Avoid Costly Mis-Hires!

Hire
90% High
Performers with

Topgrading Best Practices

by Dr. Bradford D. Smart

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About the Author

Dr. Smart is an internationally renowned management psychologist and consultant to many Global 500 companies. Brad completed his Ph.D. in Industrial Psychology at Purdue University, entered consulting, and since the 1970s has been in private practice as President of Smart & Associates, Inc., based in Wadsworth, Illinois, a Chicago suburb.

Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People is Brad's fourth book, typically #1 of over 1,300 books in its category.

Brad is generally regarded as the world's most experienced executive interviewer and coach, having conducted over 6,500 chronological Topgrading Interviews. Advisor to CEOs of leading companies, Brad was described in a front-page Wall Street Journal profile as "probing the executive minds—the software of business." His Chronological, In-Depth Structured Topgrading Interview has been embraced as the best practice by companies such of General Electric, Honeywell, Barclays, and American Heart Association. Dr. Smart helps CEOs pack their teams with high performers by:

- implementing Topgrading Interview-based selection, to achieve 90%+ success in hiring,
- coaching people to become and remain high performers,
- using Topgrading Interview methods to achieve 90%+ promoting people, and
- offering Topgrading tools, speeches, and workshops to help managers learn methods.

Table of Contents

Introduction

Whether you are an owner of a 10-person company, CEO of a Global 500 company, or a manager of a department, here's a scenario you probably can relate to:

You have a mixture of talent, and marginal performers cause you the most frustration. You value talent… you *really* do, but you only have about 25% *high* performers. You try to coach the poorer performers, but… it rarely works. You occasionally replace one, but:

- recruiters don't send good enough candidates,

- the resumes of candidates are full of hype,

- your competency interviews are not very revealing,

- reference checks are generally worthless,

> **Most companies hire *high* performers only 25% of the time.**

- too often the person hired disappoints you, and

- that mis-hire was very costly.

Welcome to the club! Tens of thousands of case studies plus surveys of Global 100 companies show that most companies hire *high* performers only 25% of the time! Using commonplace 50-minute

round-robin competency (behavioral) interviews, 75% turn out to be disappointments. Sure, if managers are willing to live with "ade-quate" performers, most are "okay hires." But you know in your heart that "adequate" and "okay" are *not* good enough. You want true high performers, the best available, *for what you are willing to pay*.

Chapter 4 of this book (starting at page 23) will highlight 10 common-sense Topgrading practices that have enabled thousands of managers and many leading companies to double, or triple the num-ber of… not just "adequate" performers… but *high* performers. Many Topgrading companies hire high performers 90% of the time!

> # Chapter 4 (page 23) has practical recommendations to at least double your hiring success.

Topgrading leaders state unequivocally that their companies are performing better because Topgrading tools have helped their managers pick better people. They're Topgraders.

What exactly is a "Topgrader?" We define Topgrader as a leader who hires or pro-motes high performers, *the top 10% of talent available for the com-pensation level*. So, if there are 10 qualified candidates waiting at your door and eager to take the job at the pay level you offer, you pick the #1 best candidate. Most companies have unsuccessful hir-ing methods because they pick just average or "adequate" candi-dates, not the best available for the pay.

What do high performers "look like?" Here's an abbreviated, though representative summary:

Summary of Critical Competencies: Upper Level Manager

	HIGH PERFORMER	ADEQUATE	LOW PERFORMER
Overall Talent Level	Top 10% of those available at this salary level	65th-89th percentile available at this salary level	Below the 65th percentile available at this salary level
Problem Solving	A "quick study:" able to rapidly perform complex analyses.	Smart; "average" insight.	Has difficulty coping with complex situations.
Leadership	Executes needed change; highly adaptive and able to inspire the organization.	Favors modest change, so there is lukewarm "followership."	Prefers the status quo; lacks credibility so people don't follow.
Passion	Very high energy level; fast paced; 55 (+) hour work weeks (plus home email); driven to succeed.	Motivated; energetic at times; 50-54 hour work weeks.	Dedicated; inconsistent pace; 40-49 hour work weeks.
Resourceful-ness	Impressive ability to find ways over, around, or through barriers; can-do attitude.	Occasionally finds a solution; relies on others to "figure it out."	Defeated by obstacles; constantly "delegates" to bosses.
Topgrading	Selects high performers and employees with potential; redeploys chronic underperformers.	Selects a few high performers.	Selects mostly underperformers; tolerates mediocrity.
Coaching	Successfully counsels each team member to turbo-boost performance and personal/career growth.	Performs annual performance reviews; "spotty" coaching.	Inaccessible, hypercritical, stingy with praise; late/shallow with feedback.
Team Building	Creates focused, collaborative, results-driven teams.	May want teamwork but does not make it happen.	Drains energy from others; actions prevent synergy.
Track Record	Consistently excellent performance.	Meets some (not all) key constituency expectations.	Sporadically meets expectations.
Integrity	"Iron-clad."	Generally honest.	"Bends the rules."
Communication	Excellent oral/written skills.	Average oral/written skills.	Mediocre.

If you'd like to become a Topgrader, you can start today. This short book will teach you the essentials, which are easy to understand (but require some discipline and practice to achieve 90% success!).

At the risk of oversimplifying, Topgraders keep the commonplace round-robin competency interviews (which are better than "Tell me about yourself" interviews), but do a better job than most managers at:

> # The "silver bullet" for 90% hiring success is the Topgrading Interview.

- •nailing down *exactly* what they're looking for,

- •developing *networks* who refer talented candidates,

- •conducting very thorough, chronological *Topgrading Interviews*, and

- •getting *candidates* to arrange personal reference calls with former bosses.

The "silver bullet," by far the single most important skill assuring hiring success of 75%-90%, is the Topgrading Interview. Why? Because when you conduct a Topgrading Interview, you follow a "road map," an interview guide that helps you learn about every success, every failure, every key decision, and every key relationship… for every full time job. No wonder this interview is so revealing! There, you have it—some of the "secrets" to joining the Topgrading club.

Chapter 1

Why Picking Talent is Your Most Pressing, Frustrating Challenge

> "The toughest decisions in organizations are people decisions—hiring, firing, and promoting people. These are the decisions that receive the least attention and are the ones that are the hardest to "unmake."
>
> —Peter Drucker

I don't want to preach to the choir, because anyone reading this book is a member of the "choir" of talent-oriented leaders. You know talent is all-important, but if you are like most managers, you are frustrated with too many costly mis-hires. You've read the survey results—when CEOs or any managers convene, they say "picking the right people" is their biggest headache, most pressing problem, their most frustrating challenge. Why? Because despite the importance of hiring high performers, most managers pick them only 25% of the time.

Let me give you a little different slant on this—where I'm coming from. I've conducted 65,000 face-to-face case studies that have made it glaringly obvious that the single most important factor in a manager's success is the *talent* of the team assembled.

I wish some academic types would study this scientifically, but from these 65,000 case studies, the conclusion is crystal clear: Create a

team of high performers and you're likely to succeed, but keep a lot of low performers and you're apt to fail.

"Duh," you say. Of course it's possible to have a lousy team that produces great results, because you have a monopoly, patent protection, colossally weak competitors, or lobbyists who (ahem) give you some "competitive advantage." And it's possible to have all high performers but your team fails, because the CEO insists on the wrong strategy, the organization culture is in-bred and lame, someone steals your IP, or markets dry up with a burp in the economy. But you know that most of the time, talent wins.

> **Create a team of high performers and you're likely to succeed, but keep a lot of low performers and you're apt to fail.**

For years I've studied the frustration associated with hiring low performers. Every manager experiences that pain! For example, one of our studies showed the average cost of a management mis-hire to be 15 times base salary. Chapter 4 provides additional documentation of how frustrating, painful, and costly it is to mis-hire people.

Why it *Was* Smart For You to Keep Some "Adequate" Performers

For most managers *not* exposed to Topgrading, all that frustration, wasted time, lessened job performance, and high costs of mis-hires are very understandable. What?? Yes… let me explain.

Suppose your mixture of talent is similar to what thousands of managers I've interviewed described in their teams:

a few high performers

a lot of disappointing but "adequate" performers

a few low performers

If your track record is typical, and only 25% of the people you re-place turn out to be high performers, it would be too risky for you to replace disappointing but "adequate" performers. You are very sure they are not as good as the top 10% of talent available, for exactly the same pay, but if your hiring 'batting average' is only 25%, then there is a 50% chance your replacements will be "adequate" per-formers. And, to make things worse, there is a 25% chance your re-placements will be *worse—low* performers.

So it was (and still is) smart for you to give your high performers a lot of support and coaching, because they prevent your headaches. And it was (and still is) smart to replace your chronic low perform-ers, the ones that cause the biggest problems and keep you awake at night. And it was (until you learned about Topgrading) smart to re-tain your "adequate" performers because you were only 25% suc-cessful picking high performers.

Aah… but this scene changes when you're a Topgrader. When 90% of the people you hire turn out to be high performers, it's smart and rational to replace not only low performers, but those "adequate" performers. To drive home this point, please take this short mind-teasing quiz:

Topgrading Mind Teaser

Q: If you inherit 10 low performers and want to re-place all 10 with high performers, how many people do you have to hire if your hiring success is 25%?

A: 40… You hire 40 people.

Q: How many do you have to fire?

A: 40… the 10 you inherited plus the 30 you mis-hired.

Any manager would be nuts to fire 40 people when the team is only 10 people. The revolving door would be chaos!

Q: How many would a Topgrader have to hire, with a 90% success rate?

A: 11

Q: How many would the Topgrader have to fire?

A: One… which gives the Topgrader a 30:1

This little game is better than any drug for reducing your frustration and the costs of mis-hires. That sounds more flippant than it should. Topgraders experience less frustration and lower costs than others, because—you just did the numbers—they enjoy much more success hiring high performers.

Chapter 2

Why Commonplace Hiring Methods are Poor

> "The ability to make good decisions regarding people is
> one of the last reliable sources of competitive advantage,
> since very few competitors are good at it."

> —Peter Drucker

Every week one or more companies supplement their existing hiring methods by adding Topgrading methods. Why? Because the hiring practices embraced by most companies are so inadequate; they are demonstrably mediocre at picking high performers. Here are some data points:

- I met with just the #1 human resources executives of Global 100 companies, and they completed a survey showing 80% of the managers they hire turn out to be disappointments.   And they said that 75% of the people promoted turn out to be disappointments.   How can Human Resources be respected, with such appalling results?

- McKinsey Quarterly (January '08) published another article ("Making Talent a Strategic Priority") in The War for Talent series, showing how the image of HR is mediocre. Line managers say the so-called "best practices" of HR just don't work, and they complain that HR is not accountable for *quality* of

hires. Worse yet, in the past 10 years the image of HR has *declined*.

For HR to improve its image, Topgrading can help. It's the easiest way I know for HR to become *highly* valued.

- Go to any of the human resources benchmarking company web sites, and see if they measure percent of high performers hired. Not one does. None, zip. HR frequently measures *hiring costs* and *time* to fill jobs… they hire the wrong people 75% of the time, but they do it inexpensively and quickly! What's wrong with that picture?

- On a conference call the head of HR at a pharmaceuticals company told me they use round-robin competency interviews and achieve "97.5% hiring success." Skeptical, I asked how the measurement is done, and he said, "The hiring manager is sent an email 30 days after the person is hired, asking, 'Does the person hired have the skills to do the job?' It's a yes/no question, with 97.5% responding yes." Great! Why not just ask if the person recently hired has a pulse? I asked, "What percent of managers hired turn out to be the high performers expected—and the only other category is mis-hire?" "Oh," he said, "probably only 20% turn out to be high performers, and 80% are mis-hires."

- Two hundred CEOs reported to us that they felt they got their money's worth from executive search firms only 21% of the time.

- I was Special Advisor to an [American Productivity and Quality Center](#) study (published in 2008) in which 19 companies participated as case studies, sponsors, or both. Only one company—a Topgrading company, Lincoln Financial Group—stood out for both measuring *quality* of hire and actually achieving 90% high performers hired (in upper levels).

Business today is run on metrics. Everything under the sun is measured... *except* what is arguably the single most important factor, quality of hires. Companies embrace TQM, Six Sigma, re-engineering, a zillion financial metrics, Sarbanes-Oxley, Toyota methods, lean manufacturing, dashboards, and Black Belts, but there are only feeble efforts to measure quality of hires (except by Topgraders).

Why? I believe poor hiring is so widespread that the business world suffers from widespread self-deception. No one wants to acknowledge that lousy hiring is the huge pile of elephant poop stinking up results. It's like steroid use in baseball:　widespread and everyone knew it but no one wanted to face it.

Bad hiring is the huge pile of elephant poop, stinking up results.

Well, maybe it's time to "face it," to confront the reality that hiring practices in most companies are terribly ineffective. Topgraders "face it." They rigorously measure quality of hire and adopt methods that clearly improve hiring success... oftentimes achieving 90% high performers hired.

Keep Commonplace Best Practices… But Don't Expect Better Than 25% High Performers Hired Without Adding the Topgrading Interview

What are the typical "best practices" of global companies, Fortune 1,000 companies, and smaller companies that copy big companies?

- A job analysis is conducted…

- that produces a job description…

- with perhaps six competencies identified…

- that are investigated through six round-robin competency (behavioral) interviews, each 50-minutes long, with verification of conclusions through...

- reference checks… which are marginally useful because most companies don't allow managers to take reference calls, and besides, reference sources are provided by *candidates* (who "salt the mines" with buddies).

These basics are not all wrong, but they are insufficient. For example, competency interviews are easy to fake. They are supposed to identify "behaviors," but candidates simply pick the behaviors that make them look good.

Competency interviews are easy to fake.

I recently reviewed a global company's published competency interview guides and rewrote them. Here are questions I considered too leading:

- What's an example of when you were a very good team player?

- What's an example of when you successfully drove change?

- What's an example in which you resolved a conflict?

Even when competency interviewers ask for times that "weren't so successful," the candidate simply offers examples that were insignificant… and where "good lessons were learned." Competency question responses lack *context*, so follow up questions too often are "shooting in the dark." *That's* why they are so easily faked and why they produce only 25% successful hires.

Look at the case studies on the web sites for companies selling competency (behavioral) interviewing approaches. I have stacks of those case studies sitting on my desk. They're not very impressive. Too many of those case studies simply show that managers are happy

with the interview training but give little data about the *quality* of hires. Some case studies suggest there are more "adequate" performers hired rather than low performers—okay, that's good—but I haven't seen one case study from any company selling competency interviews that credibly shows a significant increase in *high* performers hired.

In all my books I recommend keeping the job analysis, job description, and even the round-robin competency interviews I've criticized. After all, talented candidates want to talk to

Keep competency interviews but add the Topgrading Interview.

more than Topgrading interviewers, and competency (behavioral) questions are better than idle chit chat. But to improve from 25% high performers hired to 80% or 90% success, add the Topgrading Interview.

Personality Tests

Do tests add to hiring success? Yes—ability and technical/skill tests, but *not* personality tests.

There now are a couple dozen Topgrading professionals, and we've *all* tossed personality tests overboard because they just don't add value. If we could use tests and shorten interviews to 1 ½ hours, we could assess three executives per day, rather than two. Wow, that would add 50% to our income! But personality tests are blunt instruments, extremely easy to fake. After getting the rich information from a Topgrading Interview, looking at personality test profiles is a waste of time.

If you'd like to read a bit more on this, read [Personality Tests are Shams](), an issue of Topgrading Tips.   Just go to www.SmartTopgrading.com, sign up for Topgrading Tips, and read the article in the Topgrading Tips Archives.

Chapter 3

Why Topgrading Hiring Methods Are the Best

"No company can expect to beat the competition unless it has the best human capital and promotes these people to pivotal positions. *Topgrading* is the definitive manual for becoming a high performer and for recognizing those traits in others."

—Larry Bossidy, author of
Execution, and former Chairman, Honeywell

Topgrading methods are regarded by many respected leaders to be the best because they:

- Require intellectually honest measurement of *quality* of hires.

- Set the bar high… with the total focus on hiring and promoting people who turn out to be *high* performers, not just "adequate" performers.

- Have proven, again and again, to double and triple hiring success. You'll read case studies in which companies improved from 25% to even 90% high performers hired, and please note: the CEOs of the case studies signed off on the results published.

How did these methods evolve? For over three decades I've been on a mission to discover methods that achieve the one most important goal: hiring *high* performers. Quality of hire is most important to you, too, or you would not be reading this!

For all of my career I've studied what companies and individual managers have done that worked and what didn't work. I've been happy to adopt ideas others succeeded with, and I frankly don't claim that Topgrading methods are much more than common sense.

Early in my career I asked companies to tell me how successful my recommended candidates turned out. Sounds like bragging, but when I achieved 90%+ high performers hired, and the company I worked for achieved far less with tests and 1 ½ hour interviews, I launched Smart & Associates, Inc.

How did I get the results? In my singleminded quest to achieve 90%+ high performers hired, I started out with a competency interview approach, trying to elicit behaviors that would reflect key competencies. Forgive my English, but I knew I was being "BSed." So I began asking candidates everything important about every job. Gradually I developed the most thorough interview approach—the Topgrading Interview. Other chronological interview methods were around, but I turbo-boosted the thoroughness.

As Mark Sutton, head of UBS commented, "How can a bunch of short competency interviews compete with the systematic and much more thorough Topgrading Interview?" They can't!

As far as I know, the only published case studies of hiring processes, where *high* performer is the standard, are Topgrading case studies. In the 2005 version of *Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People* I provided representative Topgrading case studies across a variety of companies, many of which achieved 90% *high* performers hired or promoted using Topgrading methods.

New case studies are popping up all the time! Microsoft and John-son & Johnson launched Topgrading programs, and Barclays is roll-ing out Topgrading throughout the entire company.

	New Case Studies	Revisited Case Studies
Large Companies	Lincoln Financial	General Electric
	Hillenbrand	HEB
	Hayes Lemmerz	Nielsen
	Barclays Capital	
Mid-sized Companies	Marine Max	Dominick's
	American Heart Association	
Small Companies	Virtual Technology	
	ghSMART	

Kennametal, a $2.5 billion supplier of tooling, engineered compo-nents and advanced materials used in production processes, launched Topgrading in 2003, managers participated in workshops, and Kevin Walling, VP & Chief HR Officer, said, "Kennametal has used the concepts of Topgrading for over five years now… resulting in sig-nificantly greater success in hiring the **right** person for the job across the globe."

This is a short book, so if you want a lot more details of the case studies, please read Chapter 5 of *Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People*. Many of the companies are *much* bigger today, because Topgrading helped them grow profitably.

Topgrading ROI

Unlike any other hiring approach, Topgrading is trying to produce analyses of ROI for entire companies. Most companies simply conclude that if they avoid one costly mis-hire, their ROI is high and if half the managers avoid one mis-hire in the next five years, Topgrading costs will be paid for... for a hundred years!

In *Topgrading for Sales: World-Class Methods to Interview, Hire, and Coach Top Sales Representatives* (Portfolio, 2008), co-author Greg Alexander contributed a conservative scenario that would pro-

vide an increase in shareholder value of $75 million… for a $200 million company. Here are the base financial assumptions for a company with 400 sales people:[1]

Income Statement	Amount ($)	% of Revenue
Revenue	$200M	100%
Cost of Revenue	$92M	46%
Operating Expenses	$94M	47%
SG&A	$70M	35%
Cost of Sales	$40M	20%
G&A Expense	$30M	15%
R&D	$24M	12%
Other Expenses	$4M	2%
Earnings	$10M	5%

Shares Outstanding......................10,0000,000
Share Price.. $22
Earnings Per Share.......................................$1
P/E Ratio.. 22
Market Cap.. $220M

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[1] The source of the financial ratio data is the 541 companies according to Yahoo Finance that are in the Information Technology sector with revenues greater than $100M based on 2006 financial performance.

If this company reduced its mis-hire rate from 40% to 20% in just the sales area, their financials could look like this after just one year:

Income Statement	Amount ($)	% of Revenue
Revenue	$216.8M	100%
Cost of Revenue	$99.7M	46%
Operating Expenses	$100.8M	47%
SG&A	$74.8M	35%
Cost of Sales	$42.3M	20%
G&A Expense	$32.5M	15%
R&D	$26M	12%
Other Expenses	$4.3M	2%
Earnings	$12M	5%

Shares Outstanding......................**10,0000,000**
Share Price.. **$26.40**
Earnings Per Share...................................**$1.2**
P/E Ratio...**22**
Market Cap... **$264M**

Pages of data are provided which support the data above and lead us to this conclusion:

Through the P/E leverage, Topgrading produces a 20% shareholder revenue increase, generating over $44M in shareholder wealth in the first year, and a total of 34%

shareholder return—16% compound annual growth rate—creating $75M in shareholder wealth, in the first two years of Topgrading deployment.

As more companies measure quality of hires and study methods that improve both quality of hire and the real business results from improving hiring, the more Topgrading methods stand out.

I hope you appreciate the fact that Topgrading methods are not mysterious, but they are unique in their emphasis on hiring high performers and honestly measuring hiring success. And in the next chapter you'll learn the abbreviated version of key Topgrading methods and, I hope, help you immediately hire better.

"*Topgrading* is the single most important and relevant business book that I've ever read. As a result of our Topgrading efforts at Lincoln, we have become a talent magnet in all areas of our business. We use all of the best practices of Topgrading. We do the tandem Topgrading Interviews. And hiring managers themselves, me included, do all of our own personal reference checking. What I would say to any CEO starting out on Topgrading is to be prepared for the corporate antibodies that are going to tell you it's just another fad, it's just another program. It's not; this one works. This one will pay dividends."

— Jon A. Boscia, former Chairman & CEO, Lincoln National Corporation

Chapter 4

Ten Topgrading Best Practices

"Those who build great companies understand that the ultimate throttle on growth for any great company is not markets, or technology, or competition, or products. It is the one thing above all others; the ability to get and keep enough of the right people."

—Jim Collins, author of *Good to Great*

Here it is… sort of the Cliff Notes version of Topgrading. Entire books, articles, and video tapes have been created on the 10 tools in this abbreviated Topgrading manual, but there is enough "meat" here to enable you to immediately hire better performers. You probably will want to do better than just "improve;" you probably want to achieve 90% success. Hey, first things first!

I've studied hundreds of companies' hiring methods and asked thousands of managers about their hiring mistakes and successes. The 10 mistakes (and 10 fixes) are presented in chronological order, from the beginning of a job search to the end. It's like a hiring chain, and there are dozens of links. The "10 mistakes" (and fixes) are only the most rusty or non-existent links in that hiring chain.

HIRING MISTAKE #1: Failing to Replace Low Performers

Every manager I've interviewed in depth has acknowledged "carrying" some underperformers. The sharpest managers ratchet up talent by replacing the weakest with high performers, but as explained, if you have a typical 25% success rate, you're smart to "live with" the disappointing "adequate" performers. After all, you have only one chance in four of replacing them with high performers.

So… Mistake #1 is understandable until you've learned there is a method that routinely achieves 75%-90% success: Topgrading!

Practical Fix: To Begin Topgrading, Perform an Annual Talent Review

Just as you periodically review your personal investments in order to make adjustments, do the same with your team… ideally a couple times per year. The purpose is to get a better fix on who are your high performers and those with potential, and who are the chronic underperformers. First *rank* everyone from your highest performer to lowest, and then *rate* each High Performer, Adequate, or Low Performer. Circle the names of Adequate or even Low Performers you truly believe have the potential to become High Performers in a reasonable amount of time (usually one year).

A sample form[2] follows:

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2 Thanks to Geoff Smart of ghSMART for use of this Talent Review form he created.

Topgrading Talent Review

Name:
Company/Department:
Date:

Rank Order	High Performers	Comments

Rank Order	"Adequate"	Comments

Rank Order	Low Performers	Comments

% High Performers = ___% (High Performer: top 10% of talent available for the pay)

% "Adequate" = ___% ("Adequate": next 25%)

% Low Performers = ___% (Low Performer: below top 35%)

With your belief in Topgrading, you are confident that you can replace "adequate" performers with high performers. So, convert your evaluation into action items—ways to retain your best people, coach all, and replace chronic underperformers.

When client companies first do this exercise, we hear:

> "This reminds me to make special efforts to keep the high performers I'll be dead without."

> "I realize I've been making excuses for the people at the bottom."

HIRING MISTAKE #2: Incomplete Job Descriptions

Job Descriptions tend to be "boiler plate," with generalities about responsibilities and competencies. Consequently, square pegs are too often hired for round holes.

Job descriptions lack real "teeth." I'm sure of this because we Topgrading professionals have interviewed tens of thousands of candidates for executive positions. Typically we read a long job description and notice some unclear accountabilities and incomplete competencies. If the five managers who have the most at stake in this job all think the person should be measured on *different things*, any hiree is doomed!

Practical Fix: Write a Job Scorecard

Instead of job description we call it a job "scorecard" because first-year performance goals are spelled out. Be sure all the people with a real stake in the hiree agree on these accountabilities. And of course be sure the candidate is confident of achieving them!

Here is a *much* abbreviated sample:[3]

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3 Thanks to Geoff Smart of ghSMART for use of the Job Scorecard format he created.

Topgrading Scorecard
For Sales Representatives

Candidate Name	
Title	
Company Name	
Date	
Rating (High Performer, Adequate, Low Performer)	
Recommendations	

Key Accountabilities

	Accountabilities	Importance (H, M, L)	Rating and Comments
1	Revenue - Exceed annual revenue quota of $1.0M.	H	
2	Activities - Maintain an activity level of 7 in-person sales calls per week.	M	
3	Conversions - Build pipe line to quota ratio of 5:1	M	
4	Transactions - Sell each deal with an average selling price at or above company averages.	M	
5	Talent - Consistently rank in the top 20% of performers across company sales force.	M	
6	Time - Spend 240 selling days our of the fiscal years 260 in the field with prospects.	M	

In the complete three-page Job Scorecard (in *Topgrading for Sales: World-Class Methods to Interview, Hire, and Coach Top Sales Representatives*) there are two dozen additional competencies, including personal attributes such as integrity, etc.

The sales manager should establish a "baseline," a Minimum Acceptable rating for each competency, and after the phone screen, competency interviews, Topgrading Interview, and reference calls with bosses, give a final rating for each competency. If the candidate gets all ratings at or above the Minimum Acceptable, great! If not, the hiring manager can think carefully about whether the candidate can be successfully coached. A candidate should not be hired if coaching success is unlikely.

Note too that by nailing down the accountabilities, not only are results spelled out, but ways to achieve them. For example, the sales rep in the above scorecard is expected to make seven in-person sales calls per week. If a candidate is accustomed to making only three, you'll find out in interviews! And by nailing down Revenue Conversions, Transactions, Talent and Time accountabilities, interviewers will be paying special attention to each of these measurable accountabilities as all sales jobs are scrutinized. That's how Topgraders get such accurate insights into candidates.

Make sense? I hope so, because I have had hundreds of conversations with clients in which a person hired failed, "because we didn't have a clear picture of what we wanted." Figure out what the person would really be held accountable for and you'll be far more likely to put round pegs into round holes.

HIRING MISTAKE #3: Underestimating the Cost of Mis-Hires

Every manager has a sense that mis-hires are costly, but they've never actually computed those costs. Companies thoroughly analyze the costs of a failed product launch or the purchase of office machines, but don't estimate the costs of mis-hiring people who cause them. Weird, right?

Our research in over 50 companies showed the average cost of a mis-hire of a manager earning $100,000 is $1.5 million, and it's $560,000 for a mis-hired sales rep earning $100,000.

Mis-Hire Costs for Sales Reps
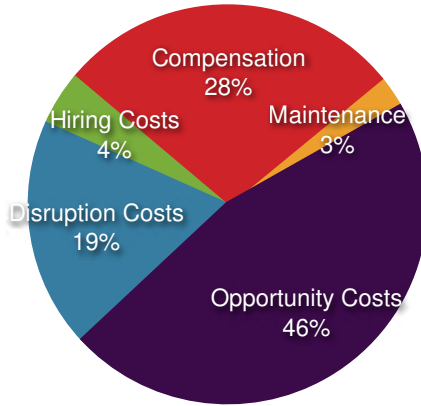
Assumptions

Hiring Costs	**$23,500**
Compensation	**$151,000**
Maintenance	**$14,000**
Severance	**$25,000**
Opportunity Costs	**$250,000**
Disruption Costs	**$100,000**
Total	**$563,500**

We recently surveyed 500 managers, who estimated they "waste" 150 hours on each mis-hire.[4]   Estimate the dollar and time costs you've incurred and you'll be more motivated to use Topgrading tools and methods!

Practical Fix: Calculate the Cost of Recent Mis-Hires

In workshops we ask managers to complete a Cost of Mis-Hires Form. It only takes a few minutes to calculate the costs of a mis-hire. Even if the costs estimated are less than 15 times salary, you'll be shocked at how high they are. Do this exercise with underperformers identified in your Annual Talent Review (Practical Fix for

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4 Details in our Topgrading Tips archives at www.SmartTopgrading.com.

Hiring Mistake #1) and you'll be more apt to make the hard decision to replace someone.

HIRING MISTAKE #4: Relying Too Much on Ads and Recruiters

Over the years I've been impressed when a manager I'm interviewing was able to pack the team with *mostly* high performers. Unless the manager was a Topgrading devotee (more and more common) the manager's method was to hire high performers the manager worked with in the past.

My son Geoff (CEO of the largest Topgrading company, ghSMART), is co-authoring a book in which dozens of billionaires, Global 500 CEOs, and other super successful people helped solve their talent problems by… hiring high performers they'd worked with or met (among other things).

In 2007 the American Productivity & Quality Center met in Houston for the final report session in which 19 companies got the results of their latest study of hiring best practices. There was a collective slapping of 200 foreheads as the participants realized, "We get our best people *from* our best people, but we don't do enough to incent them to recruit high performers!"

Practical Fix: Develop Your "Virtual Bench"

Every sports team has a bench, so when they replace someone on the field, they pick someone from the bench. You, too, can develop a Virtual Bench of talent, so that when you have an opening you can pluck someone off your talent bench and not have to run ads or pay recruiters.

Specifically, you and all your managers can seek out and keep track of 10-20 likely high performers you might hire and 10-20 "connectors" who can refer high performers to you. Ann Drake, CEO of DSC Logistics, says of her management team, "We recruit all day, every day, with everyone we meet." Hiring from your Virtual Bench is quicker, cheaper, and better than running ads on Monster.com—quicker because you already know Jennifer, who worked for you in a previous job, cheaper because there is no recruiter fee, and better because you know she can be a high performer.

Keep your PDA, Rolodex, and Address Book updated, noting who is highly talented. Pay "bounties" to incent your high performers to refer high performers they know. And don't be cheap! If $1,000 bounties

> **"We recruit all day, every day, with everyone we meet."**
>
> **—Ann Drake, CEO DSC Logistices**

don't motivate your high performers to refer high performers, increase it. A professional services company we work with offers $25,000 bounties… $5,000 when the person is hired, and $5,000 annually for four years.

HIRING MISTAKE #5: Wasting Time on Unnecessary Phone Screens

You want to screen out weak candidates very early in the process, so you spend your valuable time only with the best candidates—those you might hire and, if not, at least people to add to your Virtual Bench. Suppose your Virtual Bench didn't produce anyone to hire, so you resort to running ads. Two hundred resumes are emailed to you. Ugh. Resumes, as you know, are incomplete at best, and too often contain misleading information. You cut the 200 resumes to 25, but then spend maybe 15-20 hours playing telephone tag and phone screening them. Double ugh! Because of this bottleneck we developed a Topgrading tool, the Topgrading Career History Form.

Practical Fix: Use the <u>Topgrading Career History Form</u> to Get Crucial Information *Before* the Phone Screen

Ask your AA to email the 25 candidates whose resumes looked the best, thanking them for their resume and asking them to complete a form that requests:

- full compensation history,

- months (not just years) in each job (so short-term jobs can't be omitted),

- likes and dislikes in each job,

- name of every boss (and permission to contact at mutually agreed upon time),

- estimate of overall performance rating in jobs,

- motivation to leave (quit, fired, or "mutual"), and

- a legally binding signature that says that falsehoods in the career history form are grounds for termination.

Now we're talking!   In one hour you can look through completed career history forms and identify the six or eight candidates you'll phone screen. You just saved 15-20 hours by eliminating more than a dozen phone screen interviews! Following phone screens, you will probably have four outstanding candidates you'll invite to come in for face-to-face interviews.

By the way, Topgrading companies generally ask candidates to complete the Career History Form at the company web site.

HIRING MISTAKE #6: Not Including a Topgrading Interview

In Chapter 2, round-robin competency interviews were shown to be worth keeping, but also shown to be the sort of approach that results in only 25% high performers hired.   That's because any candidate can easily bias answers to questions such as:

> "What's an example in which you were well organized?"
> "What was a time when you were not so well organized?"

Keep the round-robin competency interviews, because candidates want to interview with several people and these interviews are better than "tell me about yourself" chats.   But you need to include a far more revealing, powerful hiring tool, so…

Practical Fix: Add the Topgrading Interview

This is the "silver bullet" of successful hiring.   Every manager and every company achieving 90% hiring success we know of uses the Topgrading Interview Guide, a 30-page "road map" with the questions and spaces to write answers.   Here's what one of 30 pages in the Guide looks like:

WORK HISTORY FORM 1

1. _____   Starting date (mo./yr.) _____   Final (mo./yr.) _____
   Employer

   _____   Type of business _____
   Location

   Description of company _____

2. Title _____

3. Salary   ⎧ Base $_____ ⎫   Salary   ⎧ Base $_____ ⎫
   (Starting) ___⎨ Bonus $_____ ⎬   (Final) ___   ⎨ Bonus $_____ ⎬
                ⎩ Other $_____ ⎭   ⎩ Other $_____ ⎭

4. Expectations _____
   _____

5. Responsibilities/Accountabilities _____
   _____

6. "Found" (Major Challenges) _____
   _____

7. Successes/Accomplishments (How achieved?) _____
   _____

8. Failures/Mistakes (Why?) (Do differently?) _____
   _____

9. Most Enjoyable _____

10. Least Enjoyable _____

11. Reasons for Leaving _____

SUPERVISOR

12. _____   Title _____
    Supervisor's Name

    _____   Permission to Contact? _____
    Where Now

13. Appraisal of Supervisor _____

    His/Her Strengths _____

    His/Her Shortcomings _____

14. Best guess as to what he/she really felt at that time were **your** strengths, weak points, and overall performance rating:

STRENGTHS	WEAK POINTS

Overall Performance Rating _____

The Topgrading Interview Guide greatly simplifies the inherently complex interview process. A *much* abbreviated guide would ask, for every full time job:

- What were your successes (and how did you achieve them)?

- What were your mistakes and failures?

- What talent did you inherit and end up with, and what happened (replacing, coaching, etc…) in between?

- What would your boss say were your strengths, weak points, and overall performance?

If the chronological interview was hiring breakthrough #1 and the Topgrading Interview Guide was breakthrough #2 (enabling managers to improve hiring success to 50%), breakthrough #3 is the tandem method, the use of two interviewers. Years ago Jack Welch, CEO of GE, said he was happy the interview guide was helping GE pick people better, but he wanted 90% success and asked me for a suggestion. I said, "Use the tandem interview," and he approved it in one second. Every manager achieving 90% success we know of uses the *tandem* chronological interview… for mid to upper management jobs. Solo interviews are quite adequate for entry level jobs and with experienced Topgrading interviewers assessing candidates for low level management positions.

"What?" you say, "It's too time consuming for two interviewers to take three hours for a chronological interview." Let's run some numbers. Suppose you calculate a mis-hire costs $600,000 and you waste 150 hours, and suppose you mis-hire three sales reps, and fire all three, before hiring a good one. After all, your hiring success is average—one success in four. Your results are typical for sales managers. You waste $1.8 million plus 450 hours with your three mis-hires. Six hours for a tandem interview with 90% success would, according to your own calculations, save $1.8 million and about 450 hours. (Excuse me! If your former style was to conduct a two-hour interview, then the tandem Topgrading Interview lasting three hours would consume six person-hours... so Topgrading wouldn't save you 450 wasted hours, it would save you "only" 444 wasted hours.)

The sentence that makes absolutely zero sense is, "I don't have time for a three-hour tandem interview that will at least double or triple my chances of hiring a high performer… but I can afford to waste $1.8 million and 450 (excuse me, 444) hours."

HIRING MISTAKE #7: Betting People will Change

My, oh my, how we've all been burned… betting that just because candidates promise it, in the *next* job they'll:

- get better organized

- listen better

- be a better team player

- etc., etc.

Actually, we all know people *can* change. We'd like to think we can coach people to change, but let's not be naive. I sifted through thousands of files of people I interviewed, and noted weaknesses that had been overcome, usually with extensive coaching.   This chart emerged:

The Ease of Changing Competencies

Relatively Easy to Change	Harder, but Doable	Very Difficult to Change
Risk Taking	Judgment	Intelligence
Leading Edge	Strategic Skills	Analysis Skills
Education	Pragmatism	Creativity
Experience	Track Record	Conceptual Ability
Organization/Planning	Resourcefulness	Integrity
Self Awareness	Excellence Standards	Assertiveness
Communications—Oral	Independence	Inspiring Followership
Communications—Written	Stress Management	Energy
First Impression	Adaptability	Passion
Customer Focus	Likability	Ambition
Political Savvy	Listening	Tenacity
Selecting High Performers	Team Player	
Redeploying Underperformers	Negotiation Skills	
Coaching/Training	Persuasiveness	
Goal Setting	Team Builder	

We also learned this simple maxim:

> **Bet on people changing when they have proven they can change.**

If a candidate has scrambled to get organized in increasingly complex jobs, but *has* gotten organized and achieved results, it's probably a good bet she can do it again. But the person who publicly belittles subordinates and is not trusted by peers, and who has *not* changed despite coaching in three jobs, is not apt to change in your job.

HIRING MISTAKE #8: Calling References that Candidates Supply

Most companies prohibit managers from taking reference calls, fearing a law suit if a former employee claims unfairness in negative statements. So interviewees hype positives and they provide references who are their buddies, not fearing being "found out."

Practical Fix: Ask Candidates to Arrange Personal Reference Calls with Bosses in the Last 10 Years

It works 90% of the time! I wish I'd thought of it, but about 20 years ago a high performer told me he did this, so I started recommending this approach to clients. High performers *easily* get former bosses to talk, because those bosses will be saying positive things, and they (correctly) figure there is no risk of a law suit.[5]

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5 Do you feel hypocritical if your company prohibits managers from taking calls but you ask candidates to ask their former bosses to ignore their company policy? Check out the February 2008 Topgrading Tips (in Press and Articles) at www.SmartTopgrading.com) for six specific suggestions.

Better yet, tell all candidates that in order to get a job offer they *must* arrange personal reference calls (at the appropriate time) with former bosses, and they will be more truthful in answering interview questions. And even better yet, when this requirement is widely known, low performers will not apply. Perfect!

HIRING MISTAKE #9: Asking Illegal Questions

You read about it every week—a law suit claiming discrimination because interviewers asked forbidden questions. I hope they enjoy their vacation in a minimum security prison (just kidding).

Practical Fix: Stick with the Interview Guide

The Topgrading Interview Guide has the wording for all basic questions. And when you compose follow up questions, do not ask about race, religion, pregnancy, or the many other forbidden areas. Read Chapter 12 (Avoiding Legal Problems) of *Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People*, for it was written by the largest employment law firm in the U.S., Seyfarth Shaw. Every manager should peruse this chapter, which gives details showing how Topgrading methods are legally defensible throughout the world.

HIRING MISTAKE #10: Not Measuring Hiring Success

Early in this book I bemoaned the fact that hiring success is one of the very few stats not often kept. A survey of large companies showed only about 5% measure hiring success with real rigor. But almost all Topgraders do it. (Perhaps the measurement does not take place in most companies because hiring results are so awful it would be embarrassing!)

Practical Fix: Measure Hiring Success

At the APQC final report meeting in 2007, Lincoln Financial Group described how they measure hiring success. Emulate Lincoln. They have clear, measurable accountabilities for *high* (not just adequate)

performance and one year after a person is hired the hiring manager, HR, and two others meet to determine if the person really, truly turned out to be a high performer.

A simple chart is all you need:

Topgrading Methods

	Used	Not Fully Used
High Performer Hired		
High Performer Not Hired		

Showing this chart to managers once per year will reinforce Topgraders ("I'm doing it *right!*") and inspire laggards to embrace Topgrading.

CONCLUSION

Avoid these 10 common hiring mistakes and you are certain to hire better, your higher performing team will make your career soar, and your shareholders will be very pleased. The beauty is, when all the Practical Fixes are implemented, mis-hires plummet steadily to 10% or less!

This book began with a typical hiring scenario. Let's revisit it, but show how Topgrading transforms "typical" to a much more effective process, with much better results:

Typical Hiring	Topgrading Hiring
Recruiters don't send good enough candidates	Your Virtual Bench produces many excellent, prescreened candidates
The resumes of candidates are usually incomplete and packed with hype	The Career History Form adds the facts you need to efficiently and effectively pre-screen candidates

Typical Hiring	Topgrading Hiring
Your interviews are not very revealing	The tandem Topgrading Interviews, using the Topgrading Interview Guide, are extremely revealing
Reference checks are generally worthless	Candidate-arranged reference calls are revealing and motivate the candidate to be honest in the interview
Too often the person hired disappoints you. Your results are: 25% High Performers Hired	Your results are: 90% High Performers Hired

But Topgrading is more than good hiring! Of all talent management practices, the single most important, by far, is hiring and promoting high performers.   Companies consider themselves "Topgraders" when they have 75%-90% high performers. And they report that the other parts of talent management become relatively easy:

- Reducing turnover is a breeze when Topgrading assures a close-to-perfect job fit.

- Coaching high performers is fun; coaching underperformers is a pain.

- Succession planning is easy with a solid "bench."

And when entire companies soar in revenues and profits, growth opportunities open up, people earn more money, and as a bonus, Topgraders have such strong teams they can delegate a lot and enjoy balance in life!

Topgrading Resources

Want to learn more? Please go to www.SmartTopgrading.com and the Topgrading Shop.

How to Get Started

1. Sign up for Topgrading Tips on the Home Page. This free 90-second read helps you implement Topgrading successfully.

2. Read (free) Press & Articles and the Topgrading Tips Archives.

3. Get the forms Starter Kit ($120.80). Try out the breakthrough Topgrading Career History Form and Topgrading Interview Guide. Use each just once and you'll see how costly mis-hires can be avoided.

4. Use the [1-Hour Topgrading video, The Topgrading Advantage: World-Class Interviewing and Hiring](1-Hour Topgrading video) ($395 for hard copy or $95/person/month), to receive my personal coaching.

More Advanced Topgrading Resources

1. Attend a one-day Topgrading Workshop ($2,750). In addition to leaning the basics, you'll get the latest insights and case studies. With a 7-1 attendee-to-Topgrading professional ratio, you'll get all your questions answered.

2. Use the 7-Hour Topgrading DVD Toolkit ($1,250), to train your managers. The kit includes the classic Topgrading book, hand-

books, audios of the DVD, and quarterly conference calls with me.

3. Invite a Topgrading professional to make a <u>speech</u>.

How to Roll Out Topgrading in our Company

<u>Scenarios</u> (with costs) are spelled out in simple terms, detailing how small and mid-sized companies typically roll out Topgrading with

• in-house training

• licensed Topgrading forms and guides

Get Your Questions Answered

1. Email questions to <u>Brad.Smart@Topgrading.com</u> and we'll get back to you promptly.

2. Call 847-244-5544 and we'll talk in person.

We really do believe that Topgrading had a great deal to do with our success. And that for the American Heart Association doesn't just translate into the bottom line; that translates into saving more lives.

—Almarie Wagner, Executive Vice President,
American Heart Association

Brad's "second opinion" interviews and Topgrading tools have helped us pick the right executives, which is key to making money in private equity.

—Earl Powell, Founding Partner and Chairman Emeritus,
Trivest Partners, L.P.

Topgrading has definitely helped the company's overall performance. The tandem chronological interview is the best approach I know of for picking high performers, and we use it for external hires and internal promotions.

—Curt Clawson, President, CEO, and Chairman,
Hayes Lemmerz, International

Having read the book several years ago, I was intrigued. Now after implementing Topgrading for all new hires and promotions, I am thrilled. Our organization has embraced the philosophy and process and we are seeing the results.....the right people in the right positions.

—Timothy T. Tevens, President and CEO,
Columbus McKinnon Corporation

Our executives and customers rave about how the Topgrading interview tools and processes consistently swing the odds in favor of selecting only high performers.....resulting in innovation, incremental revenue, and increased operating income throughout the enterprise.

—John H. Dickey, Sr. Vice President,
Hillenbrand Industries, Inc.
and Hill-Rom Company

When I look back at the dramatic success of our company, I can clearly point to the implementation of Topgrading as the pivotal moment that made our success possible. I implore every business owner to make Topgrading mandatory in their company. A Topgraded team is the ultimate secret weapon to crush the competition.

—Richard Rossi, Co-Chairman,
EnvisionEMI