candidate's future boss, that boss's boss, and a strong HR partner, but no more than that.

Finally, you need to carefully check references — deciding whom to call, and approaching the reference check as a structured, behavioral interview. And the final point is to look not only at competencies in your interviews, but also at the indicators of potential, correlated with each leadership competency. You'll find, in one of the articles in the references, the typical competencies and the indicators of potential correlated with each one, and you can use this.

I shared this example at the Summit: a person with a great track record, missing about a third of the typical experience for the role. When you assessed her against the target competency levels, she was falling behind on three of them. But when you looked at her potential profile, you could see she would perform beautifully with time in that role, and even with time toward a further promotion.

So you can use the correlation between indicators of potential and competencies to decide on a promotion, or to choose the best successor for a position — looking not just at current competence, but at potential. In this case, one candidate would clearly be the best choice. You can even use this to promote diversity — this was a case in Japan, where a client wanted to promote gender diversity, and this was a female leader. There are very few senior female leaders in Japan, but when you looked at her potential, she could do beautifully in that role.

After all of this, to make the best even better each day, you still need to do two things. First, attract, retain, and motivate the best — and it's not mostly about money. I can expand on this, but purpose has a larger pull today than money. Money just needs to be fair; the real differentiator is purpose. Then, you need realistic job previews — tell candidates the downsides of the job. You need proper onboarding. You need to never tolerate bad bosses. And to motivate the best, give them autonomy, purpose, and mastery — the ability to keep learning, which brings us to the final point.

Once you've surrounded yourself with the best, you need to align their rotations with their competency development needs. For example, if you want someone to develop results orientation, put them in charge of a P&L, running a startup, or overseeing a restructuring. If, on the other hand, you want them to develop collaboration and influence, put them in a role leading multiple regions or businesses, or in a staff role where they need to influence without formal authority.

I'll stop here. You'll get the slides, with references to two books I've written where you can dig deeper, and a series of HBR articles — a wonderful guide I wrote with Nitin Nohria and Boris Groysberg on recruitment; two articles on assessing potential and forecasting how far someone can go based on their potential profile; one on succession planning; and one on why I'm convinced today's VUCA world — volatile, uncertain, complex, and ambiguous — is an unprecedented opportunity to hire great talent.

I'll stop here, Ryan — we have 15 minutes for Q&A.

Ryan Drew:

Amazing. Yes, we've got a little time here for Q&A — would love to open it up to anyone who'd like to ask Claudio a question. We had one come in while you were presenting, Claudio, so I'll start with that one. I've got a few of my own too, but I'd encourage everyone to keep sending questions through the chat, and I'll get them to Claudio in the time we have left.

Kent asked: when you were talking about promoting from within versus hiring from outside, how long do you have to work at a company to be considered an "insider"?

Claudio Fernández-Aráoz:

That's an outstanding question. What I found in my research is that if you have a small company, by definition you'll need to go outside more, because you don't have a bench of talent. If you have a large company, hiring from outside typically works worse than promoting from within. But if you have someone who's called an "outsider-insider" — someone who joins the company at a lower level and is then promoted two or three years later — that person performs just as well as a long-tenured employee.

So the answer is: typically, two to three years is enough for someone to become very familiar with the culture. And the advantage of outsider-insiders is that they still keep a fresh perspective — they carry less baggage, but they know how to make it work in that organization. So two to three years would be the average answer.

Ryan Drew:

Great. I just saw a question come in from Mark Steele: what are your most preferred assessment tools for executive talent?

Claudio Fernández-Aráoz:

Wonderful — Mark, it's a pleasure, I met you at the Summit, thanks for the question. In terms of assessments, there are three types. One is psychometrics — instruments that have several advantages. They're standardized, and they're very cheap and fast to implement — everyone can take a survey by Friday, and you've got your whole organization measured. There are more than 3,000 available tests, or psychometrics, in the U.S. Another advantage is that they're blind to many common biases, like gender, age, and race.

However, the problem with psychometrics is that their validity — remember, the correlation between assessment and performance — is very low. The average validity of a psychometric is 0.3; squared, that only explains nine percentage points of variance. Remember, the best interviewers have a validity of 0.7, versus 0.3 for psychometrics. So I'd use psychometrics for lower levels of the organization, as a first filter. But for any senior search, I'd add great interviews and reference checking — speaking with people who've actually worked with the individual before.

One reason psychometric validity is so low is that they're not job-specific. For example, if I ask you, "Is being optimistic good or bad?" — well, it's great for a salesperson, but lousy for a controller. For a controller, you want the most pessimistic person on earth, someone who spends sleepless nights worrying about the 250 ways things could go wrong. That's why psychometrics play a limited role, and you should always involve well-trained assessors, using the right kind of behavioral interviews and reference checking.

Ryan Drew:

On the same note — are the four factors of potential all created equal in your mind, or are some more valuable than others?

Claudio Fernández-Aráoz:

Outstanding question. By far, the most important factor is curiosity. I remember once, Jack Welch — considered the leader of the century — became a good friend, and shortly after retiring, he came to our home in Buenos Aires. We both spoke at an event, and he came with his wife, Suzy. We invited a series of friends, all eager to learn from the leader of the century. He sat at the head of the table with ten of our friends, all wanting to learn from him.

It was the only time Jack came to Argentina, and I could see how frustrated my friends were getting, because they couldn't ask a single question — Jack was asking all the questions. "How is it that you have this crazy inflation in this country? How is it that you have this corrupt government? How is it that you don't have the guts to confront them?" — he used a stronger word.

When the first of my friends left, I walked him to the door, and he said, "Claudio, I came here expecting to learn from the leader of the century, and I was so frustrated because I couldn't ask a single question — he was asking all the questions." And it dawned on me: that day, I learned the greatest lesson — Jack became the leader of the century by cultivating, throughout his whole life, an insatiable curiosity.

So curiosity is by far the most important, and you'll see in that graph that it's strongly correlated with all the other leadership qualities. We're all born curious — I'm a grandfather, and little babies, from the cradle, watch everything. The minute they can speak, they start asking questions — some four-year-olds have been observed asking up to 400 questions per hour. No wonder they learn so fast. Somewhere along the way, some people stop asking questions, stop learning. Curiosity is the most important — but all four matter, and the right motivation is essential, because you could have someone who's curious, insightful, and engaging, but with the wrong motivation entirely.

Ryan Drew:

Sure — I imagine that makes it especially challenging. Let me go back to a couple of questions coming in on the assessment piece. One was: are there any tools or assessments that are particularly poor or invalid? And another: do you have any thoughts on cognitive assessments?

Claudio Fernández-Aráoz:

On invalid tools, we could spend two more hours on that one — fair enough. Of course, you should look for tools that are properly validated. But the issue is that one thing is using an assessment tool for development, and another is using it for hiring. For example, Daniel Goleman and Richard Boyatzis developed the ESCI — the Emotional and Social Competency Inventory — which is outstanding for development, because 80% of leadership competencies are rooted in emotional and social competence. That's very good for development, but not for hiring. In general, most tools have real limits when it comes to hiring.

Ryan Drew:

There was also a question from Dwayne Cook — what are your thoughts on cognitive assessments?

Claudio Fernández-Aráoz:

Perfect, very good question. Cognitive assessments are very important — IQ is key for any senior role, because senior roles are complex. There's an additional point: IQ can't really be developed after a certain age. Unlike emotional and social competencies, which can be developed at any age with effort — and the brain is more plastic the younger you are — IQ is basically set early in life. So it's extremely important, but with two limitations.

First, IQ is what's called a threshold competency — you need a minimum level to be effective, but going higher than that doesn't make much difference. For a CEO role, an IQ of 120 is generally required; someone with an IQ of 160 doesn't perform meaningfully better, and it can even backfire — if you're too much of a Sheldon Cooper type from The Big Bang Theory, you'll probably confuse and frustrate people rather than energize them. Speaking English is a threshold competency for me leading this session — I speak with a bit of an accent, but as long as you understand me, that's enough; going beyond that doesn't make much difference.

Then there are competencies that aren't threshold competencies but differentiating competencies — the ones that separate an average performer from a star. Remember, for a partner at a consulting firm, there's a 1,200% difference between an average performer and a star. Those competencies are rooted in emotional and social intelligence.

So yes, IQ is important, but you don't need a genius. Second, you don't necessarily need to test for IQ directly, because it's highly correlated with academic achievement — someone with an MBA from Stanford has more than enough IQ, and I'd focus most of the assessment on soft skills, because you tend to be hired for your experience and your IQ or academic credentials, but you tend to be let go because of a lack of soft skills — how you manage yourself and your relationships with others. So cognitive tests can be a useful entry check, but especially for leadership roles, you really need to assess how someone manages themselves and their relationships, through the right kind of behavioral interviews and reference checking.

Ryan Drew:

Awesome — looks like we have time for a couple more. I'll go back to one I missed, also from Kent: the data on insiders versus outsiders seems to come from large public companies. Do you think it would differ significantly for private, Evergreen companies?

Claudio Fernández-Aráoz:

Very good question. I'd assume that in Evergreen and Tugboat companies, because of your sense of purpose, you're more careful about the people you select, and because you put people first, you get to know them better. So in that case, I'd probably lean even more toward insiders.

We recently finished fascinating research — an HBR proposal for a new article on ultra-long-lived Japanese family businesses. Some have been around for more than 500 years, and the way they manage succession is totally different from anything I'd seen in my previous 35 years. Rather than treating succession as a choice between promoting from within or hiring from outside, these ultra-long-lived companies see succession as a process, more than an event. They choose a leader who truly holds the company's values and is close to the required competencies, and then they build a cabinet around that person to make them effective.

So, my answer is yes — for Tugboat companies, I'd probably lean more toward insiders in general, and make sure to surround the right leader — with the right values and the right purpose — with a strong team around them.

Ryan Drew:

Okay. I'll ask one more, and then if anyone has final questions, please submit them. Still on assessment tools — maybe you'll want to defer this one, but I'll ask anyway: do you have any opinion on Jeff Smart's "Topgrading" methodology — the "Who" hiring framework, which weighs prior experience heavily above everything else?

Claudio Fernández-Aráoz:

I'm familiar with it. I'm not a great fan, mainly because it places significant weight on experience, which is becoming less and less relevant as the world changes. Today we're watching three tectonic shifts happen at once — geopolitics, trade, and AI — completely redefining entire industries. Given that, it's going to be increasingly difficult to find the exact experience you're looking for. You need to decompose the job into its required competencies and assess each one separately.

That said, Topgrading has several useful and valid points — I agree with its emphasis on getting people decisions right as a first priority.

Ryan Drew:

Yeah, very aligned with what you've been saying — the "top 10%," A-players — it's really about the means by which that happens. I guess, when you talk about layering in long-term potential alongside current competencies, how do you approach assessing that specifically?

Claudio Fernández-Aráoz:

Very good question. You assess each of them separately — I don't segment people into "high potentials" and everyone else. I believe everyone has been blessed with a unique personal potential profile, and if you assess each factor properly, you give your people the chance to become the great leaders they were always meant to be, in their own personal way.

How do you do that? You look at curiosity — and in the articles, you'll find its behavioral indicators. The most important one is someone who proactively solicits feedback on their behavior and acts on it. So in an interview, you'd ask: "Tell me about how you go about soliciting feedback. Tell me about a recent time you received feedback — what was the situation, what was your role, what were the circumstances, what did you do, what were the consequences, what feedback did you get, and how did you react to it?" And then you check references.

Essentially, you assess each of the indicators of potential through the right kind of interviews and reference checking. By doing that, you give your people at Evergreen and Tugboat companies the chance to become the great leaders they were always meant to be — in their own unique way.

Ryan Drew:

What an amazing statement to end on. I know we're right at the top of the hour, but before we close, is there anything else you'd like to add, Claudio? I'll just say — big fan of your work — thank you for staying connected to us and being willing to share your wisdom with this community.

Claudio Fernández-Aráoz:

I hadn't thought about a closing statement, but quite frankly, I want to thank each one of you, the Tugboat Institute® members. It's been a privilege and a pleasure to meet so many of you. As I said at the Summit, I think you're a beacon — in a world that today is so short-term, so selfish, and so divided, you can be a light for the whole world, inspiring people to create lasting greatness long after you're all gone. That's an extraordinary contribution, and I sincerely thank you for your trust, for joining today, and for the pleasure and privilege of meeting so many of you in paradise in Sun Valley. Thank you very much.

Ryan Drew:

Thank you so much, Claudio — we look forward to seeing you again very soon. And thank you all for joining today. When you close out, we do have a very brief survey we'd love for you to fill out if you have a moment. We'll see you all soon, hopefully in person, or at our next EJ+ Live event. Have a great day — we'll talk to you soon. Bye-bye.