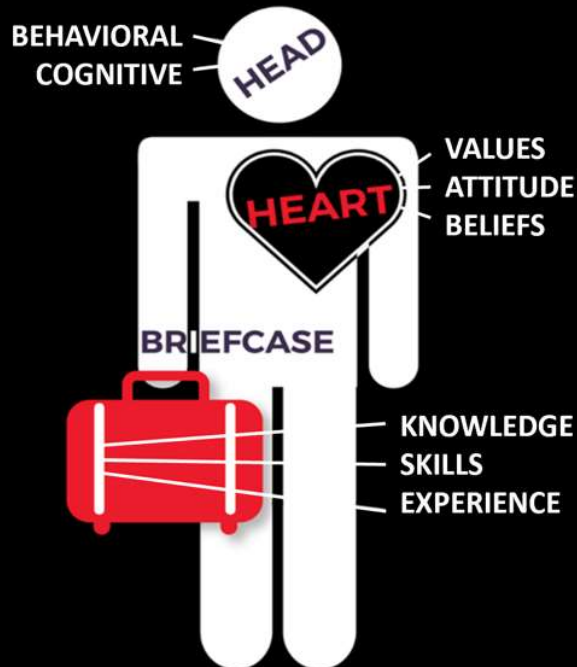


TALENT OPTIMIZER



OPTIMIZE YOUR TALENT
UNLOCK THE TRUE POTENTIAL OF YOUR PEOPLE
BOOST YOUR BOTTOM LINE

ROB FRIDAY

How This Book is Structured

I have organized this book as a step-by-step guide. Each chapter covers a key concept, provides some real-life usage and concludes with Action Steps and Takeaways. You might find that you already have a “good enough” grasp of some of the concepts, in which case you may feel like skipping ahead, as I know some of you will. However, make sure to go back and read the actual accounts of how my clients and acquaintances have done battle using the concepts that I’ve presented in the chapters to follow. In this book, everything is real, battle-tested with “proof of concept” well behind us. Over the years, I’ve found that real stories of how these concepts work in the real world is the favorite way for my clients to learn and apply the concepts presented.

I realize that I am fortunate in my profession at Predictive Success in that I am working with a variety of clients, some of whom are at the very pinnacle of success with one or (more likely) several of these concepts. And may I just say again, “Thank You” to all of those key individuals who so generously gave of their time and their battle-tested, in-depth knowledge on so many of these innovations.

The book’s title Talent Optimizer has a treble meaning that I believe should resonate with my readers. Firstly, it refers to the pre-hire recruitment process when you are looking to hire some great talent. However, the discussion you will find will focus on what you may need to change within your company, yourself and your employees. Assuming you will do so, you will be Optimizing your existing talent, by introducing concepts like Purpose, Core Values, and the unique aspects of skills, abilities and values. Secondly, the title refers to your “in the moment” actual recruitment processes, and how to Optimize your time and effort with structured interviews, objective measurement and Reference Checks. Thirdly, the title refers to the on-going Optimization activities post-hire recruitment when you are on-boarding your newest employee and inculcating them with your core values and the way in which you continue to develop these individuals over their careers.

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Prologue

I was twenty-six years old when I started working as a consultant with Predictive Success. It was 2009 and the average age of consultants working in the behavioral science space was mid-50s. I knew that to be successful in this industry I would need to learn at least twice as much and work at least twice as hard as everyone else.

I went to work researching the space immediately, eagerly consuming all the information I could get my hands on. At some point during my first year I came across the following speech. It was delivered on November 3, 1971, by Arnold S. Daniels, the late founder of the Predictive Index at the Vacuum Metallizers Association's annual meeting. It was more than twenty years before the internet, and Arnold was already focused on how the nature of labor had changed. This concept spoke to me, and it's still among the most important concepts I share with my clients.

Arnold S. Daniels' Speech to the Annual Meeting of the Vacuum Metallizers* Association

November 3 1971.

**Vacuum metallizing is a process used in the application of decorative coatings to a variety of materials*

Business Management and the Behavioral Sciences

What does behavioral science have to do with business management? Industrial and business operations as we know them today are products of the Industrial Revolution, a system of social change that began to develop about 200 years ago. For 200 years those operations have grown steadily larger, more competitive, and more complex. For most of that time, the behavioral sciences did not exist at all.

The entrepreneur or business manager operating during this period dealt with many of the same general problems we do today. In order to make money he had to invest and risk money in plants, machines, materials, merchandise. They have always recognized the necessity of those investments—and have always done all they could do to minimize their risks.

As their investments—and the risks associated with them—grew larger, science and technology stepped in with sophisticated techniques designed to minimize investment risk. They had to learn them, and to apply them in a landscape that maximized their utilization of the plants, machinery, materials, and money these investments purchased. Calling in the powers of science and technology to managing tangible risks has always been an imperative for the businessperson—and now more than ever.

The other large perennial investment for the businessperson looking to realize a profit on their total investment is labor. In the early days of the Industrial Revolution, the purchase was a fairly simple one. The manager hired “hands” to do the work required to bring his product to market. Indeed, for many years he called these employees simply “hands.” The fact that this term has fallen out of use in recent years suggests that there has been a change in the nature of what the businessperson buys with the money they invest in labor. And while most businesspeople are

somewhat aware of that change, few have fully realized the evolving nature of what they're buying when they're buying labor.

What's more, few have yet to fully realize that the purchase of labor is an investment that, like other investments, involves considerable risk—risk that can also be minimized by applying science and technology. In fact, the scientific and technologic innovation available to this category of investment *needs to be* exploited for competitive reasons with every bit the vigor as with the investments made in plants, machinery and materials..

So how has labor evolved over the last two centuries? First, and most obvious, the cost of it has increased steadily. And with the investment in this business fundamental on the climb, it stands to reason that the risks involved have climbed, too.

The nature of the commodity business buys when it buys labor has changed, too. From the simplistic concept of purchasing “hands,” I speak about purchasing labor more expansively today. I am referring to the work done by all of the employees of the business at all levels—the sales manager *and* the machine operator. And I speak, too, about the purchase of energy. Or, more exactly, about the purchase of *potential* energy.

To wrap your mind around it, let's get some illumination by way of historical perspective. Let's assume that, back in the early days of the Industrial Revolution, you were the owner of a coal mine, and I worked for you. Whether I liked the work or was well-qualified for it was of no concern to you. Neither was the idea of motivating me to do that work. The fact is, I did it. Difficult and dangerous as it was, I dependably lowered myself into those shafts every day to dig your coal. You didn't have to give a thought to my experience in that job. Because I *had* to do it.

I had to because it was the only way I could feed, clothe, house, and maintain my life and the lives of my family. You controlled my ability to satisfy these basic and essential needs. You didn't have to concern yourself with my fitness for the job or my motivation to do it.

And you not only owned the mine and the tools, you also owned the company house in which I lived, which you rented to me for as long as I worked for you. You owned the company store where I was able to purchase the food and clothing necessary to maintain my family. And you extended credit to me as long as I continued to work for you.

Which I did, because digging coal in your mine was all I *could* do. I had little mobility (I had to stay where I was), I wasn't trained or educated to do anything else, and the labor market was pretty limited.

So, our relationship was a simple one. By giving me a job in your mine, you made it possible for me to satisfy my most essential needs—the only really important needs that motivated me then. If I stopped working for you, I would no longer be able to do that. If I stopped working for you, there would be no institution, no agency, no person who would step up and help me and my family. The dole might be available in time, but it was unreliable and inadequate.

So, you see, I had no alternatives. You purchased my labor—the use of my hands—and I had no recourse but to work for you. I was motivated to do so, and to do it as best as I could, out of fear.

Now, after 200 years of change, the scene is radically changed. Think of me as a worker in your factory today, and consider how different things are. The biggest difference is in the control you, the factory and tool owner, now exercise over my ability to satisfy my basic needs. You are very close now to having completely lost the control that was so firmly in your grasp in the Industrial Revolution. If you fire me, or if I decide I no longer want to work for you (or, for that matter, anyone), I and my family will not be without food, clothing, or shelter.

That's because we have developed a society and cultivated agencies within it that will provide me with these things today, even if I do not work for you or anyone. These provisions guarantee, to a great extent, that I will be able to satisfy my most basic needs. One of the things the behavioural sciences have learned about people is that they are *not* motivated by needs that have been satisfied, or for which satisfaction seems assured. And to further complicate matters, I am today likely to be much better educated than I was 200 years ago. I have much greater mobility. And the labor market is much larger and more varied.

As these changes have occurred, as my needs have changed, my reasons for working have changed, too. This introduces the question of how to get motivated *now*. The behavioral scientists say that my level of motivation has changed, that I have moved up to a higher level in the hierarchy of needs. Motivation at this level is more complex, determined now by a desire for self-respect and respect from my fellows and family, by what I like and want to do, by what kind of person I consider myself.

These considerations had little influence in motivating the 200-year-ago version of me. But if the modern version of me can't find opportunities to satisfy those new needs by working for you, it will simply go elsewhere, where I will have a good chance of finding that satisfaction. Or, and this is more expensive than the cost of turnover should I leave, I may continue to work for you but without interest, enthusiasm, or any sense of involvement, becoming an *underemployed* or perhaps even *unemployed person on your payroll*.

It is difficult to measure the exact cost of such a dissatisfied employee, but one of the biggest shrinkers of profit and contributors to inflation is what's known as *psychological underemployment*. If I find my work unsatisfying, uninteresting, discouraging, or frustrating because I am unable to do it well or because it is lacking in social satisfaction, or if I have become cynical about the company or the management for whom I work, or if I am hostile to my boss; or if I am dissatisfied with what I perceive my future to be—then I am psychologically underemployed.

It's a problem that isn't limited to any one business organization or even to business alone. "Such underemployment," said Sir Wilfred Brown, an English entrepreneur, management philosopher, and leader of the Labor Party in the House of Lords, "leads to widespread under-utilization of the potential abilities of millions, without actually depriving them of jobs. I see a direct connection between problems of inequitable wage differentials, underuse of personal capacity, and bad labor relations on one hand . . . and racial intolerance, increasing crime, and a general regression in the behavior of citizens such as is already observable in the US."

Let us return now to the concept that the money you invest in payroll buys only potential energy and the question of what the behavioral sciences have to do with business management. The

answer is actually quite simple. The behavioral sciences have developed techniques *you* can use to minimize the risk of your investment in labor, and to assist you in maximizing the utilization of the potential energy you buy with that investment. And again, I remind you that the negative conditions and attitudes that help create underemployment exist at all levels of organizations.

The techniques of behavioral sciences can be used, and are used, to improve productivity from the level of the corporation's top management to the level of its production workers. And the problems are at least as acute at the top level as the bottom. Can you estimate how many of the people you know at that level in companies with whom you do business who are dissatisfied, frustrated, discouraged, cynical, and underproductive as a consequence?

Exactly what can behavioral sciences' techniques do for you in the management of your business? For one, they can give you specific, objective measurement of the drives, aptitudes, interests, capacity, motivation, and potential, of both the people you hire and the people already in your organization. Such techniques not only measure but define how and why people work.

I have worked for years with one such technique, the Predictive Index[®], and have taught it to my clients so that they can use it in their own organizations. With it, they can predict the specific capacity and potential of anyone relative to any job. It can be applied with equal utilization to the consideration of a potential new hire and the promotion of an experienced employee. It offers unprecedented insight into the motivation of each individual in their organization, an objective and clear understanding of their particular needs.

It also facilitates the identification and definition of an individual's styles of management and communication and offers an understanding of the effect those styles have on individual subordinates.

With it, managers can obtain a clear and objective understanding of the relationships among people in their organizations, and an understanding of how those relationships affect the productivity of individuals and of the organization as a whole.

It can also allow for the early identification of young people whose potential to an organization is meaningful, and provide insight into how to most effectively develop that potential.

And it can eliminate a good deal of the waste, frustration, inefficiency, and turnover that take place when we put people into jobs they are not well-suited to do.

The behavioral sciences are concerned with all aspects of human activity. The Predictive Index[®], which is an industrial application of behavioral techniques, is concerned primarily with the behavior of people *in the work environment*. It is a technique for measuring and analyzing that professional space and for defining the demands of jobs of all kinds. With it, it is possible to specifically compare the capacity of a person to the demands of a job, both in terms of the real work environment and by putting him in the job and work environment that maximizes the potential energy he will actually apply to his work, to make him as productive as possible.

To accomplish this, you must really know and understand the person—an imperative techniques like the Predictive Index[®] make possible. That kind of understanding is basic to motivating your

employees in today's real world. There is really not any other way to get at it. To quote a statement on the subject from the May 1970 issue of the magazine, *Supervisory Management*:

“Actually, the only thing a manager can do to achieve better results from subordinates is to establish the sort of climate in his relationships with them that will encourage them to want to move in the direction of achieving organizational goals, while at the same time achieving their own personal goals.”

Once your employees have moved beyond the level of basic-need motivation such that you can no longer call or think of them as “hands” (and they long since have), then fully utilizing their energies requires you to understand them as individuals, clearly and objectively. That is a kind of insight into people that very, very few of us can develop without the aid of techniques like those developed by behavioral scientists and made available to management in practical and relatively simple form by way of programs like our Predictive Index®.

Our particular program, by the way, has been designed specifically for use in business. The techniques of measurement it employs are short and efficient, and provide insights into individual capacity, potential, and behavior that would be extremely difficult to obtain in any other way. The program is administered by company management because that is the most efficient way to do it and, more importantly, because only the management of a company has enough real knowledge of its operations, organization, jobs, plans, and objectives to intelligently use the information Predictive Index® generates.

Consultants, who often are stimulating generalists, just don't know enough about specific organizations, specific jobs in those organizations, and the specific problems of real organizations. Our primary function, then, is to conduct a training course in which we teach members of our clients' management teams how and why the Predictive Index® works—and most importantly, *how to use it*.

In doing so, we combine our knowledge, experience, and techniques with management's knowledge of its own business and develop a practical and purposeful program that brings some of behavioral science's basic technology into day-to-day business operation.

Our training course is attended by many people in management who do not often make use of the specific techniques, but who sharpen their managerial skills by gaining the kind of insight into people and their motivations that's taught in the course. We have even had quite a few company presidents complete the course successfully—and benefit from it.

There really is nothing mysterious or obscure about the behavioral sciences. The discipline's focus—the behavior of human beings—is what most of us spend our lives studying and learning about in one way or another anyway. And the information you get from the behavioral sciences and programs like the Predictive index is not so much new as it is *better*, more exactly defined, and more objectively and precisely measured than was ever before possible. And it's better understood than ever before, too.

After all, Hippocrates was analyzing and writing about human behavior in 450 BC and his ideas were interesting, but not useful in any practical sense because he lacked the science and techniques that today translate ideas like his into specific, useful information. And while better

understanding of individual behavior and motivation would have been worthwhile at any time in history, there has never before been a time when the need for that understanding has been so urgent and so essential to the maintenance and continued development of this highly productive and complex society we have constructed over thousands of years of trying.

~Arnold S. Daniels

Fast forward nearly a half century and the challenges Arnold spoke of have only increased. The power the business owner once had over the employee has all but evaporated. The business landscape of the developed world in the digital age is fast-evolving, complex, and often unpredictable. Hiring, engaging, motivating, and retaining today's worker requires a fundamentally different approach—one that isn't for everyone. It takes work, dedication, and a mindset that regards your people as your top priority.

Who this book is for . . . and who should put it down right now.

I think it's prudent to be clear about who this book is designed for. I regularly come across two types of business owners—and only one of them will derive any benefit from this book.

The first type of business owner is looking for the quick fix. They want somebody to give them a silver bullet to “fix” their people. Upon reading Arnold's speech, they would likely wish they were back in the days when they had near total control over the coal-miner/employee. They look at spending money on training and developing their people as an expense with a short “shelf life.” They buy tests and assessments because they think they will tell them something they don't already know and somehow solve their culture or engagement or management problem.

The second type of business owner recognizes that building a high-performance culture isn't something that's accomplished overnight. This person recognizes that developing real, lasting, long-term relationships with his people takes patience and dedication—and that there is no quick fix. These leaders look at spending on their people's training and development as an investment. These leaders are interested in learning how to capture their employees' hearts and minds so that they and their teams produce to their potential. These leaders want to learn about their employees' natural *strengths* so they can match them to the demands of the position—and the demands of the position to the employees' natural strengths. These leaders want to reap the benefits of this more effective marriage.

So, if you look at training and developing your people as an expense with a short shelf life, there's not much I can help you with. My systems are not designed for you and this book is not for you—don't frustrate yourself!

But if you are looking to invest in yourself and your team, if you wish to learn how to build a lasting, high-performance culture, this book *is* for you. I encourage you to read on.

Chapter 1 - Values, Abilities, Skills . . . in that Order

“The toughest decisions are people decisions: hiring, firing, and promoting people. They receive the least attention and are the hardest to 'unmake.'” ~ Peter Drucker

Here is a snapshot of the current climate for talent:

- April 2018: US unemployment rate drops to 3.9%.
- 46% of employees stay in a job fewer than five years.¹
- One in five employees stay in a job fewer than two years.²
- The cost of an entry-level bad hire: \$15,000.
- The cost of an executive bad hire: \$60,000-\$150,000+.
- Nearly 33% of new hires look for a new job within their first six months on the job.³
- 90% of global professionals are interested in hearing about new opportunities.
- The top 10% of job candidates are off the market within ten days.

Over the past ten-plus years of working with hundreds of companies and thousands of managers, I've seen the competition for talent escalate dramatically. Today's recruiting landscape isn't just more challenging than it was ten or fifteen years ago, it's fundamentally different. The availability of information has shifted the power away from the companies doing the recruiting into the hands of the candidates being recruited. The days of posting an ad in the newspaper or hanging a help-wanted sign on the door are long gone. Today's job seekers are savvier than ever. They know to check Glassdoor.com ratings, read up on company culture, and look for personal-growth opportunities. The cost of sourcing, attracting, and retaining top talent is only going up.

To compete in this era, companies are getting creative, offering six-figure salaries and stock options to newly minted MBAs. Others are extending creative and flexible work arrangements, such as work-from-home options, dog-friendly offices, free lunches, and unlimited paid vacation.

All of this can seem overwhelming to the entrepreneur trying to turn a profit—but it doesn't have to be. There is a set of fundamental building blocks that goes into creating great cultures full of top talent. And it doesn't start with puppy pee pads in the lunch room or fully stocked beer fridges.

¹ <http://blog.indeed.com/2017/06/29/trends-job-tenure/>

² <http://blog.indeed.com/2017/06/29/trends-job-tenure/>

³ <https://hbr.org/2015/03/technology-can-save-onboarding-from-itself>

In this book, I am going to share with you the unique approach to defining, designing, and building an exceptional company culture full of top producers. I call it the Talent Optimizer process.

When I share this concept at my seminars for business owners, I explain how these steps will transform their ability to attract, select and grow top talent. Most of the business owners understand the concept, and all of them appreciate the power it brings to the recruiting and employee development process. During these seminars, I tell them that they'll see how these principles have worked for other companies. "You are going to understand that taking these steps will bring you better-quality people," I say. "You are going to know deep down that following this plan is the right thing to do if you want to fix your recruiting and retention problems—and then you will return to your business and still not do it."

This usually nets me a laugh, after which, I continue: "This is the part of my talk where I dare you to prove me wrong."

As you will learn in the abilities section of the book, I know that most entrepreneurs love a challenge and relish the opportunity to prove someone wrong. To optimize your talent, you need the discipline and determination to step back from the blizzard of working *in* your business and work *on* your business, implementing the system and sticking to the process.

When you ask a professional athlete about their ability to deliver great game-time performance, they will always talk about the practice and preparation. The same holds true for mastery of anything. Sure, God-given gifts can provide a head start for some, but true mastery comes from consistent practice and preparation over time. Tiger Woods didn't become the world's best golfer overnight. He spent thousands of hours on the driving range, hitting millions of golf balls to perfect his swing. We will similarly master the Talent Optimizer process by practicing each step until we know how it works and can execute it with a high degree of precision and expertise.

Think Like a Machine Operator . . . or Optimizer

I want you to think of your business like it's a machine. And to think of each of the people in your business as smaller machines, interacting with the big machine—some feeding raw materials, some controlling other processes. To build the best business possible, you must first design the right machines for creating your products or services. If your machine isn't producing the results you desire, you should step back and determine if its flaw is in the process design or if one of the parts isn't working as it should.

Using the machine metaphor, you will gain clarity and insight into what makes your business function. Your people will know exactly what they are looking for and how to attract the team they need to help your business grow. While other companies are struggling to work with job boards and recruiting agencies, you will have a self-replicating talent machine that brings unsolicited applications because you've built it to do the work for you. Your people will know

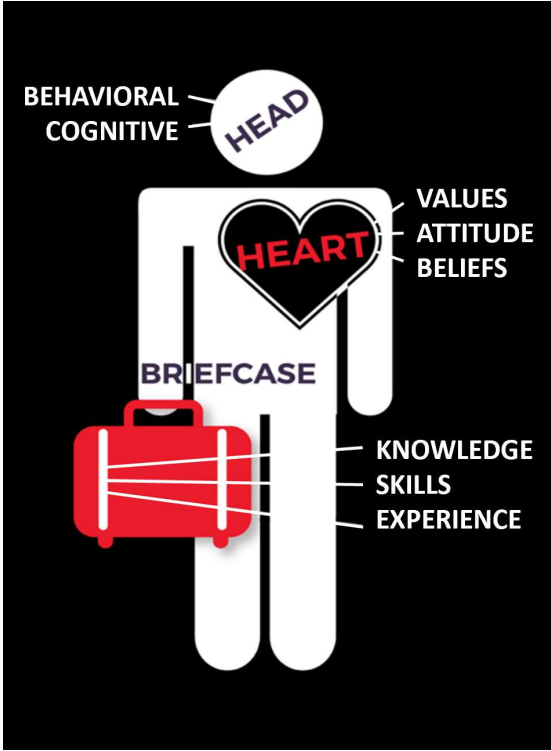
exactly how to sift through the applications to identify the type of people who fit with your culture and with whom you will want to share your life. You will know exactly how to assess for particular ability for particular work. You will ask the right interview questions, listen for the specific answers you need to hear, and probe to separate the true performers from the pretenders. You will have an ongoing process for evaluating your talent that lets you know if things are on track. And your job as Chief Talent Optimizer will be to measure and track the results and, if required, tweak the design of the machine.

Are you happy with the quality of the people you have on your team? Are you satisfied with your managers' abilities to hire people who continually raise the bar of performance in your company? Are you happy with the number of applications you get for the roles you post on your company website? Do you believe that if you left tomorrow, your people would be able to manage and scale the company with the quality of personnel you know is necessary for executing your vision? Working harder is not the answer. Ping pong tables and bean bag chairs are not the answer. This book offers you a step-by-step, turnkey formula to design and build your very own Talent Optimization machine.

The Head, Heart, and Briefcase

When I work with clients to optimize their talent, I share the following model. We call it the head, heart, and briefcase.

Figure 1.1 The Head, Heart, and Briefcase



- The Head consists of the behavioral drives and cognitive abilities the person brings to the job.
- The Heart refers to the person's personal values and beliefs.
- The Briefcase is the person's knowledge, skills, and experience.

When most companies approach hiring, they focus on the briefcase. What skills are needed to do a job, what knowledge or education do we want the person to bring, and what level of experience is required? This makes sense because these are objective and easy to measure. You can easily screen for the briefcase assets on a resume or job application. In my experience, over 90% of companies focus here when hiring.

So, what's the problem with this approach? Let's examine it.

When you think about any relationship you've ever had, be it with friends or romantic interests, you determined if you were right for each other over time. When you consider your relationships that have lasted, there is most often a core set of shared values and beliefs that unite you. When relationships don't work out, it's usually due to a mismatch of values and/or beliefs. For example, if you believe in living a healthy lifestyle, eating well and exercising, and your significant other is a couch potato, chances are good that this will create friction in your relationship. We will go deeper into values and beliefs in Chapter 5.

The challenging part here is that values and beliefs are mostly fixed, built over a lifetime, and inherently personal. You should not expect to change someone's values and beliefs. Dev Basu, a client of mine whom you will meet in Chapter 5, describes values as "factory-installed firmware." If you want to build a great company you need to figure out which values and beliefs are important to you, and which you are not willing to tolerate. If you get this part wrong, no amount of team-building or leadership development will solve your team dysfunction.

Next, we have the head. The head consists of two parts: cognitive abilities and behavioral drives. As we will explore later, cognitive ability is widely believed to be the greatest predictor of job performance; thus, it is a very important part of the equation. Cognitive ability is, for the most part, a fixed attribute. We either have it or we don't, so it's best to determine what is required in the position and assess your candidates for it.

Behavioral drives predict our needs and thus the type of work we will find satisfying. They also play a role in determining for which type of work our abilities are the most proficient match. These drives develop through the first twenty or so years of our lives and tend to remain stable after that. It is important to note that all behavior is a result of a response to stimuli or motivation. Thus, behavioral drives can be adapted. We can do work that we find unsatisfying, temporarily, if we are motivated to do so. But in the long run, we tend to gravitate toward the activities we find most enjoyable.

This is why job slip happens. Someone is hired for a job and, for a period of time, will do the job exactly as directed. During their probationary period there is a powerful motivation to keep behaving in a way that's congruent with what they were hired for. Then once the new hire gets comfortable with the role and company, they start to do things a bit differently, and little by

little they do activities outside their original scope of work, until one day they are doing something completely different. People are wired to seek pleasure and avoid pain. In the long run, everyone finds a way to satisfy their behavioral needs—so it's best to find out what these needs are early and align them with a role that fits.

Figure 1.2 - Values, Abilities, Skills Pyramid

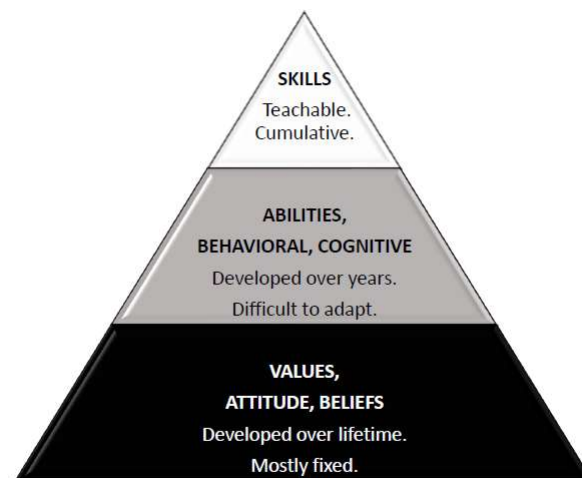


Figure 1.2 graphically represents the relative size and malleability of the major traits we will encounter from each employee. You can see the bottom of the figure contains the most inflexible traits while the top has the most malleable traits. Personal values and beliefs are at the foundation—they are the most fixed and must be in keeping with the shared values of the leaders of the business. If you find people with shared values and beliefs first, chances are you will always have a place for them in your organization as it grows. If you get this part wrong, it doesn't matter if they have the skills you need or the right mix of behaviors—the incongruent values will cause friction in your business and divide the team. To the extent that you have large factions within your business with opposing values, you may have a dysfunctional culture and have difficulty managing some of your major players.

Behaviors and abilities are in the middle of the pyramid, indicating that these traits can be changed temporarily, but that one shouldn't expect people to sustain these changes over the long run. Again, it's important to align natural behaviors and abilities with the work that the position requires.

Finally, skills are at the top of the model. Skills are at in the top spot because they are variable. If you get the lower levels of the pyramid right, you can typically train new skills. With the rate of technology change today, the skills that are currently in demand will likely be outdated in just a few years. Thus, skills are the least important part of the equation when building a strong, sustainable culture. Note: I realize that specialized skills are required for certain jobs. We will

discuss skills and how to assess for them in Chapter 7. For now, recognize that hiring skills without regard to values and beliefs is a recipe for failure.

Chapter 2 – The Cost of a Bad Hire

"We're too busy recruiting to focus on something new."

I heard this objection from an executive at a well-known charity. The reason she felt she was too busy to focus on something new was that the charity was experiencing rampant turnover, with some claiming it was in excess of 65%. In the end, I didn't do business with this organization as it became clear during our discussions that they fell into the first bucket I referred to in the Prologue. They looked at spending money on their people as an expense and focused all of their money and efforts on recruiting new people. There was no budget for onboarding new hires, no training to make the new hires feel welcome and correctly oriented. It was obvious to any outsider that the charity was caught up in a vicious cycle: New hires were treated with a "trial-by-fire" mentality, and existing employees were disengaged. No wonder the Glassdoor.com ratings for the company were terrible and getting worse.

During the time I spent getting to know the organization, I realized several good people were working there. However, senior management didn't believe in investing in training and development for their people, and those good people soon left. Since we last spoke, I've heard that things have continued to deteriorate.

What was going wrong? For starters, there was no investment in training, no training-and-development strategy to ensure that new hires were effectively onboarded and oriented. Worse yet, no one was accountable for ensuring that the people who were hired were actually what the company needed for the various roles.

What is the Cost of a Hiring Mistake?

If an organization is experiencing over 65% turnover, that means that, after one year, only one of every three hires is still on board. In the charity world that is a drain on the good work that can be delivered to those who rely on or benefit from it. Further, most charities must maintain certain ratios of expenses to donations to maintain their charity standing. Repeated squandering of recruiting and training budgets may threaten its very existence. For a business in the for-profit market, this would be a disaster.

Few mistakes carry a price tag as hefty as the cost of a bad hire. Yet many executives don't fully grasp the consequences of making a bad hire. According to a 2017 CareerBuilder survey, "companies lost an average of \$14,900 on every bad hire in the last year, and it's a common mistake—nearly three in four employers (74%) say they've hired the wrong person for a position."⁴ Further, the impact of a bad hire cascades throughout the rest of the team and

⁴ The survey was conducted online by Harris Poll from August 16 to September 15, 2017, and included a representative sample of 2,257 full-time hiring managers and human resource professionals and 3,697 full-time workers across industries and company sizes in the US private sector.

organization, lowering the overall performance and causing other high-potential employees to leave. According to the same study, employers believe “the average cost of losing a good hire was \$29,600 this year.” Estimates for executive-level positions range from two-times base salary up to over six-times base salary. If a senior executive makes \$175,000 per year, this puts the estimate of a bad hire at \$350,000 up to \$1.05M.

Why Are Hiring Mistakes so Expensive?

Think about the last time you worked with a disengaged employee. Take a moment and consider how that employee’s attitude and performance affected you. Chances are your blood pressure went up just thinking about it.

The impact of a bad hire goes far beyond the hard costs of recruiting and hiring. Gallup puts the cost of a disengaged employee at \$3,400 per \$10,000 of base salary—or 34% of base salary per year. This means an employee earning \$60,000 a year costs the company just over \$20,000 a year in forfeited opportunities.

The hard costs of job postings, recruiter salary, and training are easy to quantify. The indirect costs are where things get more complicated. During my time working with clients, here are some of the indirect costs I’ve seen bad hires levy on businesses:

- Lost customers due to poor customer service;
- Lost sales due to lack of follow-up or underperformance of bad sales reps;
- Disengagement and turnover among other employees affected by the bad hire;
- Lower overall team performance;
- Loss of intellectual capital due to other employees leaving;
- The opportunity cost of other lost high-potential employees;
- Overtime and additional workload levied on the rest of the team to compensate for the poor performer’s lack of contribution;
- Increased costs of recruiting new employees due to the impact on the employer brand, Glassdoor ratings, etc.;
- Impact of turnover issues on the recruiting and human resources team;
- Negative industry visibility;
- Negative press;
- Ramp-up and training time for new hires;

Additionally, consider the damage that poorly selected employee’s decisions can have on the company. In the cases of very senior executives with significant decision-making authority, the results can be catastrophic.

The bottom line is that hiring is a significant investment—one that should be treated with the same importance as any other large investment in plant, machinery, or equipment. And where

<http://press.careerbuilder.com/2017-12-07-Nearly-Three-in-Four-Employers-Affected-by-a-Bad-Hire-According-to-a-Recent-CareerBuilder-Survey>

very senior hires with decision-making responsibilities are concerned, the stakes for the company can be surprisingly large.

Impact of A vs. B Players

Should I Keep my “B” Players?

This is a question I get frequently. What should I do about the B Players on my team? They produce adequate results, they don’t complain about pay like the A Players do, but they don’t often deliver above minimally acceptable levels. Do we keep, cut, or coerce?

The answer is: it depends.

First, examine the macro factors that impact your business. Are you in a high-growth industry in which the B Players’ performance might cost you market share that you can never get back? Will their lack of performance allow your competition to beat you to market? Will their impact on your burn rate put the company’s sustainability at risk? Does their mediocre performance rob the company of sales and lost recurring revenue? Are they responsible for leading a team that will produce sub-optimal results? If the answer to any of these questions is yes, the B Player must go to make way for an A Player.

But if, on the other hand, you are in a stable or moderate-growth industry, the impact of a B Player might not be as great. In these situations, you might look at the individual or micro factors surrounding the B Player.

Next, examine the micro factors. What type of work is the B Player doing? Are there options for replacing the B Player with an A Player? If you have a B Player in an individual-contributor role with minimal impact on your overall business, this might be OK. The impact of a B Player in a role that requires manual labor will never be as significant as the impact of a B Player in a leadership role or a role that uses leverage.

Key Point – Do not tolerate average performance in high-growth, high-tech, or recurring-revenue businesses.

Manual Labor Roles

These are the lowest-skilled roles and typically require the least amount of training. Think: grocery-store cashier, shelf stocker, cleaner/janitor, construction worker, and general laborer. The top performers in these roles rarely exceed one-and-a-half to two times performance of the average.

Procedural Roles

In procedural roles such as bookkeeping, data entry, and graphic editing, the best are typically about two times as effective as the average players. These people are often easy to replace, and training isn't challenging because the procedures have a defined process and a single defined correct outcome. These lower-skilled roles are also easy to replace with technology support or outsourcing with virtual freelance services like Upwork.

<https://www.upwork.com/>

There are also new services popping up in this space all the time. I recently came across TopTal, which claims to screen freelancers to find the top 3% available.

<https://www.toptal.com>

Sales

In customer/client-success roles, the top performers are generally about two times as effective as average. This is a modification of a procedural job as there is typically a defined process and variance should be somewhat minimal.

In inside sales roles with inbound leads, the best sales reps are typically between two and four times as effective as average players. This is easily quantified by monitoring lead count and closing ratios.

In outside sales "hunter" roles, the difference can be much more significant—often five times and up to ten times or even more. When outside sales reps are responsible for generating their own leads, A Players' performance vastly outperforms the average. Working smarter, not harder, earns the big rewards.

When thinking about sales roles, it is essential to account for the lifetime value of a customer in industries with recurring revenue components to the sale, such as software sales. Here, you must consider the present value of the projected spend over the customer's lifetime. If you have average performers wasting leads by not calling customers back or ineffectively presenting your products and services, time is money. It's often hard to give up on persuasive, likeable salespeople, but the opportunity cost of not replacing these sales reps with A Players—in high-growth or recurring-revenue businesses—is too great.

Creative and Innovative Roles

In roles with no defined process and many possible correct answers, the results from the best performers can be ten times better than those from the average, or more. The impact of "brilliant jerks" here must also be considered with individual contributors such as outsourced copywriters or computer programmers. In these limited circumstances, the "brilliant jerk" may be appropriate and effective so long as their interactions with the team are controlled and limited. If, on the other hand, the "brilliant jerk" is expected to contribute to a team, this is a recipe for disaster. Team chemistry and cohesion trump the contributions of any one person. Don't expect a team to perform at a high level when one of its members is toxic. No matter how

effective the skills or talent, if teamwork is required, do not consider the “brilliant jerks” in creative or innovative roles.

Computer Science and Programming

In the book *Work Rules!*, Laszlo Bock shares Google’s philosophy on performance and compensation. He shares that some “Googlers⁵” receive compensation a thousand times that of others doing similar jobs. This is because the very best computer programmers are a thousand times or more as effective and productive as the average programmer.

Leadership Roles

Consider the value of an individual contributor in a team of five people. Holding other factors constant, if the individual contributor increases their own performance by 20%, the team as a whole becomes 4% more productive.

$$120\% + 100\% + 100\% + 100\% + 100\% = 520\%$$

$$520\%/5 = 104\%$$

If, on the other hand, the leader is 20% more effective at getting results out of each team member, the team will realize the full 20% increase in performance. As organizations grow and multiple layers of management form, the impact of a senior leader's effectiveness at getting results from subordinates grows exponentially.

Pay “Unfairly”

In low-tech organizations with large amounts of manual labor, it is not possible to have one employee outperforming others by a ten-times factor. In these industries, performance is generally normally distributed. Thus, compensation should be normally distributed, too. Reward the top performers more than the average, but the gap will rarely be over one-and-a-half to two times.

In high-tech, high-growth, or recurring-revenue businesses, the top performers will generate ten to 1,000 times the results of average. As Laszlo Bock explores in *Work Rules!*, in these cases, you *must* pay unfairly to avoid losing your best people. A policy of pay equity in this type of environment will incentivize your best people to leave for other opportunities. If you are a young or cash-strapped company, consider stock options. If you are on a fixed budget, take from the B Players and reallocate to the A players; it’s the only fair thing to do.

What is the Value of Your Company Brand Equity

⁵ Term for Google employee

In her book *Powerful: Building a Culture of Freedom and Responsibility*, author Patty McCord explains how Netflix's approaches pay and compensation. She brings to light the importance of considering the specialized skills, experience and value employees develop while at your company. In one instance at Netflix, an employee was working on very a very specialized matching algorithm that no one else in the world had experience with. This ultra specialized skill made him incredibly valuable to the competition and warranted a massive pay increase. Patty explains that Netflix initially opposed the pay increase, but after considering the impact of losing the team, they elected to double the salary of all employees working on the project. She goes on to make the point that Netflix focuses on being a great place to be from. Meaning, they expect employees will leave over time, but they want to be respected as a great place for people to learn and develop their careers.

Why Do Companies Get Hiring Wrong?

If the costs of a mistake are so significant, why do companies continue to get this wrong? In my experience, there are several reasons.

1. Hiring is a subjective, often ad-hoc process left up to managers with little oversight;
2. The team doesn't do a good job assessing for fit to team, job, manager, or company culture;
3. The person responsible for the new hire doesn't have clarity as to what they are looking for;
4. The new employee doesn't have the required skills and is not given sufficient time to acquire them;
5. The team is stretched and makes a new hire decision too quickly.

How to Ensure Against a Hiring Mistake

When an accountant advises on the purchase of a new piece of machinery, the first step is to look at the available alternatives, calculate a payback period, and determine if the investment makes sense for the business. If employee salaries are the largest investment most companies make every year, doesn't it make sense that there be a similar process for evaluating these investments?

Considering the five reasons for a hiring mistake I've listed above, establishing a process upfront to ensure against making a mistake seems like a logical first step to improving results.

In the chapters that follow we will:

1. Bring structure and objectivity to the recruiting process;
2. Define what the fit to team, role, manager, and company culture looks like;
3. Learn how to identify the values, purpose, behaviors, abilities, and skills of the ideal employee;
4. Learn techniques for assessing skills proficiency and learning ability;
5. Establish a repeatable, scalable, objectively measurable system to bring in top-tier talent;
6. Learn how to maintain a strong culture.

Chapter 2 Action Steps

Think about the last bad hire(s) you made or worked with and consider the five questions below to determine where you went wrong.

1. Was the hiring subjective and ad hoc, left up to managers with little oversight?
2. Did the team do an adequate job assessing for:
 - a. fit to team
 - b. fit to role
 - c. fit to manager
 - d. fit to company culture?
3. Did the person or team responsible for the new hire have a clear picture of what they were looking for? Which of the following were the biggest issues?
 - a. values
 - b. purpose
 - c. behaviors
 - d. abilities
 - e. skills?
4. Did the hiring team assess the required skills, proficiency, and learning abilities?
5. Did the hiring team use a structured system that allowed for post-mortem diagnosis and measurement?

After answering these five questions, which areas do you conclude need addressing?