

Defining 'A' Players

The Topgrading Alternative to
Defining Talent




Valufacture Solutions

Creating Outstanding Value

1. Introduction

'The ability to make good decisions regarding people represents one of the last reliable sources of competitive advantage, since very few organizations are very good at it.' Peter Drucker

The single most important driver of organizational performance is talent. Talent comes in many forms and covers a wide range of definitions. For our purposes though talent is defined as the 'sum of a person's abilities which includes both their intrinsic gifts as well as their ability to learn and grow.' No-one is under any misapprehension that as a skills shortage grips the business community, a 'War for talent'¹ is being raged on several fronts, none less so than on the managerial front. However, although managerial talent is critical, it is by no means the only type of talent that companies need in order to be successful.

In a survey undertaken by the Hay Group (UK) amongst 200 senior and middle managers, 38% of senior managers claimed to be 'paralyzed' by the ineffectiveness of people lower down the organization.² Leaders are finding that to remain competitive, it is not simply a question of finding the 'best' managerial talent, but the 'best' talent full stop – regardless of the role. However, if finding the 'best' managerial talent is difficult, finding the 'best' talent available for every role is the equivalent of being a hapless chef on an episode of 'Ramsay's Nightmare Kitchens'.

Topgrading is a proven process that enables organizations to systematically fill every role with the 'best' talent available. However, the 'devil is in the details' and a clear definition of what is meant by 'the best talent available' is necessary.

This paper presents Topgrading as a viable solution. It will address:

- » Topgrading definitions of the 'best talent available.'
- » Topgrading 'Best Practices.'
- » Hurdles to Topgrading and how best to overcome them.
- » Ways to 'jump start' your Topgrading program.

2. Definitions

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

Topgrading is defined as the ability to fill every position in the organization with an 'A' player, at the appropriate compensation level. This means that the organization targets only the best people and follows that practice in filling every position.

An 'A' player as defined by Topgraders is one who qualifies among the top 10% of talent for the compensation available for a position (any position).

'A' players are the best-of-class performers at the given compensation level; with whatever bonus and/or stock comes with the role; in that specific company with a certain organization culture; in that particular industry; with specific accountabilities, and resources; reporting to a specific person.

The rest are 'B' or 'C' players. 'B' players make up the next 25% in terms of talent and 'C' players are those below the top 35%.

Some organizations link whether an employee is an 'A' player or not to the role that the person occupies. 'A' players, for example occupy only strategic roles whereas those employees in non-strategic roles are defined as 'B' players.

Although on the surface, this may seem a simple definition, it does 'muddy the waters' as it were since it defines the *role*

rather than the employee. What happens if in the course of reviewing its business over the next 5 years, a company shifts strategy and a role that was once strategic, is no longer so? By definition, the employee is no longer an 'A' player but a 'B' player but with all the trappings of 'A' player status. Similarly, you can have an underperforming employee in a strategic role whose performance would normally peg them as a 'B' player for that role. Is that employee better than a top performing 'B' player in a non-strategic role?

Perhaps even more concerning is the impact that defining employees around roles has on mind-sets. There may be a subconscious belief (rightly or wrongly) that the company does not hire the best since the majority of employees are 'B' players (i.e., not every employee is in a strategic role).

Hence, we would caution defining employees around roles. You may stipulate that all strategic roles will be filled with 'A' players without exception and that non-strategic roles occupied by 'B' players with 'A' potential is acceptable for a certain time period.

Making it simple

Some argue that it is impossible to have all 'A' players within an organization because there are not enough positions around to promote them into. The fact is that not all people are equally promotable nor do all people want to be promoted into higher roles. To this end, some companies use the following scale to differentiate 'A' players:

- » A1: promotable to Executive Committee level
- » A2: promotable one or two levels above their present job
- » A3: not promotable (but still an 'A' player for that role)

The bottom line is 'A1', 'A2' and 'A3' players are more valuable than 'B' players.

3. Topgrading Best Practices

'Topgrading will become a continuous process of raising the bar in the identification of top and bottom players to enhance overall organization vitality.' Bill Conaty

Topgrading is an ongoing process that does not simply end when a company has identified its top talent. Topgrading involves the following 4 major areas:

1. Undertaking a rigorous talent review
2. Developing scorecards for every role
3. Utilizing the 3 topgrading interviews
4. Establishing a virtual bench of 'A' players

We will provide an overview of each area.

1. Talent Reviews

Every person within the organization should be reviewed using the topgrading interview guides every quarter. The interview guides will be covered in more detail under section three. But the following facts speak for themselves:

- » Typical companies hire only 25% 'A's, but topgrading companies hire at least 90% 'A's.
- » Typical companies find that only 25% of those promoted turn out to be 'A' players, yet topgrading companies achieve at least 90% 'A's.
- » Typical companies have only 25-40% 'A' players in management, yet topgraded companies achieve between 85-90% or more 'A's
- » Topgrading companies can improve from 25-40% 'A's to 85-90% 'A's with the topgrading interview-based hiring, promoting, redeploying, and development.

Having identified who are the 'A' players, 'B' players and 'C' players on their team, managers then need to develop an action plan that details:

- » Whom to support and make sure that they don't leave (i.e., 'A' players in strategic roles; 'A' players generally)
- » Whom to coach to get to 'A' performance within 6 months (i.e., people with 'A' potential)
- » Whom to redeploy into a different role, change the role to be a better fit, or move the person out of the organization
- » Launch searches to fill open or soon-to-be open holes.

The action plan should be updated every quarter and all managers should be held accountable for progress in the percentage of 'A' players on the team.

A Simple Truth

A simple truth is that 'A' players tend to hire 'A's, and 'B' players will tend to hire 'C' players. There are several reasons for this, the two most common being that non-'A' managers very often than not fail to recognize talent when they see it and when they do, they often do not feel safe hiring someone that might threaten them.

Talent reviews therefore must start from the top down.

The Financial Repercussions of mis-hires

What many organizations find hard to establish is the cost of a mis-hire (hiring the wrong person for a role). It is estimated that the average cost of a 'mis-hire' is approximately 15 X (times) base salary (See Table below). Thus, the average cost of mis-hiring a person earning a base salary of \$100,000 will be a staggering \$1.5 million over an 18 month period. The majority of that cost will be in lost opportunities and the cost of mistakes, but when you

consider that traditional companies hire only 25% 'A's, there is a lot of money being flushed away and not finding its way to the bottom line.

Table: Calculating the Cost of Mis-Hires

Number of years in Job: 1.6	
Base Compensation: \$102,692	Ave. (Mean) Statistics*
1. Cost of hiring	
2. Compensation (All years)	\$255,452
3. Cost of maintaining person in job	\$67,653
4. Severance	\$33,962
5. Cost of mistakes, failures; wasted & missed business opportunities	\$1,232,092
6. Cost of disruption	\$242,356
7. Sum of the Costs (# 1-6)	\$1,863,158
Value of contribution	\$360,721
Net Average Cost of Mis-Hire	\$1,502,436
	(14.6 X base compensation)

* Based on 100 client respondents supplied data on the costs of mis-hires in interviews (Topgrading; Smart, B.D; Penguin Group (2004); Page 46)

2. Developing Scorecards

Scorecards quantify the key accountabilities that define performance. In addition, scorecards also clarify the competencies that define 'good-fit' between a candidate and the role for which they will be hired or an employee and the role that they are currently in.

Developing scorecards for roles is not an easy exercise. It requires a full understanding of the role - how it contributes to the strategic direction and business of the company and an in-depth knowledge of the competencies required to fulfill the role successfully. In short, scorecards identify the mission for the role in plain, simple English that everyone can understand.

If done correctly, scorecards should guide the recruiting process; shape the hiring decision by ensuring that managers focus on the critical performance issues for the role. Generally, scorecards have a tendency to make explicit what job descriptions leave to interpretation as the following illustration shows:

Traditional Job description for Key Account Sales Manager

- Must be effective at capturing new accounts
- Must excel at closing business
- Must have excellent communication skills
- Must have 3 years of relevant sales experience
- Etc

Comment: How many new accounts must be captured?

Comment: How much business must be closed?

Comment: How is this measured? What examples can be shown?

Comment: What constitutes relevant experience?

As can be seen from the comments, much is left to interpretation.

3. Topgrading Interviews

Experience would suggest that not enough time is spent training managers on interview techniques. Targeted selection and competency-based interviews are strong tools however they are no guarantee that 'A' players will be hired. As discussed previously, experience has shown that typical companies using the above techniques hire only 25% of people who are later judged to be 'A' players. On the other hand, 90% of people employed by companies that have topgraded or used the interview techniques discussed below are later judged to be 'A' players or have 'A' potential.

Topgrading embraces 3 key interviews and each follows a questionnaire with set questions, centred on the role in question and where in the interview process they are.

The first is the **Screening Interview** which as its name implies is used to screen candidates. Candidates include both external and internal candidates. The Screening Interview covers topics such as the candidate's goals,

interests and importantly asks candidates to provide examples of what they are really good at professionally.

The second interview is the **Structured Interview** which is a 3 hour chronological, in-depth interview that covers aspects of the candidate's schooling, college or university (i.e., high points and low points); each job that they have held in the past 15 years (i.e., what were they hired to do; their accomplishments; low points; their bosses and how they would rate them; why they left) and their future goals. As the name implies, the interview follows a structured questionnaire which ensures that the interviewer does not stray from the questions that need to be asked.

The final interview is not with the candidate but with 10 previous bosses of the candidate and is the **Reference Interview**. Again it follows a structured questionnaire and covers topics such as:

- » The context in which the person worked with the candidate
- » The candidate's biggest strengths with examples of those strengths in the workplace
- » The biggest areas of improvement again with examples
- » How the boss would rate the candidate's overall performance in the job

There is no doubt that at the end of the 3 interviews the company has an excellent understanding of the candidate, what development plans are required, and whether the person is indeed an 'A' player or has 'A' potential.

The process may appear to be lengthy, but when you consider the time and the cost that managers spend on replacing a mis-hire, it is time well spent.

4. Virtual Bench

A company's 'virtual bench' is the feeder system for the company's topgrading future. Effective company Boards will have a network of leaders that they can tap into to fill a CEO role. However, that is about where it ends. Most senior managers do not have a virtual bench of 'A' players that they can access when the need arises.

Managers need to become relentless talent scouts and should be on the lookout for 'A' players all the time. Then, having found them, they should then go out of their way to get to know them.

As a goal, managers should aim to have at least 10 'A' players on their bench and should endeavor to have one meaningful touch point (i.e., a lunch, call or meeting) with a virtual bench 'A' player every week.

4. Overcoming hurdles to topgrading

'Here's Edward Bear, coming downstairs now, bump, bump, bump, on the back of his head, behind Christopher Robin. It is, as far as he knows, the only way of coming downstairs, but sometimes he feels there really is another way, if only he could stop bumping for a moment to think of it.' A.A. Milne

Hurdles to topgrading are usually centred around the following comments:

- » 'I can't get my 'B' and 'C' players to hire 'A' players.'
 - **Solution:** Topgrade from the top down. Remember that 'B' and 'C' players rarely hire 'A' players and that 'A' players rarely want to work for 'B' and 'C's. Therefore, steadily move the most important responsibilities from 'B' players and assign them to promotable 'A' players.
- » 'We think we are hiring 'A' players, but they turn out to be 'B' or 'C' players in disguise.'
 - **Solution:** Perform more accurate assessments using the 3 topgrading interviews
- » 'We can't afford to hire 'A' players.'
 - **Solution:** Yes, you can. In fact you are already paying for 'A' players with a given pay package whether or not you receive them.

» 'I don't want to fire loyal 'B' and 'C' players.'

- **Solution:** Redeploy chronic 'B' and 'C' players because failing to do so will be more painful to the company, your career and ultimately the employee.

In support of the points raised above, experience has shown that managers who topgrade:

- » Perform better, are promoted faster, and have more career options
- » Make more money
- » Experience less stress and agony covering for underperformers
- » Create more shareholder value

5. Jump Starting Your Topgrading Program

'Nothing matters more in winning than getting the right people on the field. All the clever strategies and advanced technologies in the world are nowhere near as effective without great people to put them to work.'

Jack Welch

If you are still not convinced that topgrading is right for you, answer these 4 simple questions:

1. Are you attracting the top 10% of talent available, and if not, why are you paying for 'A' players and not getting them?
2. Is your hiring success rate at least 90%, and if not, why are you not using the most advanced selection methods available to screen people?
3. Do you have 'B' and 'C' players causing problems when, for the same salaries, 'A' players could be driving performance upward?
4. Would having a team of 'A' players make your job easier and make managing more fun?

To jump start your topgrading program, require that your managers topgrade by:

- » Talent review every quarter (starting with the strategic roles) to measure your topgrading success and focus on action items
- » Scorecard each role (again beginning with strategic roles) to know what it is you are measuring

- » Get the best data for every employee by conducting a screening interview (where feasible), a structured interview, and reference checks (where feasible). Start with current employees in strategic roles preferably from the top down
- » Have the managers responsible for each discipline to have at least 10 'A' players on their virtual bench.

In summary, companies need to review their definitions of 'A' players beyond the context of their roles. Topgrading provides a proven strategy for hiring the best talent in all roles and experience has shown that those companies that have topgraded have consistently outperformed their competition.

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1. 'The War for Talent,' Michaels E., Handfield-Jones H., Axelrod B.; Harvard Business School Press; 2001.
 2. Survey conducted by the Hay Group (UK) amongst 200 senior & Middle managers in companies with more than 250 employees

About Valufacture Solutions

Valufacture Solutions Pty Ltd., are business consultants that specialize in the areas of strategic performance, ***talent***, sales and marketing effectiveness and execution excellence. As consultants, VFS creates outstanding value for its clients by providing them with the means to differentiate themselves from their competition and thereby accelerate and sustain both top- and bottom-line growth.

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2. **'Topgrading – How leading companies win by hiring, coaching, and keeping the best people;'** Smart B.D; The Penguin Group, New York; 2005

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