

The secret key to success

Why people decisions are more important than strategy



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Educating for great people decisions will become a major imperative for any manager who seriously wants to boost organizational performance as well as his or her own chances of career success. However, most managers are largely unaware of the crucial importance of these decisions and invest very little time and effort in developing their skill in this critical area.

IT MAY BE THE LAST and it is certainly the biggest paradox in modern management: No reasonable top manager would ever deny that a strong leadership team is of crucial importance to organizational and individual success. And yet it is precisely the decisions that shape this team that are mostly made in a superficial and even unprofessional way, with no robust process in place.

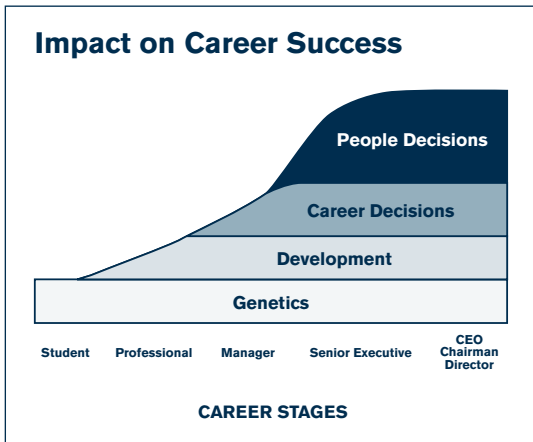
Compare people decisions with financial decisions, which in today's organizations involve so much science, hard data, analysis and skill. In stark contrast, in most companies, people decisions are made the way advertising decisions were made 50 or 100 years ago, leading to the famous quote from Charles Revson, the founder of Revlon: "I know half the money I spend on advertising is wasted, the trouble is I don't know which half."

The most significant controllable factor

For management researcher and bestseller author Jim Collins (*Good to Great*), making great people decisions is the first task of any exceptional leader. Harvard professors Nohria, Wasserman and Anand have demonstrated that the leader effect is perhaps the most significant controllable factor behind company value. Beyond some uncontrollable factors (such as the period in which we live), and other factors very difficult to change (such as the industry sector in which a company operates), great people decisions at the top seem to be the most important factor for building lasting organizational greatness.



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But making great people decisions is not only important for organizational success. It is also key for individual careers, and probably the most significant success factor once a professional has been promoted to his or her first managerial responsibility. The higher the position on the career ladder, the more important good people decisions become (see chart).

Yet despite the obvious critical importance of great people decisions, hardly any time is invested in formal education and training to master these crucial skills. Managers, executives and directors need only ask themselves: How much time did I invest in studying finance and accounting, with intense skill-building drills, problems, exercises, simulations and case studies? Probably too much time! And how much time did I spend learning how to make great people decisions? Probably almost no time at all. In fact, while business schools frequently help students improve their interviewing skills from the candidate’s point of view, they make hardly any effort to teach them how to make great hiring decisions from the other side of the table.

Long on snap, short on judgement

Why is it that managers don’t learn how to make these decisions? In my experience there are several reasons. For one thing, even top executives are still largely unaware of the deep impact of this topic – for their own careers and for the success of their organizations. While in the last few years a scattering of popular business books have argued the need for a greater focus on people decisions, most hard research on the topic is quite recent and still largely confined to the academic world.

In addition, most managers believe they are much better than they actually are at sizing people up. While

most of us have an innate sense about whether we like somebody, which is mostly unconscious and actually starts to happen in a fraction of a second, these snap judgements are long on snap and very short on judgement! And it is one thing to decide whether we like somebody, and a very different one to confirm whether that person will be able to perform well in a very complex job.

To make matters worse, there is a widespread belief that the objective appraisal of people is not a learnable skill. The relevant capabilities tend to be measured in vague parameters like “experience” and the nebulous “knowledge of human nature.” Managers like to boast of their innate ability to assess people, knowingly patting their stomach in reference to the famous “gut feeling.” In reality, not only is there little correlation between managers’ own assessment of their powers of appraisal and their actual skills, but there is also clear evidence that, like most other disciplines, people decisions can indeed be learned and mastered with the right combination of education, training, and feedback.

Facts versus fad

One final major reason why executives don’t learn how to make great people decisions is that this subject is not taught! Some argue that at business school it is too early, since students are not yet managers who have to set up their teams. Why invest time in something that has no immediate application? But when the time comes for them to make such decisions, managers find that, in the heat of battle, they have no time and even less discipline to systematically study, reflect, train themselves, and get feedback on these crucial skills.

If people decisions are to be set on solid foundations in the future, executives in general need to become properly aware of the huge value at stake in these decisions. They need to better understand why these decisions are so hard; to become aware of the many subconscious psychological biases that tend to sabotage such decisions. These include all sorts of well-documented traps such as procrastination, overrating capability, snap judgements, branding, evaluating people in absolute terms, seeking confirmatory information, saving face, sticking with the familiar, emotional anchoring, and herding. Executives also need to learn to recognize when a people decision is needed, because most managers tend to act too late.

In a world full of myth and fad which has long clouded people decisions, leaders also need to learn what they

should be looking for in a candidate. How important is IQ, or experience, or emotional intelligence? What about personality, values, potential? What does the hard research tell us about the best predictors for on-the-job performance, particularly for senior and complex jobs?

But even if top executives know what to look for, they still need to decide where to look, and when to stop looking for great people. Should they look inside or outside the company? And when should managers and boards stop looking, and choose from the best candidates they have identified?

They also need to learn a lot about the best ways to assess a candidate. While there has been a great deal of research about the predictive power of different assessment techniques, most managers and organizations are largely unaware of who should be assessing candidates, regardless of the technique, and how many people should be involved in the process to achieve the best results. That includes not only rejecting poor candidates, but also not rejecting highly qualified ones.

Finally, while many organizations still leave new managers to sink or swim, this is a very ineffective practice and a costly mistake. A well planned and implemented integration process can dramatically enhance the survival chances of a new appointment, while significantly increasing the expected performance and accelerating the learning period.

How to learn to make people decisions

Educating for great people decisions requires as much learning as unlearning, involving the whole brain. It can only be accomplished by a disciplined process that involves at least three types of individual and organizational actions.

First, current or future top executives need to develop an awareness of the many unconscious biases that can sabotage people decisions. The human brain has been shaped over long periods of evolution, but is still hard-wired for the primitive world of the hunter-gatherer. But these fast, instinctive, unconscious reactions no longer fit the complex modern world and the complex requirements of people decisions.

Executives also need to be trained with the right combination of practice and feedback. Well-designed programs that include applying the right models with significant role playing and feedback have consistently shown demonstrable increases in the reliability and validity of interviewers' assessments.

Finally, organizations should offer an ideal blend of intrinsic and extrinsic motivation for managers to improve their people decision skills. First and foremost, this should include creating a culture in which people decisions are taken seriously, followed by walking the talk when making such decisions. Ways to make this happen include a serious review by top management of how key people decisions have been made in the past. This needs to cover the whole process – from confirming the need for change, defining what to look for and where to look for candidates, to assessing, attracting, and integrating them. There should also be an appraisal of the performance of the new hire, measured against the original assessment. The resultant feedback will help the organization learn from experience.

Today, advertising decisions are made in a far more professional and effective way, and the same will happen with people decisions. They will see a dramatic change for the better, and as always, the first to change will reap the largest benefits. Educating for great people decisions will therefore become a major imperative for any manager who wants to boost organizational performance as well as his or her own chances of career success.

Given its importance and urgency, making great people decisions will likely become a mandatory course in MBA programs. As Jim Collins put it: All MBA schools have courses about strategy, but the best strategy won't work without the right people. And great people will come up with the best strategy, as well as the best implementation. So put people before strategy!

THE AUTHOR

CLAUDIO FERNANDEZ-ARAOZ 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 the bestsellers "Hiring Without Firing" in the July-August 1999 Harvard Business Review and "Getting the Right People at the Top" in the Summer 2005 MIT Sloan Management Review. His ground-breaking new book *Great People Decisions* has just been published by Wiley.