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*A Practical Guide
to Hiring an Executive
Who Will Increase
Your Company's Value*



LYNTON EDWARDS

Managing Partner of Edwards Executive Search

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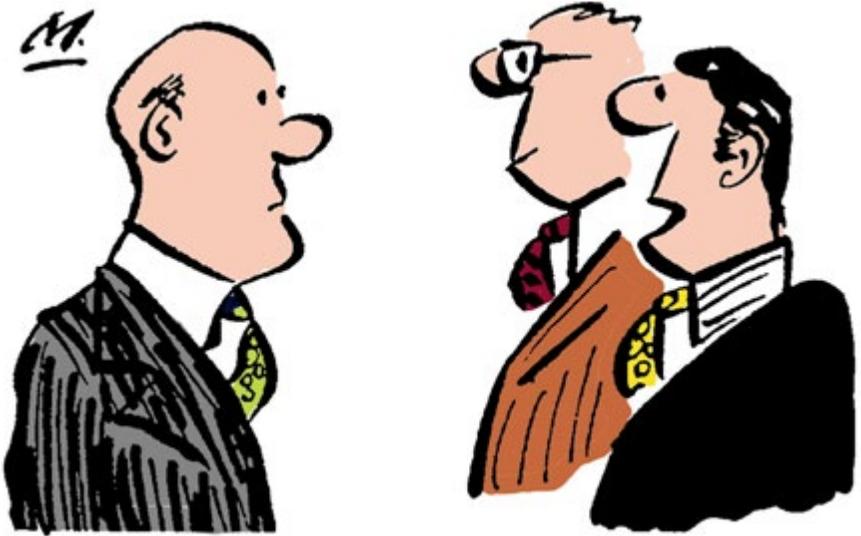
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We have worked with Edwards Executive Search for several years now and find Lyn to be extremely dedicated and thorough in finding the right individual for us. He is an excellent evaluator of executive talent and character, and understands the needs of our company. His practice utilizes innovative techniques to help give us a thorough picture of each candidate, and he does so in an economical and concise manner. I do not hesitate to refer him to others in need of a successful, cost-effective executive search firm.

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and to be honest we are after your scalp."

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LYNTON EDWARDS

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"Hello, sir. I'm Charles Henderson and I'm head of a successful executive search company."

Introduction

IEARNED MY MBA from a very good business school. I am proud of that and of the school. One semester I decided to take an HR course. I went to speak to the professor who was chairman of the human resources department. His office was deep in the basement of one of the buildings, tucked away in some dark corner. Perhaps the professors were assigned offices based on seniority or a lottery system, but I can tell you that the finance and accounting professors, who were the “rock stars,” did not have offices in the basement.

Given the location of my professor’s office, the experience of where I found him was an eye-opener for me. It was the beginning of my awareness and thought process about the

oft-downplayed importance of human capital in the success of a business.

In today's complex and highly competitive business world, hiring the best human capital is critical to a company. We used to call them "high performers," but in my view, that term is too vague and does not sufficiently describe the type of executives that a competitive, ambitious company needs to succeed today. That is why I prefer to call them "Value-Builders," a term much more indicative of what an executive in a key position is supposed to accomplish. A Value-Builder is what you want for any C-level position.

Value-Builders are people who deliver accomplishments that positively, meaningfully, and consistently add to your company's bottom line. Research indicates that the quality of an organization's executive team makes a meaningful difference in a company's valuation. The results of a survey conducted by Deloitte and reported in *Deloitte Insights* states that a company with effective senior management receives as much as a 35% valuation premium, as the quality of a senior leadership team ranks 2nd as the most important criteria that investment analysts use to judge company success.

The Deloitte survey of 445 investment analysts goes on to say that the effect on valuation of having superior senior leadership is greater on smaller companies than on larger companies. Thus it is especially essential to hire Value-Builders if you are a small- or mid-sized enterprise (SME). Such companies today exist in a highly competitive marketplace,

challenged from both the top and the bottom. SMEs have to run fast enough to outpace the many smaller upstart and hungry companies below them, while seeking to catch up to or not be squashed by the giants above. Survival depends on consistently growing and increasing your revenues, not just maintaining them. Your future depends on improving the profit contribution of incremental revenues, or by increasing margins to become more profitable if revenues happen to be stagnant. This means that your executive team cannot afford to miss revenue growth opportunities or bottom-line improvements, or fail to continually drive operational enhancements. They have to be able to function consistently and resiliently at the highest levels to build value.

Presenting a More Effective Methodology for Hiring a Value-Builder

The common thinking among business executives is that hiring a key C-level executive can be based largely on examining a candidate's past work experience and using it as a predictor of future performance. If a person has been successful at Company A, demonstrating top performance qualities, the thinking is that you can be fairly confident that he or she will bring the same strong results to a new job at Company B.

Believe me, this is myopic thinking. You cannot simply look at past experience as a predictor of someone's ability to perform well enough to drive up value in a different situation. A person may have produced strong results in Company A,

but when you move them into the same or similar position (or an even higher position) in Company B, it's a different story. No two organizations or situations are the same. Every company, every job, every challenge, and every team is different. So many factors can affect performance and effectiveness. The competencies you acquire in a newly hired executive may simply not bring on the same results when he or she steps into your position.

Relying on past experience as an accurate predictor of future executive performance is like picking stocks based on past performance—a flawed strategy. Past achievements are never a guarantee of future success. As a *Harvard Business Review* article by Sabina Nawaz says, studies show that there is a 50% chance that a new executive will leave the hiring organization within the first 18 months. The reasons stated for this alarming statistic include poor cultural fit, inadequate onboarding, or the lack of appropriate expectations.

This book will teach you a better way to find and hire the right Value-Builder for any specific position. The methodology needed to do this must be robust, thorough, and sophisticated. There are multiple steps or elements to getting this done. My methodology is precisely the full court press you need.

The heart and soul of my executive recruiting methodology is called the CompleteFIT® executive search process because it uses a variety of tools to ensure that a candidate matches a company's needs in every key dimension. The CompleteFIT process helps you look at four areas of alignment for each

candidate to verify whether the person is truly the exact Value-Builder you need *in that specific executive role*. The four areas include Technical/Experience-Based Fit (of course), Personal Fit, Cultural Fit, and Ethical Fit—and combined, they act as a sort of four-legged stool.

The CompleteFIT executive search process is structured, disciplined, rigorous, and holistic. There are several important elements to it. Chief among them is that my process uses proven scientific, state-of-the-art assessment tools to evaluate a candidate's competencies, motivation, and personality-based behavior. These allow you to determine whether the person can truly take on the responsibilities of the position and achieve your desired goals. What's unique about these tools is that they help you accurately understand how someone thinks and behaves not only in good times, but also in stressful times, when issues and challenges often cause people to change how they think, process information, treat others, and problem-solve.

A corollary critical part of my process is that I emphasize that you must specifically pre-determine the type and degree of both hard and soft competencies that are needed for value-building success in the position you are seeking to fill. You must pre-think the standards you need the candidate to meet to provide a context, if you will, so you are not simply judging people in a vacuum.

In this book, I will teach you how to conduct your own CompleteFIT process for hiring Value-Builders. Whether you

are a CEO searching for an executive for your team, or an HR leader involved in hiring your firm's highest-level executives, my goal is to help you learn how to improve your ability to find, hire, and quick-start truly great Value-Builders for your company.

About Me

I am not an academic. I am not an industrial psychologist. I am a professional headhunter, a practitioner of high-level executive recruitment. As such, I am interested in practical solutions, not theoretical ones.

My background has prepared me for this role. I am the former CEO of a privately-owned company, a corporate executive of a large multi-national company, and a former member of the Board of Directors of several companies. I have learned firsthand the criticality of having a top-performing, effective management team.

As my career indicates, I write with experience of what I will impart to you in this book. I have practiced these principles. I understand what it takes to lead a company as the CEO/President and I have been personally responsible for increasing a company's profitability and valuation. Early in my CEO career, I learned that if I didn't have the right people in the right positions, MY own success would be affected. I have witnessed firsthand the practical benefits of having a top-performing management team of Value-Builders—and I admit, I have also felt the pain of making mistakes in hiring.

For the past decade, I have been a C-level retained executive recruiter, aka, a headhunter. As a “retained” recruiter, I am hired upfront by client companies to find, assess, and place the right person into a specific high-level job they seek to fill. Most of my clients are seeking C-level executives, including CEOs, COOs, CFOs, VPs of operations, sales, marketing, or finance, and other top-level management positions. As such, I must constantly strive to provide my clients with the most professional, current, and relevant business advice, as my livelihood depends directly on how effective I am in finding the right candidate for each position.

In my executive recruiting practice, I give my clients a two-year replacement guarantee. This is longer than most retained recruiters offer. But, if the CompleteFIT process works, it should be longer, don't you agree? In my view, if a key executive is not in a company for at least two years, their impact cannot be very significant. A tenure less than that is not enough time to develop and implement strategies and actions, see results, and tweak the strategic and tactical initiatives to further improve results. I therefore need to “get it right” the first time. I believe that I have been doing the job well, as I have successfully placed hundreds of executives with close to a perfect record.

Hiring a Value-Builder will help you increase the value of your company. In fact, it is one of the most important factors, if not the most important, that is in your sphere of influence. Investing effectively in human capital is no different

than investing in other types of business capital, say capital equipment, for instance. A professional, robust, rigorous, and sophisticated process of recruiting and hiring will increase the chances of making the optimal hire and ensuring you get a good return on your investment. Having an effective process is the key to resolve any complicated business issue or challenge — and that fully applies to recruitment and hiring. I am a process person, having earned an MBA, a Master Career Coach designation, a Black Belt in Lean/Six Sigma, and a Black Belt in Tae Kwon Do — all highly process-driven activities. And I have applied the power of process to my executive recruitment practice.

Let me add that I am convinced that this process must also evaluate candidates from a *holistic* perspective. For a smart, talented executive to be a top performer and Value-Builder for you, for that person to thrive and deliver meaningful results, the holistic nature and alignment of the fit between the company, the position, and the candidate must be strong!

The scientific assessment tools that I discuss in this book were not developed by me, and I take no credit for them. I simply use them, along with other techniques that I will discuss, to get done what I need to get done. I do believe, however, that the combination of tools, techniques, and methods that I use in my executive search practice is unique. My methodology, as a whole, is designed to accomplish my definition of what a good headhunter does — i.e., find and place Value-Builders — and in this book, I offer my advice to you.

If you are reading this book as a CEO or C-level executive, or the VP of HR of a small- to mid-sized corporation, I am confident you will take away valuable new insights on how to go about your own hiring process based on the CompleteFIT methodology and recommendations you will learn here. I wrote this book to help you improve your own approach to search for, identify, assess, and hire Value-Builders so you will be empowered with the same knowledge and acumen that I bring to my clients resulting in successful recruitment and hiring.

LYN TON EDWARDS



"I'm a headhunter and I try to match highly skilled candidates with corporate clients. A degree in sociology of marsupials simply won't qualify."

Why a Value-Builder?

I RECENTLY HAD A client firm that was growing at a rapid pace by acquiring and integrating competitors. Rolling up the industry, they call it—buy and integrate, buy and integrate. The CEO was spending a lot of his time managing each integration because he correctly believed that if the integration of the companies did not go well, he should not have made the acquisition in the first place. But, he realized, because of the time he was spending on the integrations, important longer-term strategic issues for the company as a whole were not being thought through and developed. So he decided to hire a VP to handle strategy development.

He found some candidates from the industry and began interviewing them. He had used all the right recruiting

“tricks”—multiple interviews, group interviews, interviews over dinner, reference checks, and so on. Eventually, he found Jim Wolf (a pseudonym in this book). Jim was one of the smartest guys the CEO had ever met. He was thrilled and hired him.

Unfortunately, Jim knew he was smart and began acting like it. He treated others as if they were dumb and only he had the right answers. Nobody in the company liked him or wanted to work with him. Jim had not shown this type of behavior throughout the interview process. Of course, nothing in his resume had indicated he had such “issues.” And his references apparently didn’t want to say anything negative that might hurt him!

So, despite the time-consuming search that had been undertaken, the CEO let him go. The failed hiring cost the company big-time, not only in out-of-pocket costs, but in disruption and delay in dealing with the vital strategic issues that the CEO wanted resolved.

Investing in Human Capital

The story of Jim drives home an important point: human capital, more than ever, is a key driver of profitability, innovation, and sustainability. In my view, the primary goal of an executive team is to increase the value of their business unit. Other financial measurements—EBITDA, Gross Margin, various ROIs, and so on—all factor into valuation. But they really only matter if the value of the business enterprise increases.

There is solid evidence to support that your hiring the right key executives absolutely makes a difference in this regard. As I pointed out before, the Deloitte survey of 445 financial analysts who are in the business of determining a company's valuation concluded the following:

- The senior management team's effectiveness ranked as the 2nd most important criteria in determining a company's financial success.
- A company with an effective senior leadership team received a higher valuation from the analysts, as much as 35% higher.
- The effect of the senior leadership team on valuation was greater on smaller companies than larger ones!

If the quality of your leadership team is so critical, when you have a key management opening, shouldn't you utilize an executive search process to ensure that you are bringing in the right candidates and then selecting the optimal one who will perform at the level you need and expect?

Many large companies hire an industrial psychologist to help them assess candidates, but that is very pricey. Smaller companies are hard pressed to afford those types of resources. According to Compile®, and this is not news to anyone, there are a lot more small- and mid-size companies than larger ones that need to worry (even more so as reported by *Deloitte Insights*) about hiring the best executives:

- Revenues of < \$50MM = 5,682,000 companies
- Revenues of \$50MM to \$500MM = 38,700 companies
- Revenues of \$500MM to \$1B = 2,400 companies
- Revenues of \$1B+ = 2,900 companies

Today, even a company with revenues of \$500MM is not all that large.

These smaller companies must get their hiring just as right as the larger multi-national companies with millions of dollars in recruiting and candidate assessment resources.

What is a Value-Builder?

Based on my experience as a CEO and senior executive as well as an executive recruiter, small- and mid-size companies must focus on hiring “Value-Builders” in their key executive positions. Let me make the following distinctions to help you understand what a Value-Builder is. I read one article that defined three levels of performance among executives:

- **A HIGH PERFORMER.** These are executives who exhibit a high degree of performance, consistently being proactive in addressing challenges. As “A” players, they deliver results and do it without casualties. They seek solutions and encourage others to solve problems.
- **A NEUTRAL PERFORMER.** These executives are not detrimental, but they are not high performing

either. More like “B” players, they do add some value, but not as much as you really want or need. They mostly maintain the business and they do that well. But they do not meaningfully improve the enterprise.

- **A DETRIMENTAL PERFORMER.** These executives may work hard, be loyal, appear effective, but they really don’t help make progress at all in terms of improving the effectiveness and efficiency of their particular function. They are “C” or even “D” players, who ultimately get in the way of progress.

Of course, no one really wants to hire a neutral B player or a detrimental C or D performer (and if you have any F players, shame on you!). In my view, companies should do better than hiring even A-list players. That is why I add this fourth type of executive to the hierarchy:

- **A VALUE-BUILDER.** These executives are among the elite of top-performing “A” players. They drive meaningful economic improvement. They possess an impressive blend of skills that have a constant and consistent positive impact on your company’s performance. These executives have a clear sense of the company’s purpose and their specific role in delivering successful results at every turn. They generate actions on their own and lead others with deep insight and exceptional skills of analysis, reason, and persuasion. They have the ability to take advantage of new

opportunities that surface, and they can also effectively handle the challenge when there are problems or obstacles to surmount. They are intensely cognizant of the bottom-line implications of their decisions, so they operate with a clear view of the economics of every situation and the financial benefits at stake. When something happens that adds to the bottom line of the firm, it can usually be traced to the work of a Value-Builder.

In short, a Value-Builder has what it takes, that little bit extra, the combination of competencies that deliver results time and time again. Do you know what I mean? You've heard it before: they operate as if they were the company's owner, not driven just by sales growth or gross margins alone, but on total value creation.

In today's business world, it no longer suffices to hire just high performers if their efforts do not actually result in increasing the value of the firm. What is critical to your company is ensuring that, from this day forward, any position you hire is filled by someone who can accomplish a range of critical tasks that accordingly create value, such as the following:

- Providing outstanding leadership that inspires engagement of everyone in the organization
- Developing strategic plans and initiatives that take the company to new heights

- Implementing innovations and creating new ideas that ameliorate the company
- Increasing the productivity of those who report to them
- Cutting costs and bringing new efficiencies to your company
- Anticipating issues and problems and getting a head start on their resolution

These are the Value-Building leaders you need. Their actions result in economic improvement that brings on higher valuations among investment and financial analysts, as well as in the financial markets and lending institutions.

You Need a Robust, Thorough, and Sophisticated Hiring Approach

How do you identify Value-Builders? How can you distinguish them from “just” the A players? Based on my experience as both an executive and an executive recruiter, I can tell you the answer—it requires a meaningfully more robust approach to recruiting, interviewing, assessing, and hiring. You cannot find and hire Value-Builders using the traditional techniques of just collecting resumes, eyeballing past achievements and experience, checking references, and interviewing. That approach may find “A” players, but will it not help you hire true Value-Builders whose fit into your company must be far more precise and effective, allowing them to thrive and

deliver consistent Value-Building results while utilizing all of their talents.

The most common mistake companies make in hiring into key executive positions is making the assumption that the accomplishments listed on the resume of any candidate are a dependable indication of the future results you can expect. As I have stated, the achievements an executive has accomplished in the past do not ensure their effectiveness in *your position, within your team, in your company culture*. Each situation is unique, and may call for different or a different degree of skills, competencies, attitudes, working styles, and values.

Many CEOs and HR people believe that hiring is an art, with a human side to it, and that they have “a nose” for assessing the right person to be a key player in their company. They believe they can look at a resume, interview the person, and judge how his or her past experiences will align with the goals they have for the position they are hiring.

I concur that recruiting has an artful side, but it is not enough to find and hire the Value-Builder you need in that specific job. It takes a far more sophisticated and scientific approach to identify a true Value-Builder. The candidate assessment process you need to use must involve measuring people’s “hard” and “soft” behavioral competencies, attitudes, values, and motivations—and then matching those competencies to the specific requirements of the specific job they will take on. I am talking about a serious line-by-line comparison, not just an overview. The devil is in the details. This means

that you must take the time to effectively identify in advance the specific and detailed personal and cultural attributes and competencies the job requires so you know exactly what you are looking for in a candidate.

Examples of a Bad Fit

When the skills, competencies, and values of the candidate do not align with a particular job, it can lead to major disappointment and wasted time and money. Consider these stories.

SITUATION #1

John Tower, CEO of Standard Manufacturing, was coming up on his 12-month mark in his new role and it was painfully apparent to everyone that he was not delivering on the great expectations the Board had placed on him. They couldn't understand how someone with a career of progressive successes, beginning as a bright up-and-coming MBA and culminating with a successful five-year run as CEO of Kendrick Industries, could be failing so miserably at Standard, a company that on the surface seemed very similar to Kendrick.

John's story is not that uncommon. His reduced effectiveness was not because of any technical incompetence he had or lack of experience. He just wasn't a very good fit to the position of president of Standard. The dynamics and challenges that Standard faced as opportunities or roadblocks were not the same as those Kendrick had faced. The market circumstances, company inclinations, and resources were different.

Michael Watkins in his book, *The First 90 Days*, surveyed senior HR practitioners who agreed that the challenge for an executive coming in from the outside was “much harder” than when promoted from within.

Standard’s Board made a hiring mistake. Their hiring process was inadequate. John was not an effective leader for the position at Standard despite his accomplishments at Kendrick. His strengths did not align with what the company needed to increase its economic value. In fact, his particular weaknesses were damaging in that role. It was their own fault, and the business suffered. It didn’t have to be this way!

SITUATION #2

Susan Smith was a hard-driving executive who worked her way up the ladder through several successful consumer product companies. She had been very effective working at the executive level in a mid-sized company (\$200MM) when it was acquired by a much larger strategic buyer. She was among several execs who lost their job due to the consolidation. She swore to herself that she wouldn’t go through that again. So she took a job as COO of a smaller (\$75MM) family-owned business. The president of the company (a member of the family) told her that they were interested in growing the company at a steady but sustainable rate; and they had no interest in being acquired by another firm. She sighed with relief.

Unfortunately, however, within three months, she grew impatient with both the cautious approach and the “lack of business acumen” of the president. She couldn’t hide her

impatience with him. Staff, loyal to the president, began to complain about her attitude. She went from being a high performer at her previous employer to an average, detrimental performer at her current employer.

The problem was that she lacked sufficient self-awareness to recognize that she was not cut out for life in the “slower” lane of a smaller company. More importantly, her new employer didn’t bother to effectively assess her motivational profile and how it aligned with the company, a step that could have and should have been done! She was clearly competent to do the job, but she just didn’t fit in the new role! So, she failed.

So, What About “OK” Performers?

There are many stories about bad matches where the fit is so wrong that the executive does not stay very long, gets fired, or quits in frustration. These hiring mistakes are costly.

Obviously, hires this bad should be avoided.

But I would also suggest that the hiring of average performers or OK performers is not to your benefit and should also be avoided.

An article in *Scientific American* said that top performers produce 20 to 30 times more than the average employee in their field. And, in a *Harvard Business Review* article, “The Challenge of the Average Employee,” Anthony Tjan writes:

“They (average employees) can be a drag on those who are the best. While not everyone can be above average, the more mediocre talent you have in a business,

the more likely it is to have a negative effect on those who can really make a difference. This creates retention and motivation issues for your highest performers. There will always be a distribution, even if it is a forced curve, of talent potential and capability in a business. But the goal should be to raise the overall average of the entire pool, and avoid letting it get pulled down.”

Of course, every company will have some average employees; but that doesn't mean that you shouldn't aim higher. That's what I will be teaching you to do.