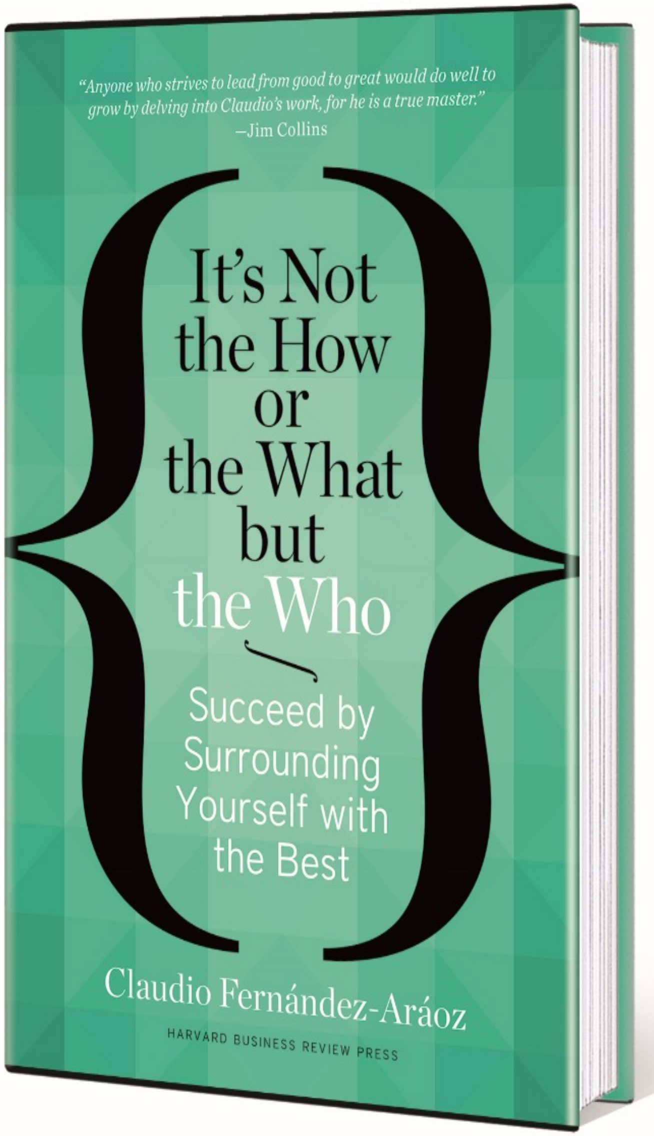
The Science of Great People Decisions



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Great people decisions are the key for success

People decisions are very hard

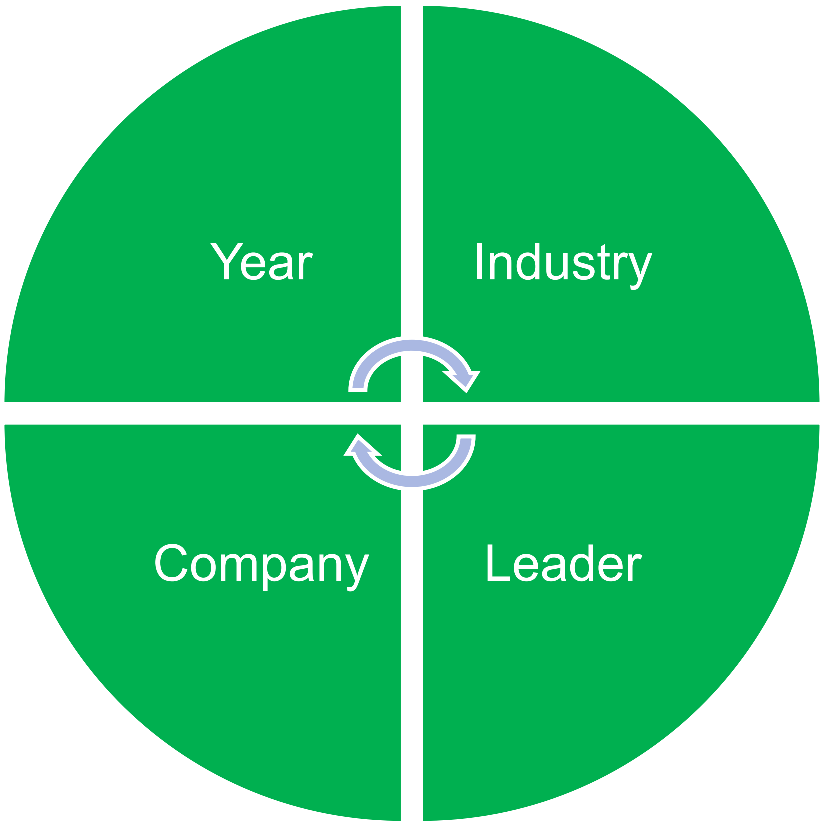
What to look for in a candidate

Where to look for the best candidates

How to assess them

Making the best greater each day

Choosing the right leader is the key for company value



Just 4 factors explain 2/3 of the variance in company value

The leader effect accounts for up to 40% of the variance in value

It is by far the most important controllable factor

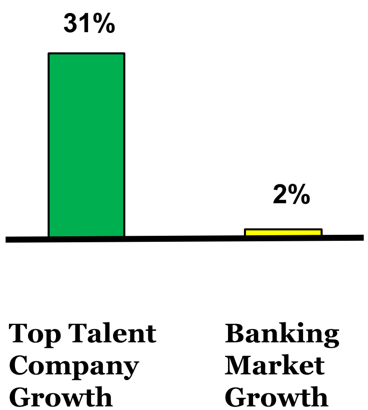
Source: “When Does Leadership Matter?”, Wasserman, Nohria and Anand, Harvard Busines School

A high return on leadership happens in any market

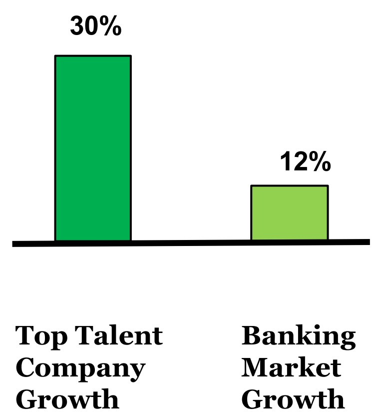
% Revenue CAGR (2001-2007)

COMPANY EXAMPLES

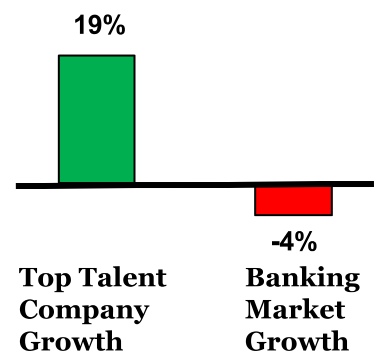
Banking Example (Europe)



Telecommunication Example (Germany)



Energy Example (Norway)



Source: "Return on Leadership" – joint study by Egon Zehnder and McKinsey & Company

Disciplined people decisions create extraordinary value

#1 

#3 

	Amazon		Vale
Sector	High-tech	≠	Mining
Stage	Start-up	≠	Old, Privatized
Country	U.S.	≠	Brazil
Growth	Organic, Domestic	≠	Organic + M&A, Global
Business	B2C	≠	B2B
Value Creation	111 billion $		157 billion $
Industry-adjusted return	12,266 %		1,773 %
Country-adjusted return	12,431 %		934 %

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EXERCISE: Impact of assessment errors

Assumptions

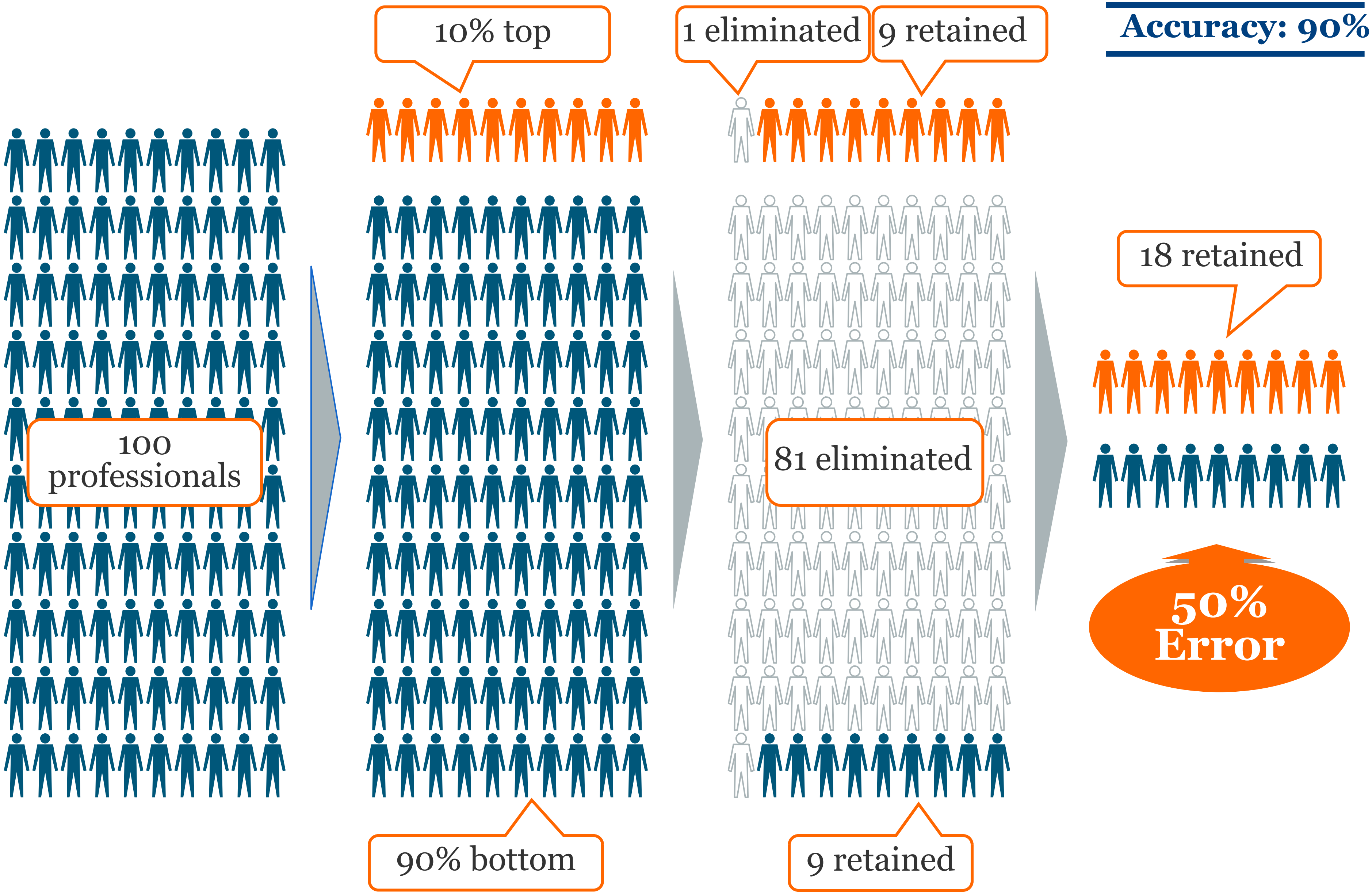
1. Intention to hire only "Top 10%"
2. 90% accuracy of assessments

Question

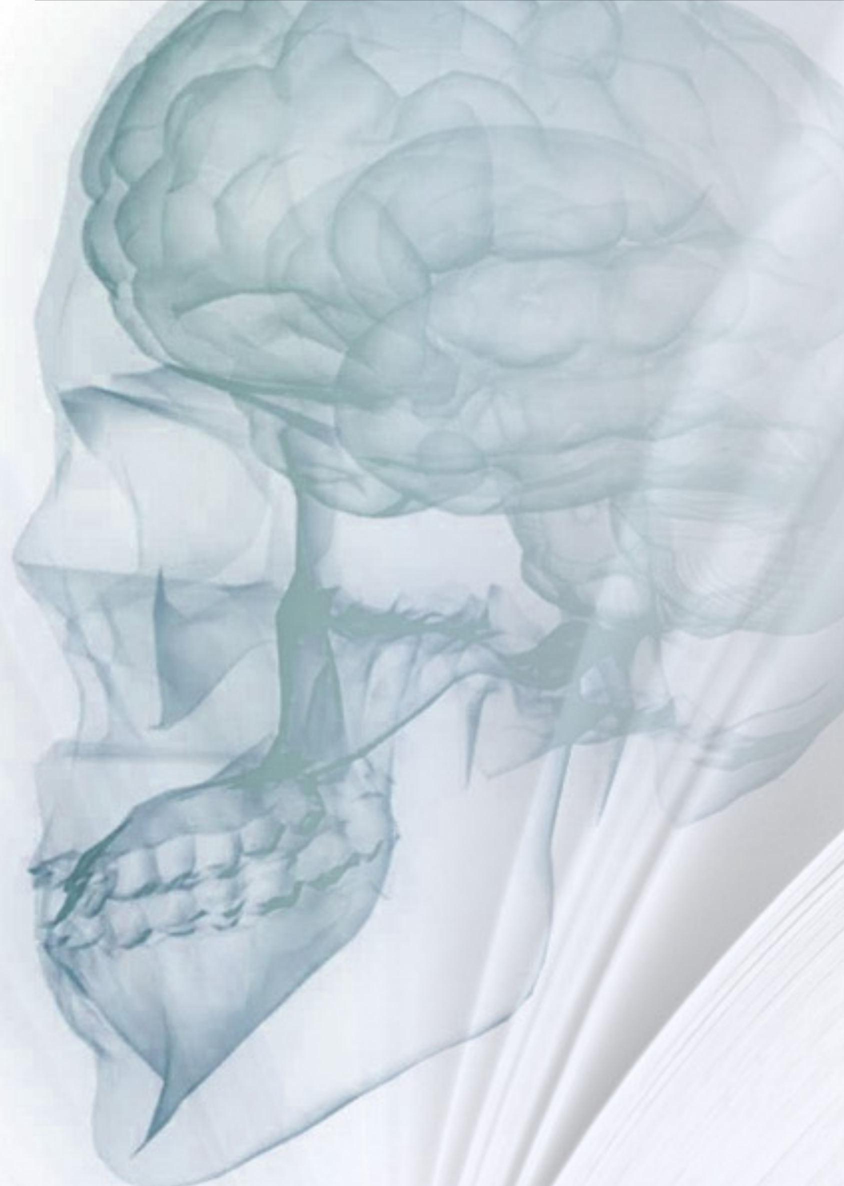
Poll 1

What percentage of "Top 10%" will we actually hire?

The odds are against us!



An old brain for a new job



1. **Similarity**
2. **Familiarity**
3. **Comfort**

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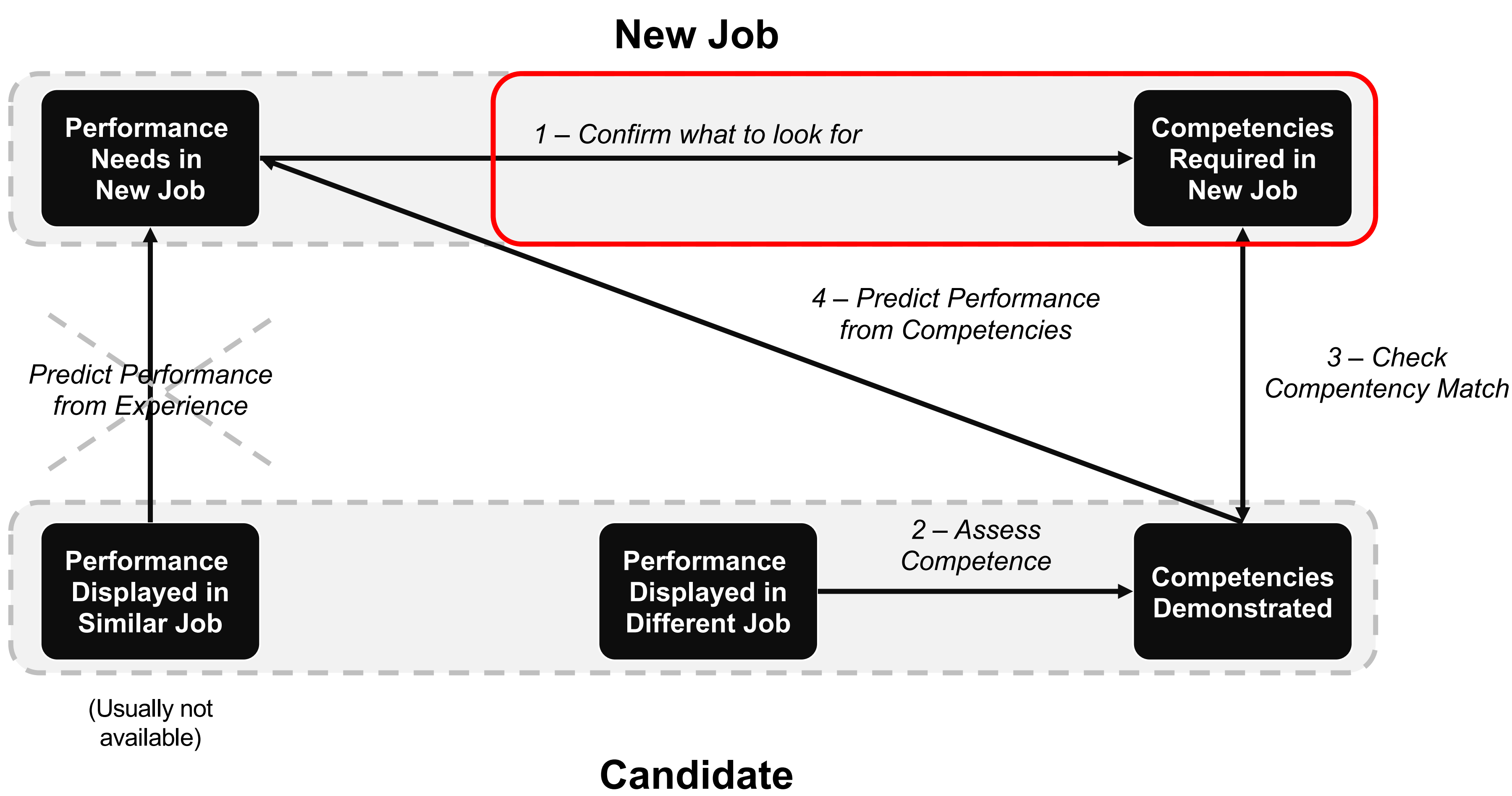
Each job requires specific competencies



Required competencies for key roles

Case example

CEO

CFO & CSO

Head of Business Units

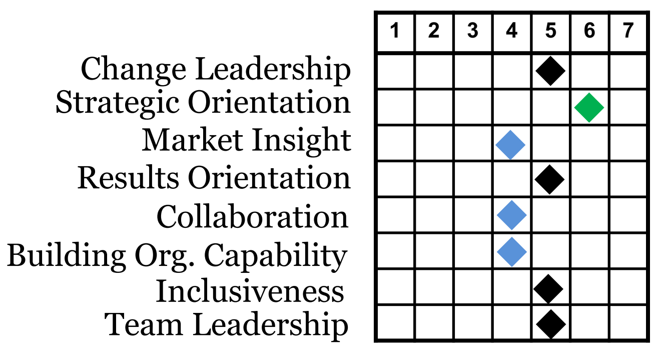
Mission

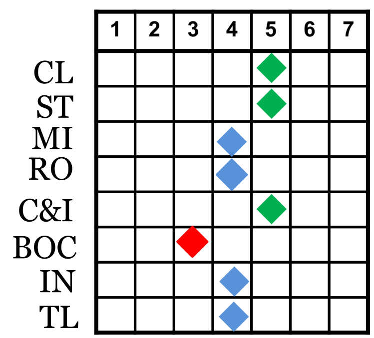
Set and drive a new company vision under new digital era

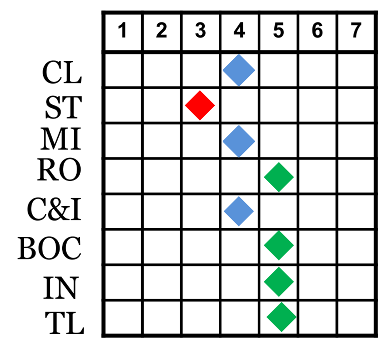
Develop and implement new strategies under a new vision

Drive a large global organization to achieve the budget

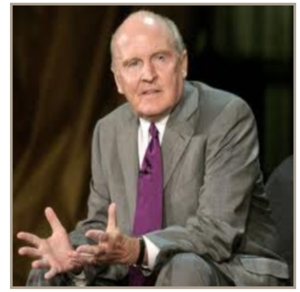
Competencies





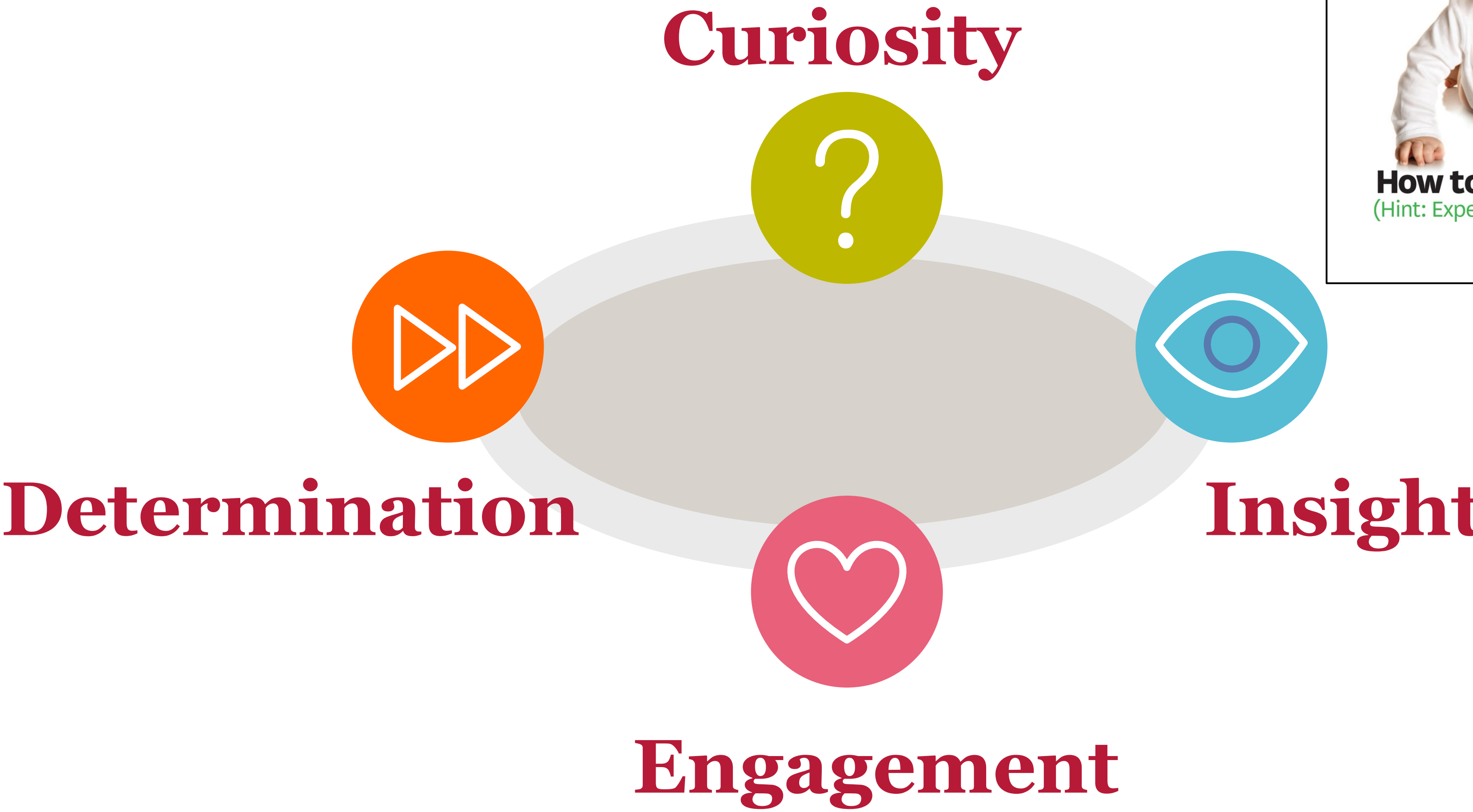


A new era of talent spotting: Potential is key!



Era	**I**	**II**	**III**	**IV**
Focus	**Physical Strength**	**IQ, Experience Performance**	**Competencies**	**Potential**

Indicators of Executive Potential



Foundation: The Right Motivation

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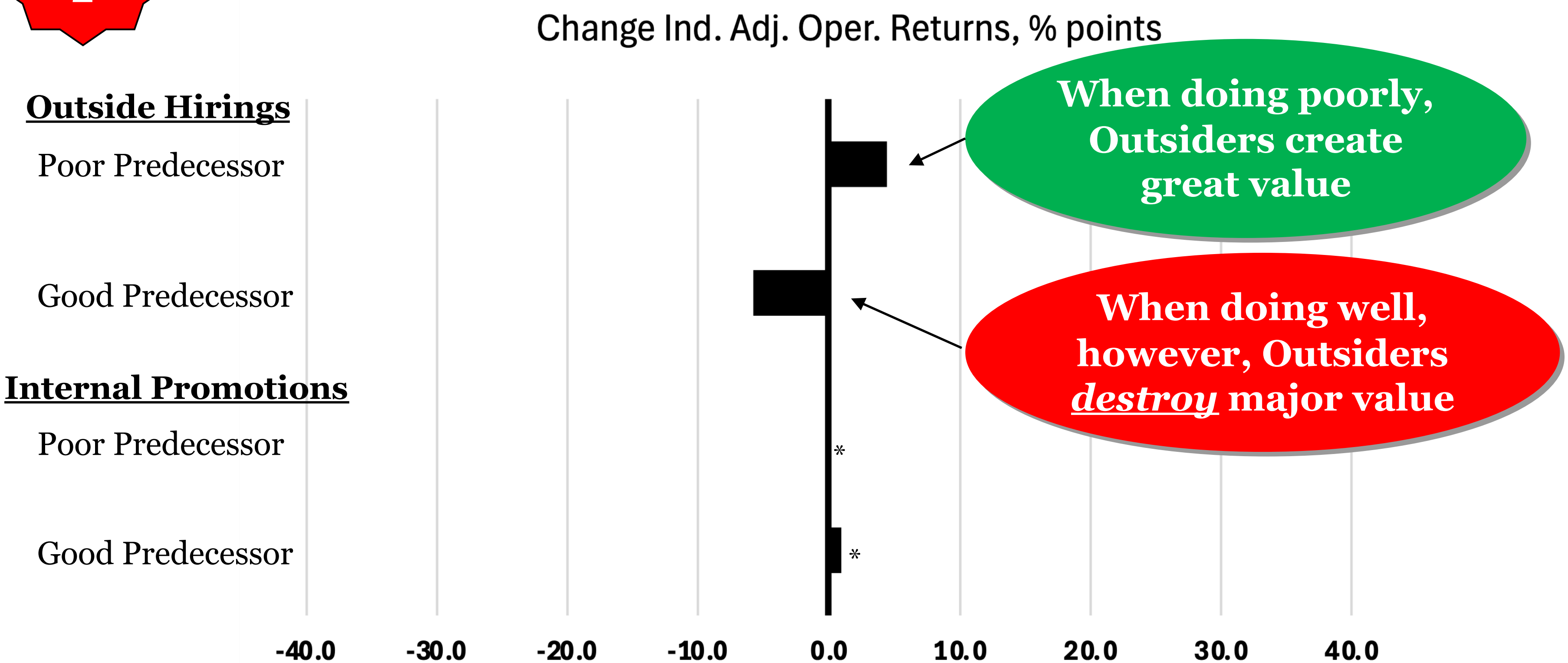
Should we promote from inside or hire from outside?

Poll 2

On *average*…

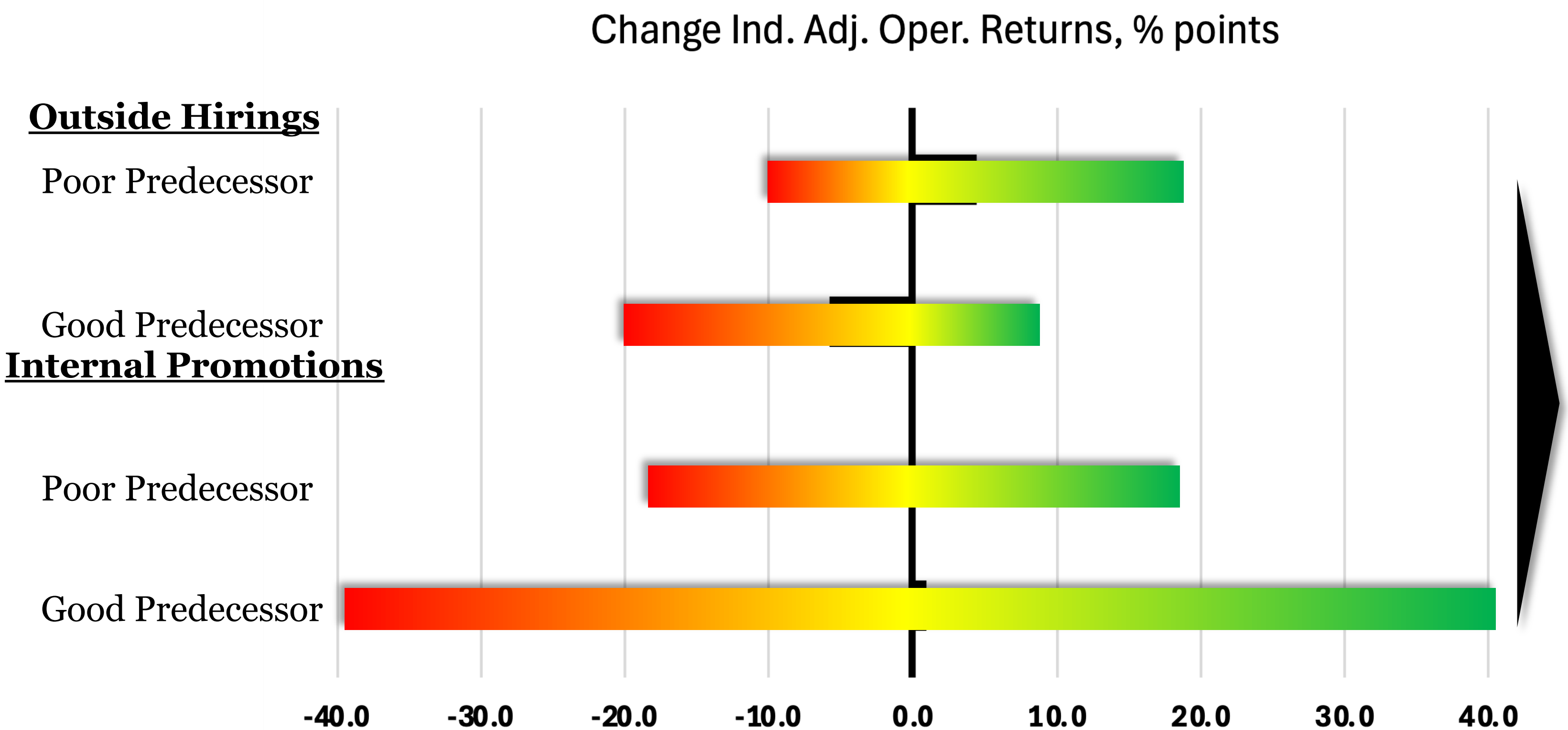


* Changes for internal promotions were statistically unsignificant

Source: The Performance Impact of New CEOs, MIT Sloan Management Review

Should we promote from inside or hire from outside? (cont.)

Average effects are irrelevant when variance is high. What matters is the <u>range</u> of performance impact



For senior positions, always consider insiders *<u>and</u>* outsiders

* Changes for internal promotions were statistically unsignificant

Source: The Performance Impact of New CEOs, MIT Sloan Management Review, CFA analysis

The value of investing in executive searches

$$\text{Expected Value}^{*} = e_n \cdot \sigma \cdot \underbrace{V \cdot \rho}_{\text{Assessment Quality}} - C_n - X_c$$

Candidates Considered

Assessment Quality

Pay Premium

Job Complexity

Search Cost

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

* Source: Appendix A of *Great People Decisions*: The Value of Investing in People Decisions.

Diminishing returns of candidate generation

Expected Value e_n $\sigma . V . \rho - C_n - X_c$

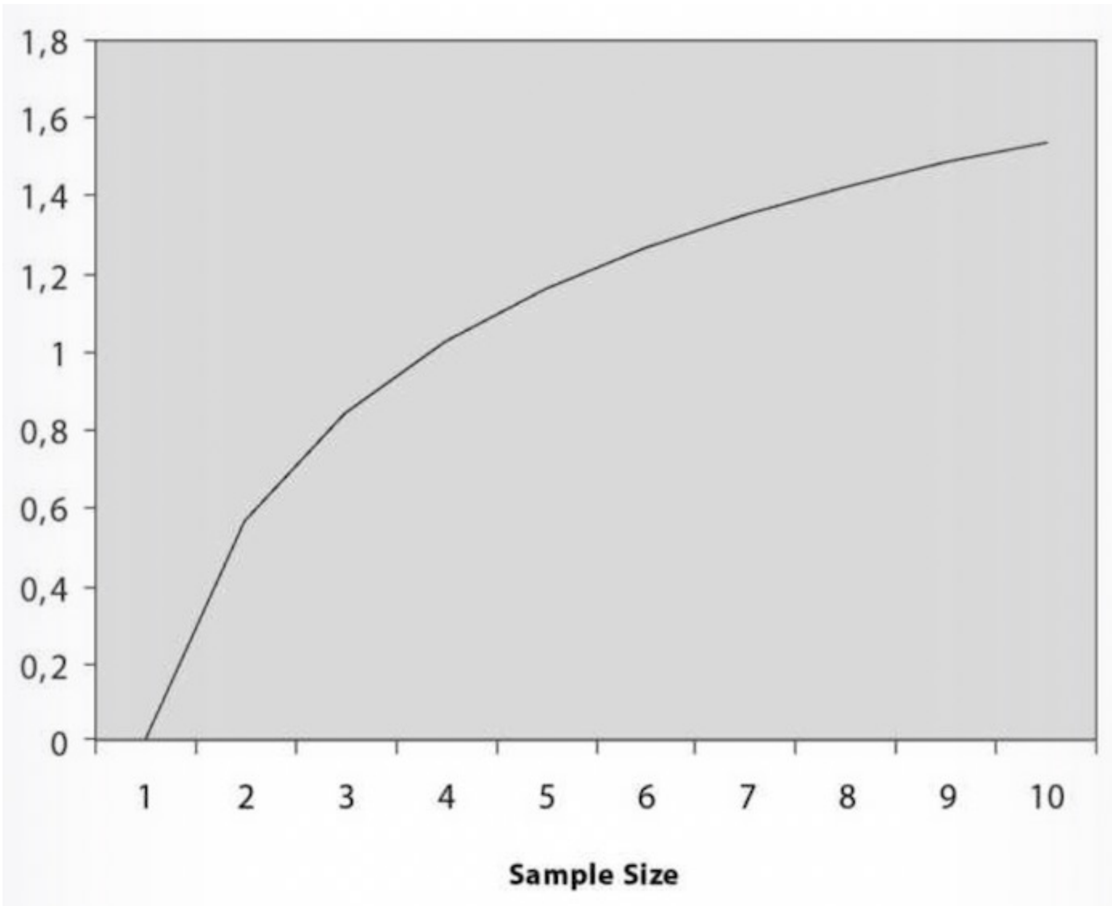
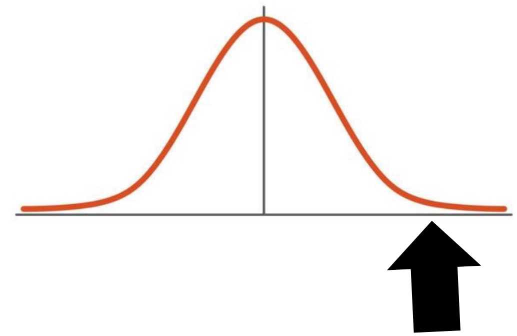
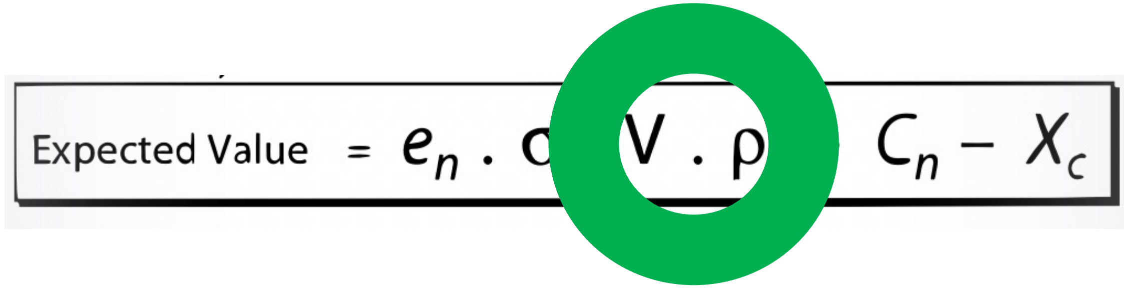


FIGURE 6.3 Expected Value of the Maximum of a Standardized Normal Distribution

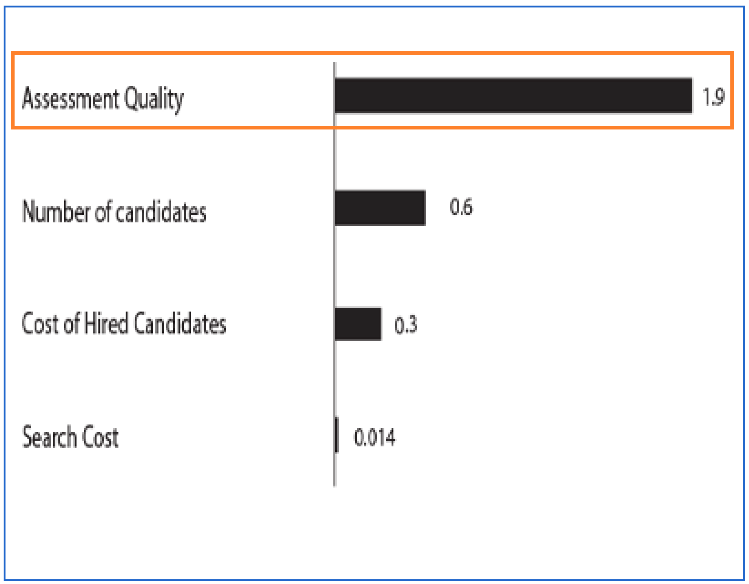


A dozen candidates properly sourced are usually enough

Improving the quality of assessment is the key



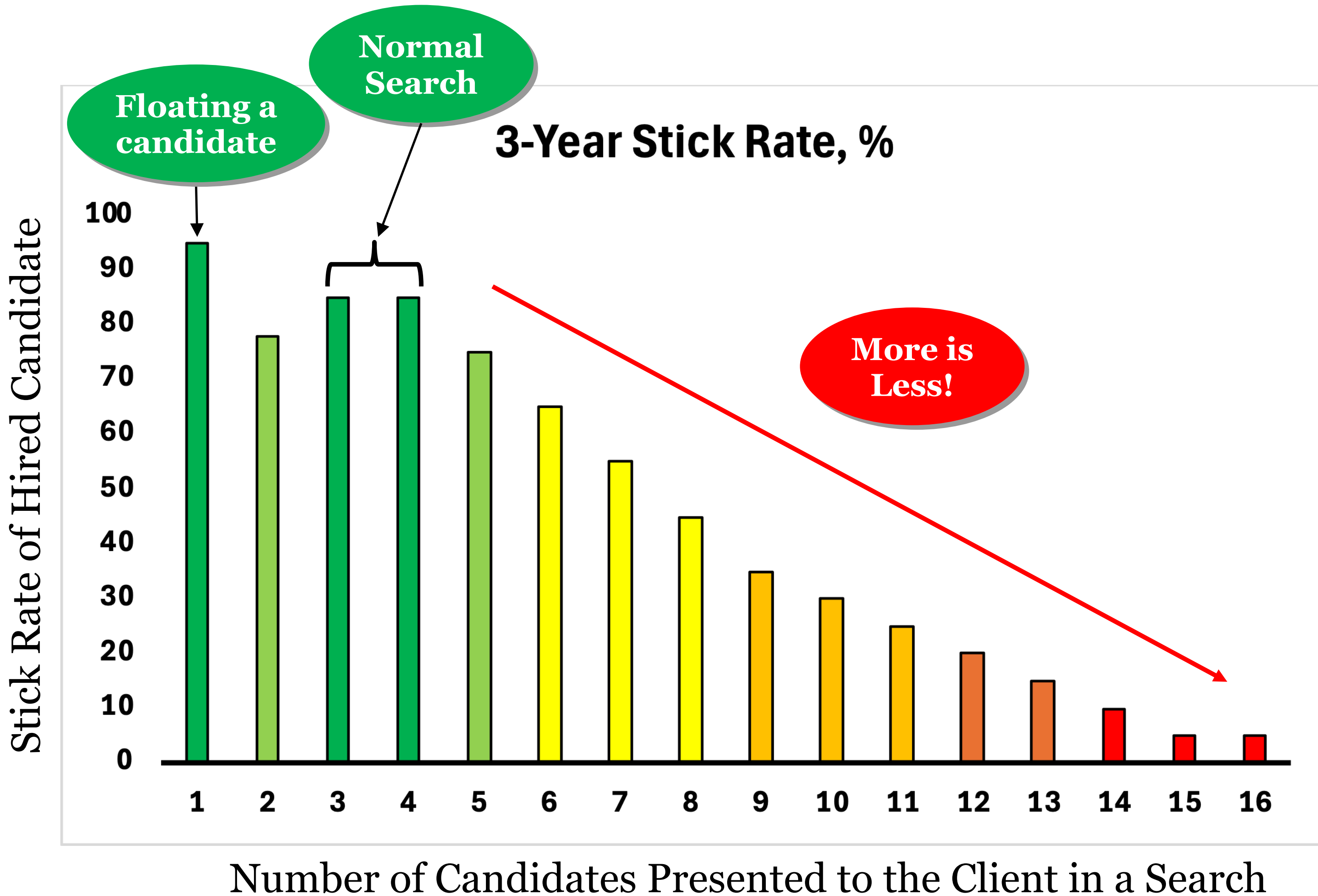
Change in yearly profits assuming a 10% improvement in each parameter *



- **Improving the quality of candidates' assessment has by far the largest payoff**
- **It is 3 times more valuable than generating more candidates**
- **The extra cost of a thorough search is negligible compared with the expected return**

* Source: *Great People Decisions*, example for the search of the CEO of a $ 50 million profit company. In this example, a 10% increase in the assessment quality generates $2 M additional profits and $40 M additional company value.

When conducting a search, push for quality over quantity



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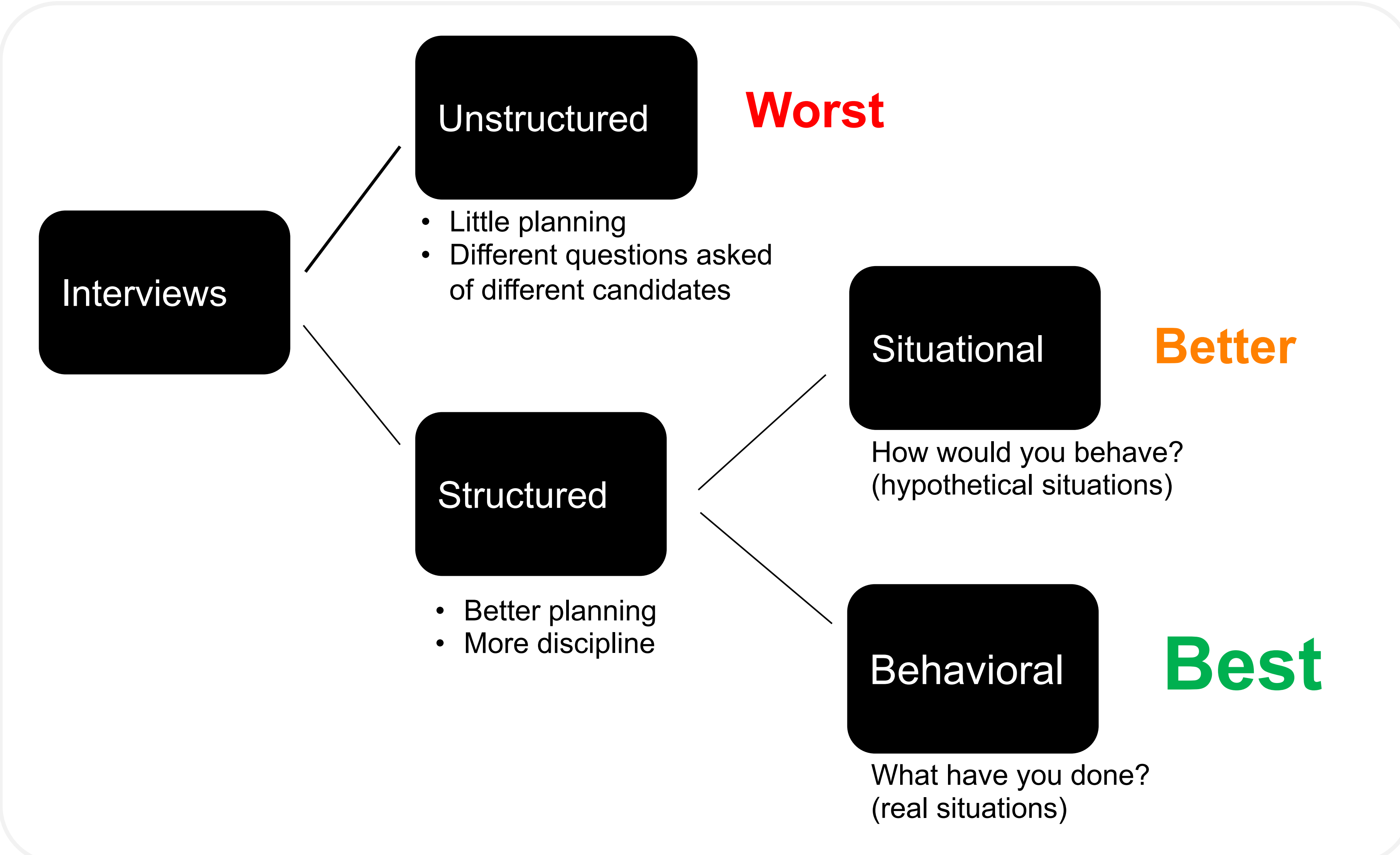
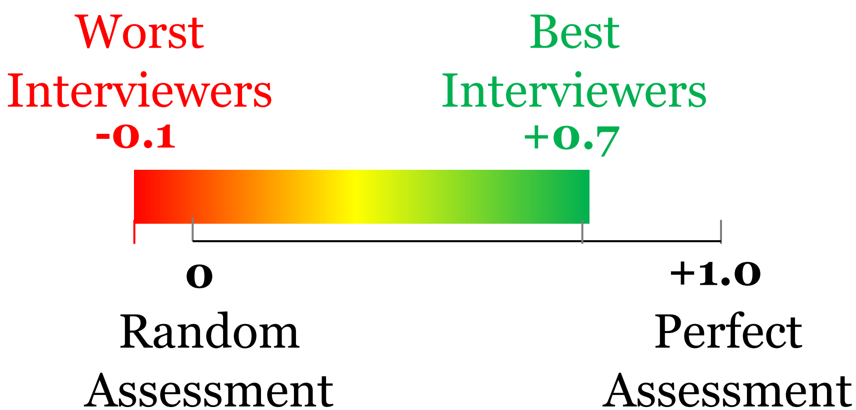
Use the right type of interview



Involve the Right Interviewers

Poll
3

Range of Interviewer's Validity (1)



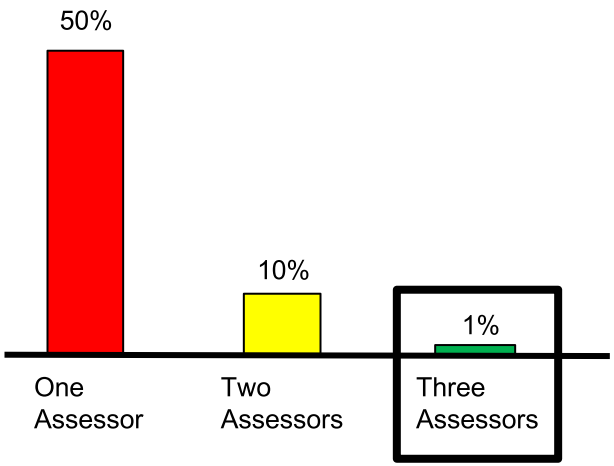
Huge range.

Involve the right people!

(1) Source: Pulakos, E.D., Schmitt, N., Whitney, D. & Smith , M. (1996). "Individual differences in interviewer ratings: The impact of standardization, consensus discussion, and sampling error on the validity of a structured interview." *Personnel Psychology*, 49, 85-102

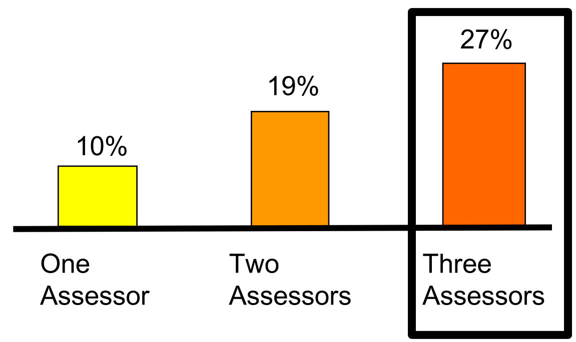
How many interviewers should you have?

Probability of *Hiring the Wrong* Candidates



By adding "sequential filters" you reduce the chances of hiring the wrong candidates (1)

Probability of *Rejecting the Right* Candidates



However, adding filters also increase the chances of rejecting the right candidates and damage the candidate experience (1)

(1) Assumes you want to hire only "top 10%" candidates, and also assumes you are 90% accurate in your assessments

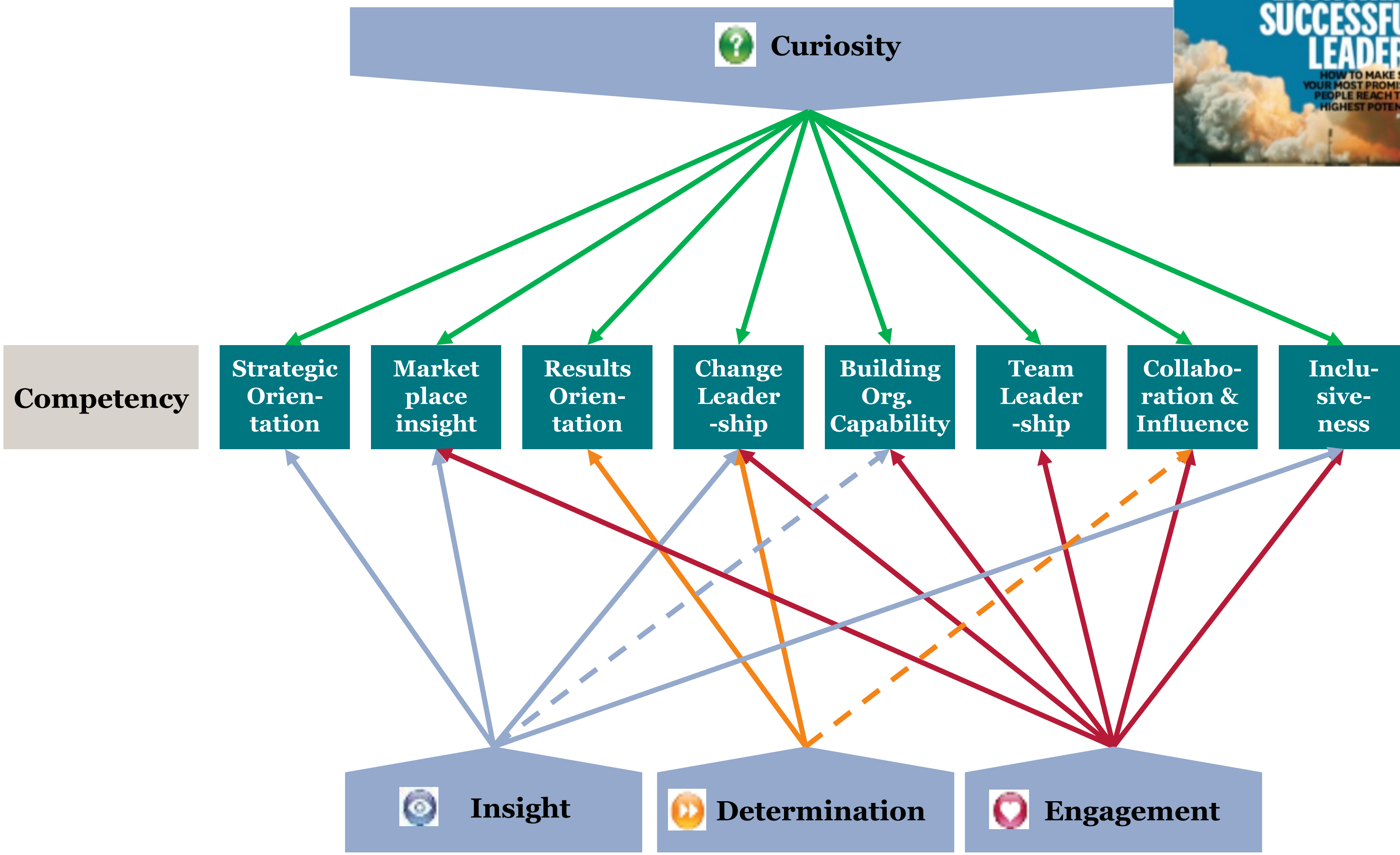
Carefully check references

Best practice for reference check involves

- **Deciding whom to call**
  - Not just the names provided
  - Depending on the type of competencies or potential indicators you try to assess

- **Approaching them as a structured, behaviorally-based interview**
  - Focusing on the relevant competencies or potential indicators
  - With well-planned, disciplined questioning and probing

Consider each candidate's potential *profile*



Competencies and Potential Indicators Correlations

Turning Potential into Success

	1	2	3	4	5	6	
RESULTS ORIENTATION PREDICTED BY • DETERMINATION • CURIOSITY	Completes assignments	Works to make things better	Achieves goals	Exceeds goals	Improves firm's practices and performance	Redesigns practices for breakthrough results	
STRATEGIC ORIENTATION PREDICTED BY • INSIGHT • CURIOSITY	Understands immediate issues	Defines plan within larger strategy	Sets multiyear priorities	Defines multiyear strategy for own area	Changes business strategy in multiple areas	Creates high-impact corpora strategy	
COLLABORATION AND INFLUENCE PREDICTED BY • ENGAGEMENT • DETERMINATION • CURIOSITY	Responds to requests	Supports colleagues	Actively engages with colleagues	Motivates others to work with self	Facilitates cross-group collaboration	Establishes collaborative culture	Forges transformational partnerships
TEAM LEADERSHIP PREDICTED BY • ENGAGEMENT • CURIOSITY	Directs work	Explains what to do and why	Gets input from team	Inspires team commitment	Empowers teams to work independently	Motivates diverse teams to perform	Builds high-performance culture
DEVELOPING ORGANIZATIONAL CAPABILITIES PREDICTED BY • ENGAGEMENT • INSIGHT • CURIOSITY	Supports development efforts	Encourages others to develop	Actively supports team members' growth	Systematically builds team's capability	Aids development outside team	Builds organizational capability	Instills culture focused on talent management
CHANGE LEADERSHIP PREDICTED BY • ENGAGEMENT • DETERMINATION • INSIGHT • CURIOSITY	Accepts change	Supports change	Points out need for change	Makes compelling case for change	Mobilizes others to initiate change	Drives firmwide momentum for change	Embeds culture of change
MARKET UNDERSTANDING PREDICTED BY • INSIGHT • CURIOSITY	Knows immediate context	Knows general marketplace basics	Investigates market and customer dynamics	Deeply understands market	Generates insights about market's future	Identifies emerging business opportunities	Sees how to transform industry
INCLUSIVENESS PREDICTED BY • ENGAGEMENT • INSIGHT • CURIOSITY	Accepts different views	Understands diverse views	Integrates other points of view	Functions well across diverse groups	Facilitates engagement between factions	Strategically increases employee diversity	Creates inclusive culture

Deciding a promotion

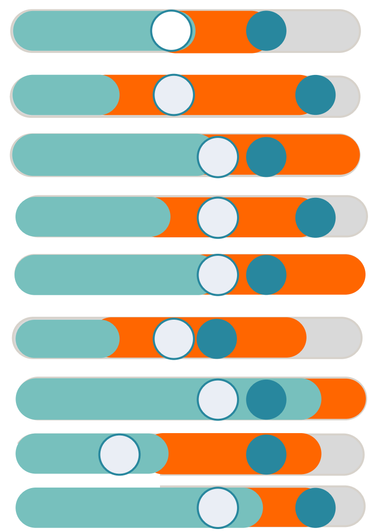
Target current role
Target next role

Past

Long term track record
Essential experience

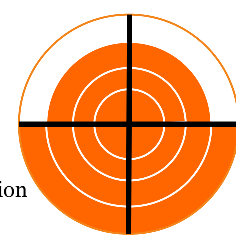
Present

Strategic Orientation
Market Understanding
Change Leadership
Customer Impact
Results Orientation
Collaboration & Influence
Team Leadership
Building Organizational Capabilities
Commercial Orientation



Future

Individual potential

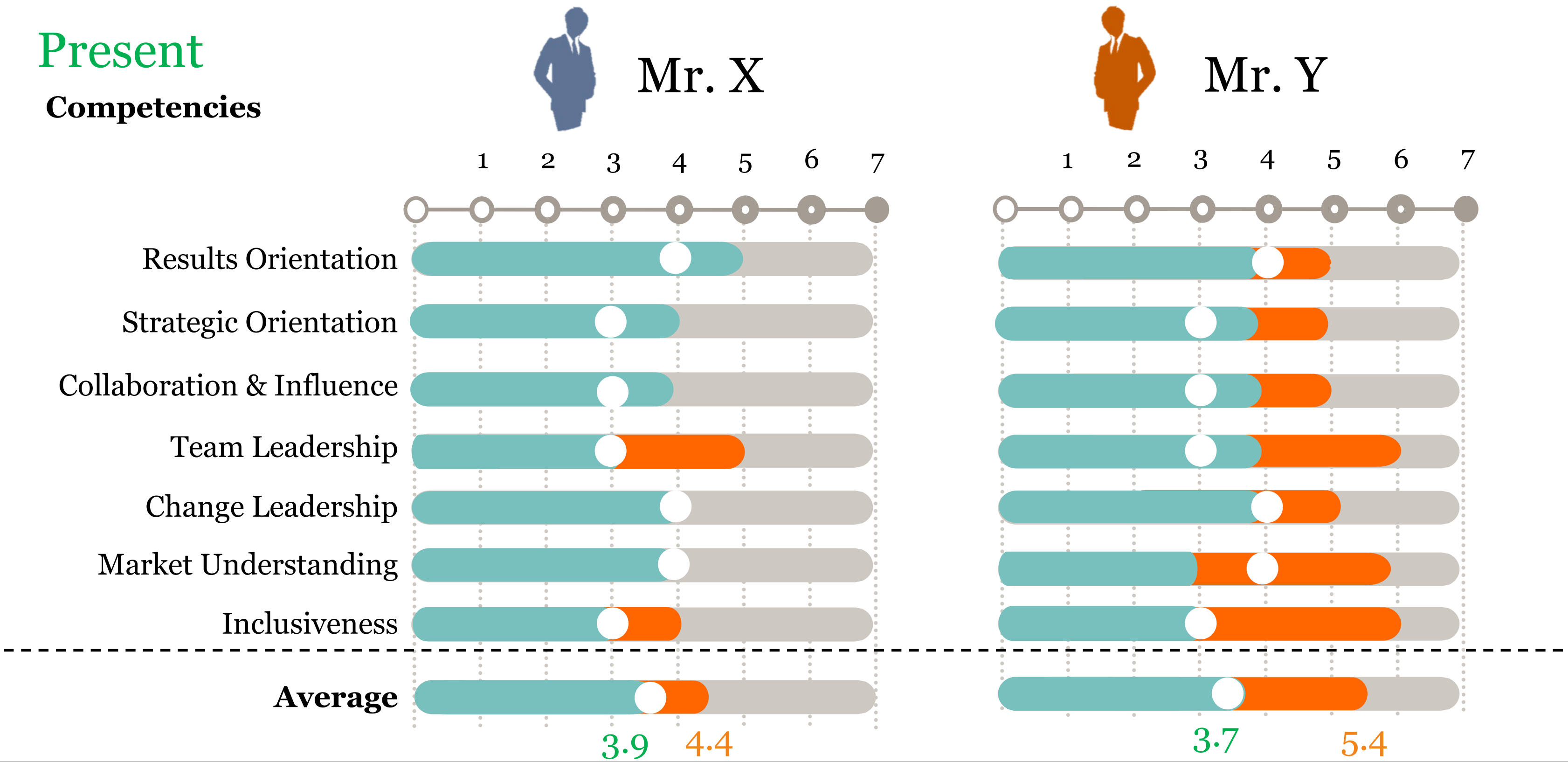


Targets as CEO
○ Minimum

Choosing the best successor

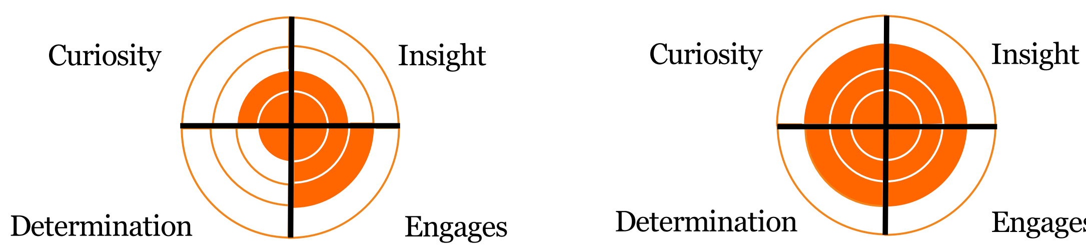
Present

Competencies



Future

Potential

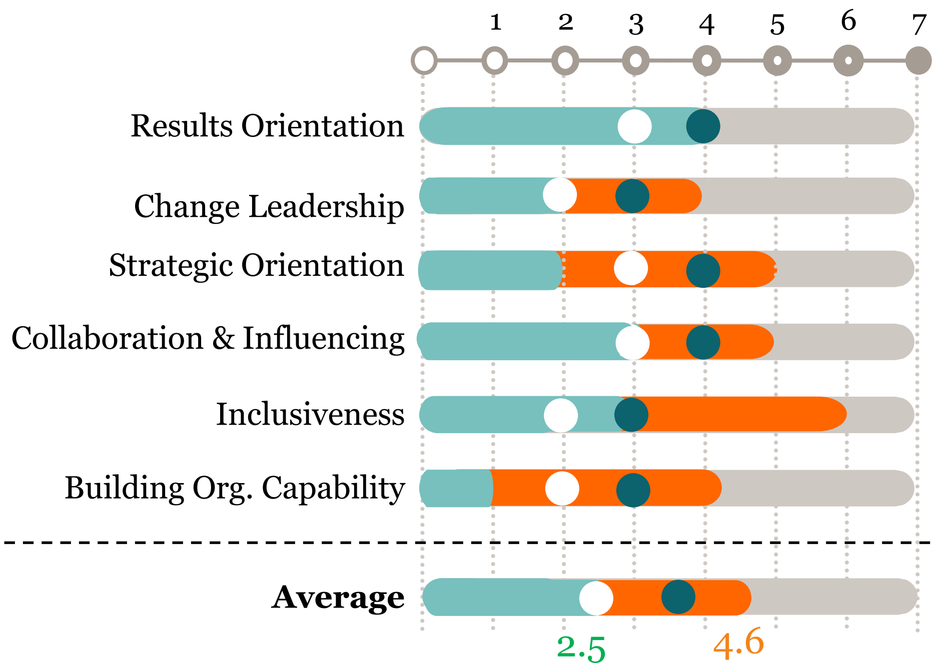


Fostering diversity

Ms. Z

Present

Competencies



Future

Potential

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First, you need to attract, retain and motivate the best

- **It's NOT (mostly) about Money**
- **Realistic Job Previews**
- **Proper Onboarding**
- **Never Tolerating Bad Bosses**
- **Motivating the Best: Autonomy, Purpose and <u>Mastery</u>**

Finally, adjust rotations to competency development needs

	Leading a Large Organization	Managing a P&L	Leading Multiple Regions or Businesses	Managing a Corporate-Wide Function	Running a Start-up Operation	Overseeing a Restructuring
Results Orientation		●			●	●
Strategic Orientation				●	●	
Collaboration & Influence			●	●		
Team Leadership	●	●				●
Developing Organizational Capabilities	●				●	
Change Leadership				●		●
Market Understanding		●	●		●	
Inclusiveness			●	●		

Links to relevant resources

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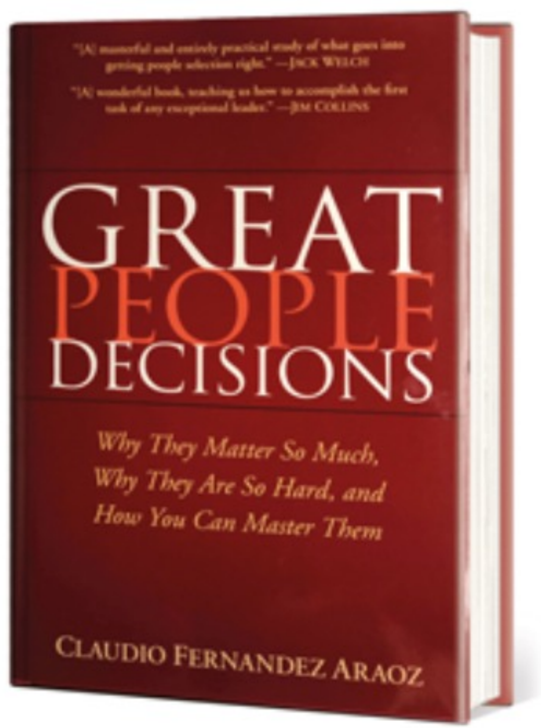
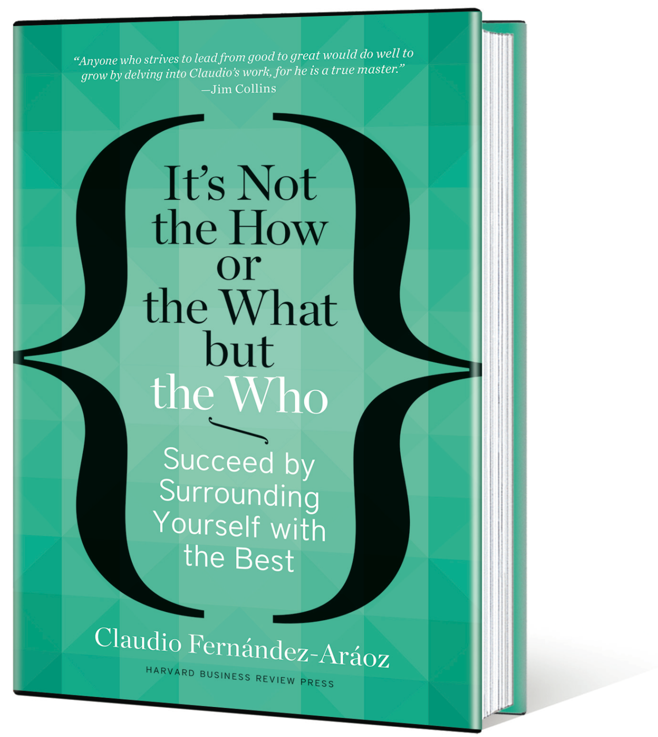


[Great People Decisions]



[It's Not the How or the What but the Who]

Links to relevant resources (cont.)

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Hiring Top Executives: A Comprehensive End-to-End Process

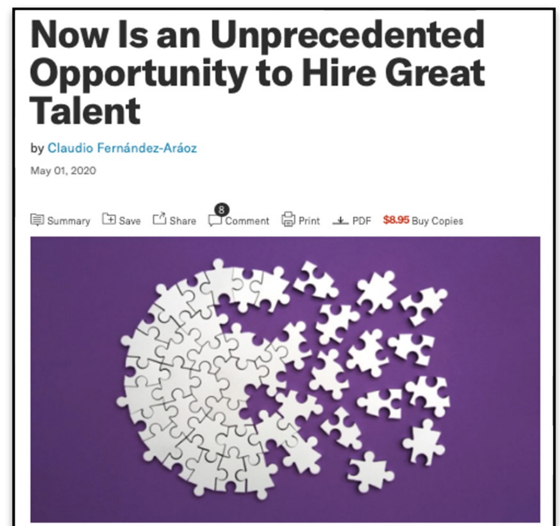
	POOR PRACTICES	BEST PRACTICES	IMPLEMENTATION CHALLENGES
1 Anticipate the Need	Hiring only when you have an opening; Having an ad hoc succession plan; Overlooking the skills your organization will need in the future; Indulging in irrational optimism about attrition, succession depth, and recruiting yields	Conducting ongoing, proactive analysis of future needs; Continually evaluating the pool of potential talent; Developing rigorous periodic forecasts of the company's talent needs	Linking your talent plan to your strategic plan; Incorporating input from HR professionals into the strategic-planning process
2 Specify the Job	Relying on generic competency models; Looking primarily for charisma, general ability, and track record	Defining the specific demands of the job; Specifying which skills and experience are relevant; Identifying the team the candidate will need to work with or recruit; Considering how company culture and context affect the role	Ensuring a close dialogue between HR and top management; Building up-front consensus among key decision makers about job requirements
3 Develop the Pool	Taking a scattershot, ad hoc approach to finding candidates; Limiting the pool; Looking for only external candidates or only internal candidates	Developing a large pool; Including insiders, outsiders, inside-outsiders, and outside-insiders; Considering people on the periphery of the organization (employees in remote offices, consultants, suppliers, customers); Tapping your networks and involving the right external partners; Asking candidates' peers for nominations	Transcending organizational silos; Encouraging open discussion at the top about when and how to conduct external talent searches

The Definitive Guide to Recruitment in Good Times and Bad

The High Cost of Poor Succession Planning

21st Century Talent Spotting

Turning Potential into Success



Now Is an Unprecedented Opportunity to Hire Great Talent

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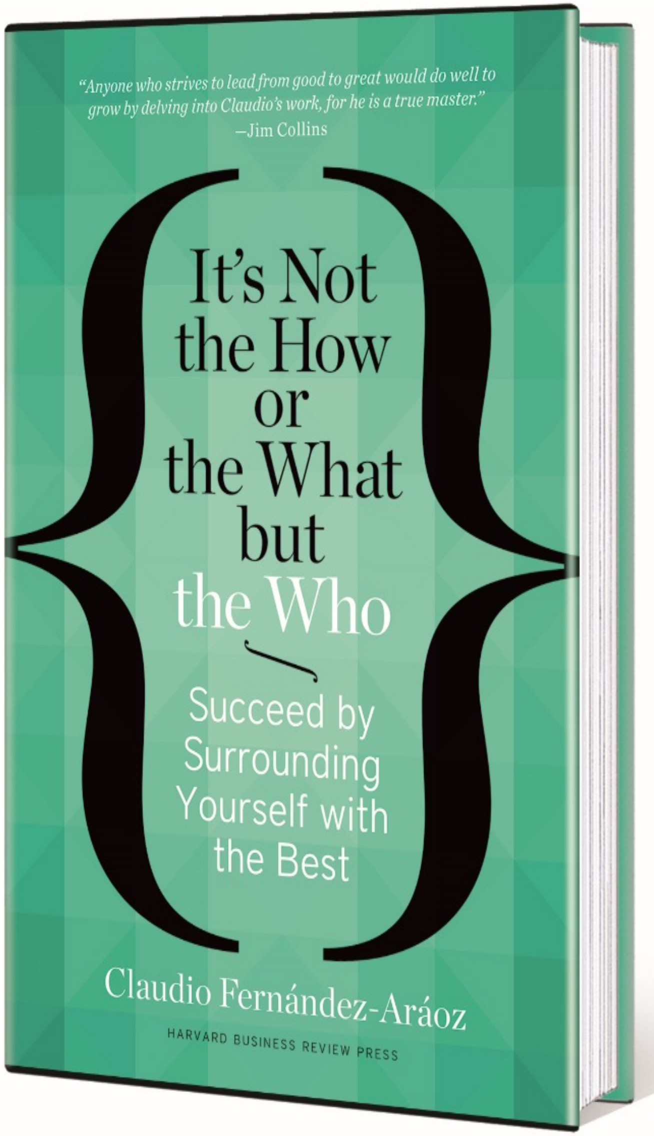

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