

How to Build a Dream Team and Improve Economic Performance

By Dr Ed Hudson

It is no surprise to many that business success is directly proportional to the human talent employed. If this fact is well known, why are there not more business successes and fewer failures? The problem is that most organisations and their managers do not know how to reduce the miss-hires. Every organization should be focusing its efforts on what Bradford Smart¹ calls “Topgrading”. Topgrading is a very practical ideal of filling every position within an organization with what Smart calls “A Players”.

A Players are the “top 10 percent of the talent available” for a specific job description. Smart classifies A, B, and C Players as follows:

- A Player: top 10 percent of talent available
- B Player: next 25 percent
- C Player: below the top 35 percent

Fast growing companies need not to only hire A Players but must also screen applicants not just for the present but also for future positions. The requirement for fast growing companies is to hire promotable talent.

A players should not be regarded as overtly expensive. The evidence suggests that they are cost effective because their talent produces value that exceeds that produced by B and C Players. A Players hire A Players (the dream team), B Players hire B Players and C Players hire D Players. It is therefore impossible to build a dream team if senior management is not an A Player.

Topgrading is all about discriminating on the basis of talent and future potential and not on gender, race or religion. Topgrading will in most circumstances cause upheaval in the management ranks. The upside to this upheaval is an increase in morale and economic performance.

Smart lists six key steps that must be undertaken by an organization to implement effective Topgrading:

1. Proactively search out, identify, hire and retain A Players for every job
2. Set a time limit to have all A Players or at least those with the potential to be A Players in every job
3. Use human capital assessment methods that reduce miss-hires to 5% - 10%
4. Improve existing human capital by providing employees with appropriate coaching necessary to becoming A Players
5. Redeploying chronic B and C Players to internal positions where they can be A Players or outside the company
6. Achieve inclusivity goals without lowering performance standards

¹ B.D. Smart, Topgrading, Prentice Hall Press 1999

The Cost of Miss-Hires

A recent study² found that the cost of miss-hires, of employees on a base salary of \$114,000, to be approximately 24 times the base salary. In another study³ miss-hires were found to produce a negative ROI of 500%. Furthermore, studies have also found that between 47% and 50% of managers hired externally are miss-hires⁴. These are staggering figures especially if a firm employs 20 managers who are on the equivalent base salary of \$114,000, and on average have a miss-hire rate of 50%, the cost to the business is \$27,360,000 (20 managers x 50% x 24 x \$114,000). Clearly, the miss-hire of senior managers is even more costly to the organization. The following summarises other interesting results obtained from these surveys:

- 90% of CEOs blamed miss-hires on outside recruiting firms
- Approximately one third of all searches by recruitment agencies produced no successful candidate
- About 50% of the time search firms found a candidate who was “good enough” IE half the searches were successful and 50% were not
- 10% of CEOs believed that search firms hired A Players, whereas the recruitment agencies believed that 40% were A Players
- CEOs found that premier recruiting agencies managed to find A Players and get good results
- Recruiters who generated a candidate hired: 68%
- Recruiters who failed to generate a candidate hired: 32%
- Those recruiters who found candidates who turned out to be “good enough”: 49%
- Those recruiters who found candidates who turned out to be “not good enough”: 51%
- Recruiters who found candidates who turned out to be A Players: 17%
- Recruiters who found candidates who turned out to be less than A Players: 83%
- Approximately one third of recruiters did not produce a successful candidate from their searches

If B and C Players prevent the hiring of A Players Topgrading must start at the top. Any improvement in a organisation’s human capital and therefore economic performance must address these issues starting with the CEO. In summary, the CEO’s role in human capital assessment is to:

- Take responsibility for Topgrading
- Set specific management hiring goals
- Hold all managers accountable for Topgrading
- Monitor Topgrading progress
- Devote one quarter of work time to Topgrading (Jack Welch estimates one third of work time)

² B.D. Smart, Topgrading, Prentice Hall Press 1999

³ G.H. Smart Management Assessment Methods in Venture Capital: Towards a Theory of Human Capital Valuation, Ph.D Dissertation, Claremont Graduate University, 1998

⁴ H.M. Fisher Select the Right Executive the First Time, Personnel Journal, July 1995

- Provide incentives for Topgrading
- Minimise the use of external recruiters
- Occasionally call the big plays to ensure A Players are being selected
- Be sure that all parties understand that the CEO is the key client

The CEO must make management recruitment his top priority (building the dream team). The above still has not addressed how, or what process should be used to eliminate miss-hires. More importantly, does such a process exist? If it does, how effective is it?

The concept of Topgrading was developed by B. Smart some 27 years ago and has been employed by a number of well known companies such as Motorola, General Electric, General Cable, Office Depot, William M. Mercer, Gateway, General Signal, Allied Signal, Travelers Express to name a few. Smart claims a miss-hire rate of less than 10% through the use of his CIDS tool (Chronological In-Depth Structured Interview) that can be used for Topgrading, internal/external hiring, internal performance reviews and promotions.

Topgrading is not limited to the large multi-national corporations. SMEs can and do benefit from Topgrading just as much as larger organizations. The survey results summarized here suggest that if you are not Topgrading and your competitors are, then your business is at a huge competitive disadvantage. Is it any wonder that Peter Drucker quipped “The ability to make good decisions regarding people represents one of the last reliable sources of competitive advantage, since very few organisations are very good at it”.

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