

Senior Appointments

Finding the few

When making senior appointments, companies need to follow precise and proven codes of practice



CLAUDIO FERNÁNDEZ-ARÁOZ
Egon Zehnder International, Buenos Aires
claudio.fernandez.araoz@ezi.net

Successful recruitment practices at senior management level are the hallmark of a top-flight company. The best executives will display a higher order of performance than their peers. Companies that are able to identify and attract the best qualified individuals will therefore have a considerable advantage in the global marketplace. A set of best practices can help avoid the many common pitfalls.

IN THE OPENING PARAGRAPH of his wonderful 1985 Harvard Business Review article, “How to Make People Decisions,” the late Peter Drucker started by emphasizing the critical importance of such decisions by saying: “Executives spend more time on managing people and making people decisions than on anything else – and they should. No other decisions are so long lasting in their consequences or so difficult to unmake.” Despite the critical importance of people decisions, Drucker estimated that one third of staffing and promotion decisions were outright failures.

Over the past few years, the consulting firm Booz Allen & Hamilton has published excellent research on CEO turnover, documenting both a very high level of turnover, and a large proportion of involuntary turnover. Interestingly enough, the Booz Allen numbers are very much in line with Drucker’s 20-year old educated guess. Based on our own research (see sidebar), we have found that even at companies with above-average performance and reputation, the wrong individuals are making it to the executive suites. Why are these critical decisions so hard, and how can we get them right?

A stacked deck

To understand why companies have such trouble finding top executives, first consider how certain sophisticated skills are distributed across the managerial population. Specifically, when it comes to complex jobs like that of

A set of best practices can help companies avoid the many common pitfalls.

a senior executive, the distribution of talent is highly skewed (see figure page 70). The implication is that the best executives perform at a much higher level than their peers. In fact, the performance spread grows exponentially with job complexity. Simply put, the more complex the job, the larger the expected difference between top performers and others. The problem is that the odds are against companies finding those outstanding individuals because there are so very few of them around.

Many psychological traps

Finding the right person for any job is also hindered by various psychological forces that can easily sabotage the hiring team's efforts. As a result, people's decision-making processes are often impaired by a series of emotional biases, and the higher the stakes (or the more senior the appointment), the stronger these forces will be.

First, people tend to procrastinate when making these decisions. Especially in the absence of any crisis, the tendency is to exaggerate the risks of change and to disregard the opportunity costs of sticking with the status quo. Thus most boards react late, firing an executive only after the damage is done.

Second, executives often believe that the people they hire or promote are more capable than they actually are.

Third, people frequently make snap judgments, quickly categorizing things, including other people.

Fourth, people tend to seek information that confirms what they already think, instead of searching for any evidence that might contradict their thinking.

Fifth, people hate to fail, and when they do they will sometimes resort to extreme measures to save face. Thus, when executives have backed a particular candidate, they will often discount or even hide any negative findings about that individual.

Sixth, people like to stick with the familiar. All too often the practice of "hiring for fit" is a mask for looking for what's comfortable and familiar as opposed to seeking the person with the best mix of competence and complementarity, which necessarily requires diversity.

About our research

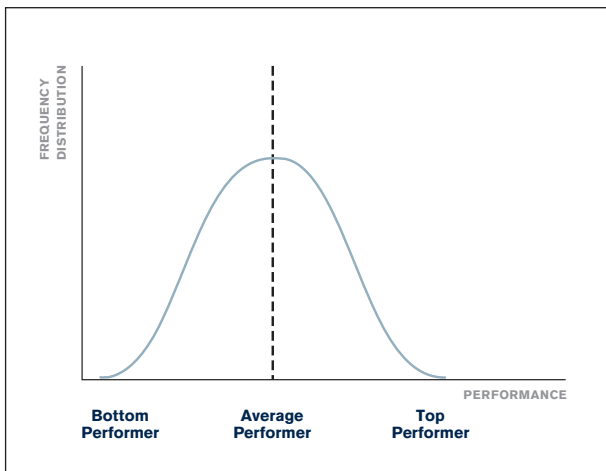
Over the past years at Egon Zehnder International we have assessed tens of thousands of senior executives, including CEOs, all other C-level positions, VPs and directors from around the world and from every major industry. We have found that, on average, the decisions that organizations make regarding the people they hire, promote, and maintain in top positions have much room for improvement. Even at companies with above-average performance and reputation, the wrong individuals are making it to the executive suites. Roughly one third of the executives we have appraised at these fine companies are actually in the bottom half of the competence curve with respect to their peers at other companies in their respective industries.

When we analyzed CEOs against the specific competencies deemed critical for each particular job, the typical CEO was slightly below the target level. The gap between the average senior executive and an outstanding one is such that, even with the highest motivation and best development effort, the average incumbent's chances of achieving the required level of competence are slim. And even if it were possible to close the gap, the process would take several years – time that most organizations can't afford.

Of course, the hiring of people for top positions will always be difficult and prone to errors. But we strongly believe that the process can be improved substantially if companies are aware of the many pitfalls and have implemented the necessary best practices to avoid them.

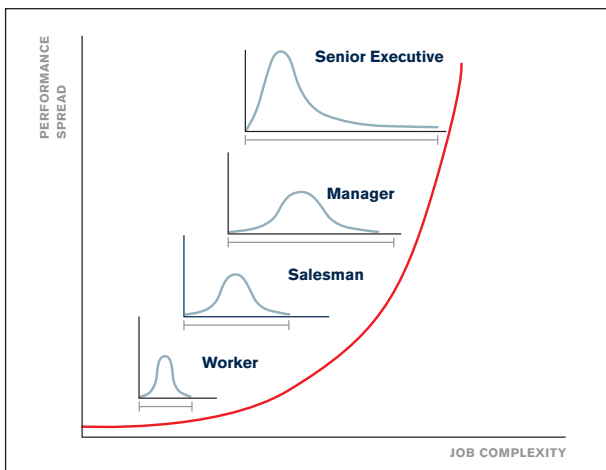
Superior performance is hard to find

Several studies have shown that the more complex the job, the bigger the difference between a superior performer and an average one. Since this gap grows exponentially, substantial potential rewards can be gained by hiring a top performer.



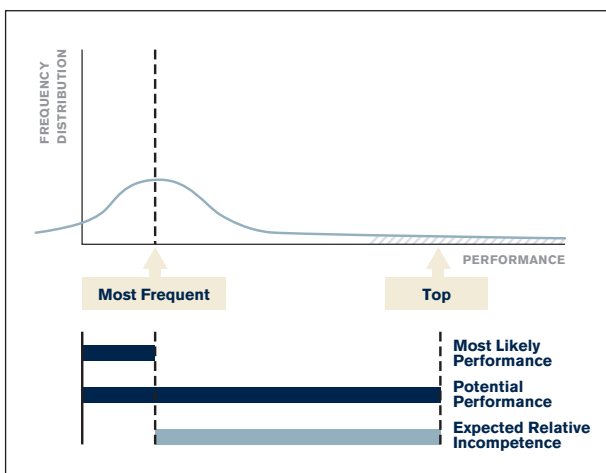
Normal distribution of performance in simple jobs

A normal blue-collar worker for example, who is a standard deviation above the mean, would be 20% more productive than the average worker. The figure on the left shows the typical bell-shaped, normal distribution of performance for simple jobs.



Increasing complexity widens the performance gap

A worker in a more complex job (a life-insurance salesperson, for example) who is one standard deviation above the mean would have a level of performance that is 120% higher than the average. For jobs of even higher complexity (an account manager of a consulting firm, for instance), one standard deviation could represent an increase of the order of 600% over the average. The figure on the left illustrates how this performance spread grows exponentially with the complexity of the job.



The value of top performers

As shown in the figure on the left, companies that are able to identify and appoint top performers to senior positions will achieve a level of performance several times higher than that of firms with executives of the kind most frequently encountered. In other words, organizations that hire or promote mediocre executives will suffer greatly from the relative incompetence of those individuals.

Seventh, people fall prey to emotional “anchoring,” judging candidates relative to one another or to someone familiar rather than to the required profile.

Finally, people often fall into the psychological trap of herding. Even high-powered executives are sometimes hesitant to express an opinion about a candidate that contradicts the views of their colleagues.

A set of best practices

Remember that the performance spread grows exponentially with the complexity of the job. Because of that, companies that are able to identify and attract the most qualified managers will have a considerable advantage. In fact, a company’s efforts also should increase exponentially with the seniority and complexity of the job.

Obviously, finding the right people for the corner offices is hardly a simple task, but a set of best practices can help companies avoid the many common pitfalls.

Define before looking: Many firms make the mistake of commencing an executive search before they know what they’re really looking for. Successful organizations have the discipline to clearly define what they need before considering any candidates.

Cast a wide net: All too often, companies unnecessarily restrict their searches to certain markets, industries or geographic regions. But because the percentage of candidates who are top performers is tiny, firms should always cast the widest net possible to find those individuals who are truly outstanding.

Compare apples with apples: To shorten any list of candidates, companies need a good benchmarking process. The primary concern here is consistency. Furthermore, internal and external candidates need to be compared on an equal footing. Although the comparison of internal and external individuals is inherently difficult, the process is well worth the effort. Studies have shown that the best external hires were those selected after several internal candidates had also been considered, and the best internal promotions occurred when a large number of external candidates were also evaluated.

Evaluate thoroughly: Once a company has drawn up a shortlist of candidates, two processes will help determine whether those individuals are as good as they seem. First, they must be interviewed in-depth using behaviorally-based questioning. Second, the company needs to run in-depth reference checks, not only with people nominated by the candidate but also with those who have observed the individual in relevant situations.

Filter biases: The best defense against the many biases that impair the decision-making process is proper groundwork, together with a sound and disciplined decision process: Clearly defining the need in advance, going through the search and evaluation homework, and comparing candidates with the real need.

Facilitate integration: No amount of effort will help the wrong candidate survive, but the proper preparatory and support work can improve the chances of someone who’s right for a position. The most common mistake that companies make is to assume that good outside executives can fend for themselves. This explains why the vast majority of external hirings are made with virtually no effort to integrate the new hires, for example by cultivating the necessary internal support for them. To exacerbate matters, people from the outside are often hired when the management challenges are most demanding. Also, expectations of these individuals are often unrealistic. Studies have shown that immediate performance is typically expected of outsiders, whereas a period of grace is usually granted to people promoted internally.

The value of people decisions

Research shows that leadership matters tremendously. In some markets, the leader effect accounts for over 40 percent of variance in performance or value. In such cases, even a medium-sized U.S. company could boost its value by a billion dollars by making better people decisions at the top. That, in brief, is the value of people decisions, and companies would do well to appreciate it fully.

THE AUTHOR

CLAUDIO FERNÁNDEZ-ARÁOZ joined Egon Zehnder International in 1986. Based in Buenos Aires he is a member of the Executive Committee, and as such leads the development of the firm’s intellectual capital worldwide. He has published several articles, including “Hiring Without Firing” in the bestselling July-August 1999 *Harvard Business Review* and “Getting the Right People at the Top” in the Summer 2005 *MIT Sloan Management Review* – already one of the journal’s 10 most popular articles – on which this item is based.