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Friday, February 22, 2008

Topgrading

(from Stephen Covey's Leadership Excellence magazine)

by Brad Smart

Twenty-five percent of people hired and promoted by most companies turn out to be high performers, but using rigorous methods some businesses achieve 90% success.

Recently I met with the heads of human resources of Global 100 companies, and in a confidential survey they stated that their companies mis-hired people 80% of the time and mis-promoted people 75% of the time. That's right, HR's chosen methods of selecting talent produce high performers only 20-25% of the time. These appalling statistics have been confirmed in our study of Fortune 500 companies (reported in Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People, Portfolio, 2005). And yet, many high performing companies achieve 90% success using methods described later in this article; it's taken over 30 years, and assessments of over 6,000 managers for me to refine these methods.

Readers of Leadership Excellence know of Jim Collins' compelling plea to "get the right people on the bus," and of Jack Welch's passion for differentiating talent, of getting all A players. I consulted with Jack more than a decade, assessing and coaching senior managers, and he said, "there aren't enough Brad Smarts around, so teach us your methods," - and I did. Two decades later, GE continues to embrace a process that results in 95% high performers identified for promotion. Companies like Lincoln Financial, MarineMax, Barclays Bank, Honeywell, Hillenbrand Industries, and American Heart Association have all improved their hiring and promoting success from 20- 25% up to 75% and most, to 90%. That's 90% high performers.

Picture yourself inheriting 10 C players and you are determined to replace them with all A players. Using typical "best practices," you are only 25% successful, so you hire 40, fire 30 of your mis-hires, and finally - after a blood bath - have your A team. That scenario is too bloody, and that's why otherwise talented leaders tend to keep their As and Bs, and only replace Cs. But using topgrading methods, you would enjoy 90% success, so you would hire only 11 people, fire 1, and have your 10 A players. Note that is a 30-1 advantage for the topgrader.

What are those topgrading assessment methods? Before describing them, let's return to the Global 100 managers, and the methods used in those companies. Almost all use round-robin, competency interviews, looking for behavioral indicators. Almost all the competency interviews last an hour or less.

Topgrading assessment methods are simple to describe, but were hard to do - until Jack Welch approved an innovation. A bit over-simplified, the topgrading method is a 4-hour, chronological interview, with 20 questions about every job - scrutinizing every success, every failure, every key relationship, every performance appraisal, and every method of achieving results. Following the topgrading interview, the candidate organizes reference checks with a minimum of all bosses in the past ten years, and get this: 90% of those references talk, if the candidate is an A player. As Mark Sutton, former Chairman of UBS North America said, "how can a one-hour competency interview compete with a tandem, 4-hour topgrading interview?"

What was Jack Welch's innovation? I designed the chronological topgrading interview for GE and trained managers to use it, but Jack initially was a bit disappointed in the quality of reports by GE interviewers. Asked what could improve quality, I said, "simple - use two interviewers rather than one." Topgrading professionals do not need a tandem partner, but for all other leaders, two heads are truly better than one. Jack didn't hesitate to approve the tandem interviewer method, and to this day it is used at GE.

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Over the years the word got out that "Jack Welch uses the tandem chronological interview," and hundreds of companies have embraced the approach.

Do psychological tests work? No, not for hiring upper level managers. There are now 20 topgrading professionals, and we would love to have any test that would add even a little incremental value to the interview. However, most of us are psychologists who used to use tests, and we've all tossed them overboard. With two interviewers, that four-hour interview consumes eight managerial hours, and is it worth it? Our research indicates that the average cost of mis-hiring someone earning \$100,000 is \$1.5 million. Calculate your own costs of mis-hiring someone; we have yet to hear of a conclusion that the 25% successful competency interview is more cost-effective than the 90% successful topgrading interview.

Topgrading companies like those mentioned use the topgrading interview to assess people and systematically ratchet up talent; their stock performance reflects it. The main obstacle to topgrading is the B and C players, Non-As. Our research indicates that in most companies only 25% of the managers are A players or A potentials, and the 75% of the Non-As fight topgrading with more creativity and energy than they ever showed on the job. It takes the courage of a CEO to drive the A player standard, to hire and promote people who turn out to be As, to develop Bs and even Cs to become As, and to redeploy those who fail to become As.

CEOs of companies who have topgraded have learned these essential lessons:

1. Topgrade from the top down. A players tend to hire and promote As, Bs favor Bs, and Cs choose Cs. Topgrade your top team, enable them to topgrade the next level, and A players will gradually permeate the organization.
2. Constantly reinforce the A player standard. An A player performance rating should not be for "outstanding performance," but "meets performance expectations." Don't permit slippage in performance reviews, hiring, or promoting. Don't let managers give three and four chances to Non-As.
3. Permit only A players to hire and promote people. Non-As should know they fall short and only when they become As do they get the authority to select talent. In practice that means you conduct tandem topgrading interviews in your organization until you can delegate it to A players.
4. Strive for 100% A players, but be satisfied with 90%. There is always a bit of slippage. For example, a key customer might demand full attention from an account representative, and you want to delay assigning someone until an A player is hired. If you delay any longer, you lose the account, so you put good 'ol Charlie, a B player, on the account because he will keep them happy until an A player is recruited.
5. Measure assessment success. Only 5% of the 600 senior HR executives I've assessed actually measured hiring and promoting success. Topgrading companies assign small teams to carefully judge whether the person hired/promoted turns out to be an A player. As topgrading methods are more broadly used and success grows, peer pressure will assure topgrading methods will be used. Similarly, it takes about half an hour to informally guess at the cost of mis-hiring someone, and companies that go through that exercise conclude, "when we cut corners on topgrading methods we mis-hire more people, and it is very costly!"
6. Train all managers in topgrading methods. There are books, DVDs, and other tools available so that managers don't have to "wing it."

In a Six Sigma world, companies have progressed from 100 underperforming parts per million (ppm) to 6, 5, and even 0. And yet those same companies tolerate 750,000 underperforming people, or 75% mis-hires and mis-promotions. There is absolutely no reason for such massive waste and human pain. Any A player manager willing to team up with a tandem partner and conscientiously apply the tandem topgrading interview methods can enjoy a more successful career and a much happier work life working with an A team rather than a mixture of As, Bs, Cs. And their employer will enjoy a talent advantage over the competitors.

Brad completed his doctorate in Industrial Psychology at Purdue University, entered consulting, and for more than 25 years has been in private practice as President of Smart & Associates, Inc., based in the Chicago area. Brad is frequently acknowledged to be the world's foremost expert on hiring. He has conducted in-depth interviews with over 6,000 executive. He is author of seven books and videos. Brad has helped companies topgrade by assessing and coaching teams, conducting topgrading workshops, and providing books, handbooks, and videos to help clients topgrade on their own. The resulting improvements in company performance have been featured on the cover of The Wall Street Journal and in many Fortune articles.

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