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who, not what

The most important decisions that businesspeople make are not what decisions, but who decisions.

—jim collins, author of *good to great*

W*ho* is your number-one problem.

Not *what*.

What refers to the strategies you choose, the products and services you sell, and the processes you use. You can spend your whole career chasing solutions to the million *what* problems plaguing your business. That is what most managers do. Unfortunately, focusing solely on the *what* means you will continue to feel stressed, make less money than you desire, and lack the time to do what you want.

Or you can decide today to focus on the *who*.

Who refers to the people you put in place to make the *what* decisions. Who is running your sales force? Who is assembling your product? Who is occupying the corner office? *Who* is where the magic begins, or where the problems start.

Just ask Nate Thompson, the CEO of Spectra Logic. Thompson's company is now thriving. But in the early years, he was such a captive to the poor performers he hired that he couldn't even go on vacation.

It wasn't that Thompson didn't interview thoroughly. He did. He pored over resumes. He often spent hours with each candidate trying to sense the chemistry.

He thought all of the people he brought on board looked terrific. Yet many ended up being fundamentally unsuited for the jobs for which they had been hired. One particularly awful hire embezzled over \$90,000 in commissions.

“On the commission sheets,” Thompson told us, “the sales VP would take those 1’s that the accountant wrote in and would turn them into 4’s! This inflated his commission to four times what it was supposed to be.”

The financial pain was great, but Thompson suffered personally even more. Employees he had mishired, and the problems they created, made it impossible for him to get away from the office. When he did, Thompson spent most of his time dealing with crises back at work.

“I love to ski. Back in the early days, I would drive my family up to Vail, Colorado. But once we got there, I might as well have been back at work. I couldn’t get on the mountain for the first four hours of every day. I had to be on the phone and deal with e-mails, doing the job of people I had mishired. I remember seeing my wife and kids roll their eyes and go out to ski without me.”

Sound familiar? Ultimately, *who* failures infect every aspect of our professional and personal lives.

At ghSMART, we are in the business of helping companies make better *who* decisions. Our mission is to use our expertise in human behavior to help CEOs and investors build valuable companies. Geoff Smart is CEO and founded the firm in 1995. Randy Street is a partner in the firm and heads the ghSMART Executive Learning business unit. Our clients include Global 1000 companies and start-ups, and range from Wall Street bankers to passionate leaders of nonprofits. Our work has taken us from Vancouver to Sydney and from Milan to Taiwan as we’ve helped these clients make over twelve thousand *who* decisions using the method we will show you in this book. And we’ve trained another thirty thousand managers how to implement it. We built the method by digging deep into the hiring portion of the Topgrading philosophy of talent management, which we pioneered with Brad Smart, Geoff’s father, over a decade ago. We’ve spent years dealing with these issues every day, yet this book is much more than the sum total of our experiences.

To test our observations and to glean new ones, we engaged Dr. Steven N. Kaplan and his team of finance wizards at the Graduate School of Business at the University of Chicago to conduct the largest-ever statistical study of its kind to help understand what types of candidates are successful performers and which are not. Kaplan and his team spent the better part of two years sifting through data we had gathered on over three hundred CEOs to discover some surprising insights.

Most important, we have talked with and listened to many of the world’s most talented leaders as they taught us their secrets to hiring success.

More than twenty business billionaires, most of them self-made, have contributed their insights and experiences to this book, an unprecedented assemblage. These are people who have been on the front lines of some of the most exciting and defining business ventures of our times—people whose hiring decisions have sometimes moved markets.

We also talked with over thirty CEOs of multibillion-dollar companies to get their perspectives, and we interviewed dozens of other successful CEOs, managers, investors, nonprofit heads, and experts on management.

All told, we conducted over thirteen hundred hours of interviews and countless additional hours of analysis for this project. We are unaware of any study that matches ours for depth, breadth, and hands-on experience. Most of our focus was on managers rather than HR departments, since making the right *who* decisions is so fundamental to career success. As Joe Mansueto, founder of Morningstar, put it, “Your success as a manager is simply the result of how good you are at hiring the people around you.”

Out of this mountain of research, we have identified four parts of the hiring process where failure typically occurs. It does not matter whether a person is being hired as a call-center worker or the CEO of a \$50-billion financial services institution. *Who* mistakes happen when managers:

- ❖ Are unclear about what is needed in a job
- ❖ Have a weak flow of candidates
- ❖ Do not trust their ability to pick out the right candidate from a group of similar-looking candidates
- ❖ Lose candidates they really want to join their team

These *who* mistakes are *pricey*. According to studies we’ve done with our clients, the average hiring mistake costs fifteen times an employee’s base salary in hard costs and productivity loss. Think about it: a single hiring blunder on a \$100,000 employee can cost a company \$1.5 million or more. If your business is making ten such mistakes a year, it’s pouring \$15 million down the drain annually. Nate Thompson estimates his early years of getting *who* wrong cost Spectra Logic as much as \$100 million in value.

These *who* mistakes are *prevalent* as well. Peter Drucker and other management gurus have long estimated that the hiring success rate of managers is a dismal 50 percent. Just think of the lost time and energy that represents, not only for you but all through the organization.

What most managers do not know is that *who* problems are also *preventable*.

The purpose of this book is to give you a solution to your number-one problem—to help you make better *who* decisions.

CEOs, middle managers, and front-line supervisors who have benefited from this solution tell us that it is the simplest, most practical, and most effective way to make great *who* decisions they ever learned. The benefits are huge to you, your company, and even your family. Nate Thompson, for one, finally applied the method and now has a winning team and time for vacation.

Decide to make better who decisions, and you will enjoy your career more, make more money, and have more time for the relationships that matter most.

Who

ONE

your #1 problem

What does a *who* problem look like?

Remember the *I Love Lucy* episode where Lucy and Ethel find work at a candy factory? They're supposed to be wrapping chocolates, but they can't keep up with the pace. So instead of letting the candy pass them by, they start shoving it into their mouths, down their shirts, and anywhere else it will fit. That's when a supervisor looks in and congratulates the new hires on the empty conveyor belt. Then she calls to someone in the next room, "Speed it up!" And with that the chaos *really* ensues.

You could spend countless hours trying to optimize the line, but that wouldn't get to the heart of the matter. The supervisor didn't have a conveyor problem. She had a Lucy problem.

The Lucy problem is a *who* problem, but chances are yours is neither as funny nor so far down the chain of command. As an engineering friend of ours often laments, "Managing is easy, except for the people part!"

In an October 2006 cover story, "The Search for Talent," *The Economist* reported that finding the right people is the single biggest problem in business today.¹ We doubt that surprised most readers. The fact is, virtually every manager struggles to find and hire the talent necessary to drive his or her business forward.

We've all been there. We've all heard the horror stories of the CEO who sank a multibillion-dollar public company, the district manager who allowed his region to fall behind competition, even the executive assistant who couldn't keep a schedule. Most of us have lived those stories and could add dozens more to the list.

¹ The Economist, October 7–13, 2006.

Even we have made bad *who* decisions. A few years back, Geoff and his wife hired a nanny we'll call Tammy to look after their children. Unfortunately, Geoff had what his six-year-old calls a "space-out moment" and neglected to apply the method this book describes when he hired her.

Not many months later, Geoff was on the phone in his home office when he saw his two-year-old running naked down the driveway. He immediately hung up on his client and raced outdoors to stop his daughter before she ran into the street. Fortunately, the FedEx truck was not barreling up the driveway at that moment.

Then Geoff went looking for Tammy to find out what had happened. All she could say was, "Well, it's hard to keep track of all of the kids." It is, but as Geoff explained to her, that's exactly what she had been hired to do. Sometimes a *who* problem can mean life or death.

Needless to say, Geoff's next nanny search commenced immediately, involved the method presented in this book, and resulted in a much better hire.

The fact is, all of us let our *who* guard down sometimes. We realize how inflated resumes can be. Yet we accept at face value claims of high accomplishment that we know better than to fully trust. Due diligence, after all, takes time, and time is the one commodity most lacking in busy managers' lives.

George Buckley grew up with adoptive parents in a boardinghouse in a rough part of Sheffield, England, went to a school for physically handicapped children, and worked his way up to becoming the successful CEO of two Fortune 500 companies, including 3M, where he works now. It's the sort of background that breeds a healthy skepticism about resumes.

When we met with Buckley, he got straight to the point: "One of the hardest challenges is to hire people from outside the company. One of the basic failures in the hiring process is this: What is a resume? It is a record of a person's career with all of the accomplishments embellished and all the failures removed."

Jay Jordan, CEO of the Jordan Company, told us how he once hired a candidate who looked great on paper but failed in the role. The executive demanded some feedback from Jordan on the day of his termination. Jordan didn't want to add insult to injury, but finally couldn't stop himself from saying, "Look, I hired your resume. But unfortunately, what I got was you!"

Due diligence is also lacking in what Kelvin Thompson, a top executive recruiter with Heidrick & Struggles, calls "the worst mistake boards make—the 'la-di-da' interview: nice lunch, nice chat. They say this is a CEO, and we cannot really interview them. So you have a board who never really interviews the candidates."

The techniques you will learn in the pages that follow will help everyone—boards, hiring managers at every level, even parents hiring a nanny—find the right *who* for

whatever position needs filling. The method will do the due diligence for you. It lets you focus on the individual candidates without losing sight of the goals and values of your organization.

Before our method can work to its optimal level, though, chances are you might have to break some bad hiring habits of your own.

VOODOO HIRING

How is it that executives who are so talented in so many ways have such trouble finding the right people for their teams? Steve Kerr, the legendary management expert who built Crotonville for Jack Welch at GE, and who most recently served as managing director and chief learning officer at Goldman Sachs, has a simple answer: “Otherwise smart people struggle to hire strangers. People unfamiliar with great hiring methods consider the process a mysterious black art.”

Our experience and our research say the same. In an age in which every other management process has been studied and codified, we find it amazing that people still view hiring, the process where building an organization begins, as something that resists an orderly approach. Yet managers cling to their favorite methods even when evidence suggests they don’t work.

Take a moment to consider how you and your managers approach hiring. If you find yourself time and again wondering how a misfit got on the payroll, then we suspect you are using one of the top ten voodoo hiring methods:

- ❖ *The Art Critic.* When it comes to judging art, going on gut instinct sometimes works just fine. A good art critic can make an accurate appraisal of a painting within minutes. With executive hiring, though, people who think they are naturally equipped to “read” people on the fly are setting themselves up to be fooled big-time. Forgers can pass off fake paintings as real ones to the time-pressed buyer, and people who want a job badly enough can fake an interview if it lasts only a few minutes. Gut instinct is terribly inaccurate when it comes to hiring someone. If you extend an offer based on a good gut feel, you are going to have a stomachache!
- ❖ *The Sponge.* A common approach among busy managers is to let everybody interview a candidate. The goal of this sponge-like behavior is to soak up information by spending as much time with people as possible. Unfortunately, managers rarely coordinate their efforts, leaving everybody to ask the same, superficial questions. We witnessed one interview process where six interviewers in a row asked a candidate about his skydiving hobby. Collectively, they burned over sixty minutes on a topic that had nothing to do with the job—although the fellow was an accomplished sky diver, as it turned out! The Sponge’s ultimate assessment of the person he hires rarely goes deeper than “He’s a good guy!”

- ❖ *The Prosecutor.* Many managers act like the prosecutors they see on TV. They aggressively question candidates, attempting to trip them up with trick questions and logic problems. Why are manhole covers round? How did the markets do yesterday? One employer we have heard of asks candidates if they play chess. If they say yes, he matches them up against an employee who happens to be a Russian chess master! In the end, trick questions might land you the most knowledgeable candidate, and maybe even someone who can beat a Russian chess master, but knowledge and ability to do the job are not the same thing.
- ❖ *The Suitor.* Rather than rigorously interviewing a candidate, some managers spend all of their energy selling the applicant on the opportunity. Suitors are more concerned with impressing candidates than assessing their capabilities. They spend all of their time in an interview talking and virtually no time listening. Suitors land their share of candidates, but they take their chances with the candidate actually being a good fit.
- ❖ *The Trickster.* Then there are the interviewers who use gimmicks to test for certain behaviors. They might throw a wad of paper on the floor, for example, to see if a candidate is willing to clean it up, or take him to a party to see how he interacts with other partygoers. Use this method, and you are likely to find yourself in the awkward position of explaining to your friends why you fired that nice guy from the party who helped clean up the mess.
- ❖ *The Animal Lover.* Many managers hold on stubbornly to their favorite pet questions—questions they think will reveal something uniquely important about a candidate. One executive takes this literally, telling us that he judged candidates by their answer to one question: “What type of animal would you be?” The question has a truly voodoo answer key. “I look for people who have a witty answer.” Not only do questions like this lack any relevance or scientific basis, but they are utterly useless as predictors of on-the-job performance.
- ❖ *The Chatterbox.* This technique has a lot in common with the “la-di-da” interview. The conversation usually goes something like this: “How about them Yankees! Man, the weather is rough this time of year. You grew up in California? So did I!” Although enjoyable, the method does nothing to help you make a good decision. You’re supposed to be picking up a future trusted colleague, not someone with whom you can bat around baseball stats.
- ❖ *The Psychological and Personality Tester.* *The Handbook of Industrial/Organizational Psychology* recommends against using these types of tests for executive selection decisions, and with good reason. Asking a candidate a series of bubble-test questions like “Do you tease small animals?” or “Would you rather be at a cocktail party or the library on a Friday night?” is not useful (although both are actual questions on popular psychological tests), and it’s certainly not predictive of success on the job. Savvy candidates can easily fake the answers based on the job for which they are vying.

- ❖ *The Aptitude Tester.* Tests can help managers determine whether a person has the right aptitude for a specific role, such as persistence for a business development position, but they should never become the sole determinant in a hiring decision. As we'll see in Chapter 2, aptitude is only part of a much larger equation. Use these tests as screening tools if you like, but do not use them in isolation.
- ❖ *The Fortune-Teller.* Just like a fortune-teller looking in a crystal ball to predict the future, some interviewers like to ask their candidates to look into the future regarding the job at hand by asking hypothetical questions: "What would you do? How would you do it? Could you do it?" Fifty years of academic literature on interview methods makes a strong case against using these types of questions during interviews. For example, asking, "If you were going to resolve a conflict with a co-worker, how would you do it?" is sure to get the response, "Well, I would sit my co-worker down, listen to her concerns, and design a win-win solution with her." Maybe. Then again, maybe not. The answer sounds nice, but we question how many people would actually do those things. Remember, it's the walk that counts, not the talk.

At the bottom line, all these voodoo hiring methods share an assumption that it's easy to assess a person. Just find the right gimmicks, pop the right quiz, and trust the scattered chicken bones to point the way, and you're certain to have great hiring outcomes. Beyond that, we're all prone to certain cognitive traps. We want to make quick decisions to get on with things. We like to see people as fundamentally truthful. We wish that it were so, but one of the painful truths of hiring is this: *it is hard to see people for who they really are.*

FINDING A PLAYERS

The good news is that a clear and tested path leads the way out of all this hiring mess. Finding A Players begins with setting the bar higher. Unless you're looking to finish in the bottom half of the standings, you would never assemble a team composed largely of B or C Players. Why, then, use hiring methods that are almost certain to bring second-stringers and backups crowding through the front door?

What is an A Player?

For one thing, he or she is not just a superstar. Think of an A Player as the *right* superstar, a talented person who can do the job you need done, while fitting in with the culture of your company. We define an A Player this way: *a candidate who has at least a 90 percent chance of achieving a set of outcomes that only the top 10 percent of possible candidates could achieve.*

Pay attention to the two mathematical elements of that definition. We're saying that you need to initially stack the odds in your favor by hiring people who have at least a 90 percent chance of succeeding in the role you have defined. Not 50

percent, 90 percent. This will take longer in the short run, but it will save you serious time and money down the road.

Then in the second part of the definition we raise the bar. Who cares if somebody has a 90 percent chance of achieving a set of outcomes that just about anybody could accomplish? You don't want to be good. You want to be great, and A Players have a 90 percent chance of accomplishing what only 10 percent of possible hires could accomplish.

Ken Griffin is living proof of the value of hiring A Players. Griffin is the founder and CEO of Citadel, one of the world's most successful hedge funds, with over \$20 billion in managed assets, and trading activity across all of its businesses that tops five hundred million shares a day (nearly 10 percent of total United States equity volume).

Those are huge numbers, but Citadel wasn't always such a powerhouse. In fact, Griffin established his firm in 1990 with just over \$4 million in seed money from family, friends, and early investors. In these early years, he invested heavily in the technology backbone that differentiates Citadel from its peers, and that paid big dividends. Citadel's long-term investment performance is among the best in the industry.

Clearly, stock picking has been vital to Citadel's glowing bottom line—it's the key *what* of the business. But Griffin has also invested heavily in the talent that drives the company's success—the *who* behind the *what*—and he has no doubt which has been the bigger contributor. He recently told us that he traces an overwhelming percentage of his success back to the people on his team.

Hiring A Players takes hard work. As we'll see, it's not always for the faint of heart. You have to dig hard, ask tough questions, and be prepared sometimes for disturbing answers.

In the process of screening would-be traders for Citadel, Griffin and other executives used the ghSMART process. In one situation, Griffin was speaking to a candidate who looked great on paper and had a stellar reputation. In the course of the interview, Griffin learned that the candidate had worked with a difficult boss. When asked what he did about it, the candidate responded, "I sent an e-mail to all of my colleagues, pointing out that our boss was incompetent." Wrong answer! But Citadel's rigorous use of the method in this book prevented the company from making a critical mistake. Asking the right questions before you bring on your next employee can have a similar effect for your business.

YOU ARE WHO YOU HIRE

In business, you are who you hire. Hire C Players, and you will always lose to the competition. Hire B Players, and you might do okay, but you will never break out. Hire A Players, and life gets very interesting no matter what you are pursuing.

Steve Schwarzman, chairman, CEO, and co-founder of the Blackstone Group, a private equity firm, said, “Hiring A Players is not everything. But it is one of the most important skills to growing a large private equity firm, or growing the value of a company.

“Two years ago, the founding partner of Texas Pacific Group, David Bonderman, and I were reflecting on what mattered in determining our financial returns. After exhaustively studying our databases of dozens of deals across twenty years, we concluded that the keys to success in private equity are: (1) buying right, (2) having an A management team, and (3) selling right. Everything else is just conversation.

“In our portfolio companies, many of which are multibillion-dollar revenue companies, what matters is having: (1) the right strategy in the right market, (2) an A management team, and (3) financial discipline. The difference between an A and a B CEO produces an order of magnitude difference in the return.”

How do you get an A team? That’s what we at ghSMART have spent thirteen years learning and all the field work for this book testing and refining. We call the solution the “ghSMART A Method for Hiring,” or the “A Method” for short. The A Method defines a simple process for identifying and hiring A Players with a high degree of success. It helps you get the *who* right.



You can think of each line in the letter A and the underline as four steps that build the whole method. The four steps are:

- ❖ *Scorecard.* The scorecard is a document that describes exactly what you want a person to accomplish in a role. It is not a job description, but rather a set of outcomes and competencies that define a job done well. By defining A performance for a role, the scorecard gives you a clear picture of what the person you seek needs to be able to accomplish.
- ❖ *Source.* Finding great people is getting harder, but it is not impossible. Systematic sourcing before you have slots to fill ensures you have high-quality candidates waiting when you need them.
- ❖ *Select.* Selecting talent in the A Method involves a series
- ❖ of structured interviews that allow you to gather the relevant facts about a person so you can rate your scorecard and make an informed hiring decision. These structured interviews break the voodoo hiring spell.
- ❖ *Sell.* Once you identify people you want on your team through selection, you need to persuade them to join. Selling the right way ensures you avoid the biggest pitfalls that cause the very people you want the most to take their talents elsewhere. It also protects you from the biggest heartbreak of all—losing the perfect candidate at the eleventh hour.

The simplicity of the A Method means it is easy to understand and implement at all levels, from CEO to receptionist. But the fact that the method is simple doesn't mean that implementing it won't require real effort on your part. The payoff, though, is huge.

One of our clients who put this method to the test was the Blackstone Group. In conjunction with another investor, Apollo, they used the A Method to replace the CEO at an underperforming portfolio company. The company's value had been so flat over five years that some investors referred to it as a "lead balloon." But that was before using the A Method to hire John Zillmer as CEO of Allied Waste.

Board member Tom Hill, vice chairman of Blackstone, played a role in recruiting Zillmer. Hill reflected, "The board agreed we had no choice. We knew that we wanted a CEO who, unlike the previous one, was confident enough to have A Players around him. John Zillmer was the perfect fit for what we needed."

Over an intense eighteen months, Zillmer hired or promoted twenty-seven new A Players into the management ranks with a 90 percent hiring success rate. Then he worked with his senior vice president of human resources to train every manager in the company on the A Method. Today, Zillmer expects every single manager to build and maintain a team of A Players.

As Zillmer told us, “I think the fastest way to improve a company’s performance is to improve the talent of the workforce, whether it is the ultimate leader or someone leading a divisional organization. It just energizes the company and leads to positive things.” And doing so energizes the bottom line, too. The value of the company increased 67 percent over the first eighteen months of Zillmer’s tenure.

With a little motivation and commitment, you can apply these same principles to your span of control. You might even be in a position to implement them across your entire company, as Zillmer has done.

In these pages, you will find the key to greater financial success and more personal and career satisfaction. The A Method has worked for us. It has worked for hundreds of our clients, organizations of every shape and size. And it will work for you.