Finding the Right Leader: How to Disrupt Your Leader Selection Process

By Jake Appelman, Emily Livorsi and Lauren Ramsay

How to break out of the traditional leader selection mentality and utilize a more strategic approach to building future bench strength.

Jim Collins famously wrote, *"The first most important decisions are people decisions. The corporate leaders we studied who ignited transitions from good to great practiced the discipline of "First Who": First get the right people on the bus, the wrong people off the bus, and the right people into the right seats, and then figure out where to drive the bus. [Until] you have 90% to 100% of your seats filled with the right people, there is no more important priority."*[1]

While Collins' principles hold true, they often fail to survive the realities of the engineering and construction (E&C) industry—an industry frequently understaffed and underskilled in human resources and talent development. It is also an industry where leaders tend to make selection decisions "from the gut" and where key people decisions often come from a single leader or small group who controls most of the equity. In a business that tends to weigh projects over organization building, great companies view leader selection with the same rigor and discipline as business decisions, like project go/no-go or the evaluation of a potential joint venture.

The need to get the right people in the right seats may be one of the top challenges facing our industry's executives. Internal factors such as pending retirements, new strategic initiatives and rapid growth, combined with external dynamics, often all demand infusion of talent into new or existing roles.

"I'll know the right person when I see him or her." "I'm a great judge of character." "I use my gut to make the best hires." We often hear these phrases when leaders are referring to their talent selection process. And while we all want to believe that we know what we need from people in order to make our businesses thrive—and we think we can use our intuition to make that determination—even the best leaders are notoriously bad at predicting an individual's future success in a role and fit within the company's culture.

[1] Collins, J. C. (2001). Good to great: Why some companies make the leap … and others don't. New York, NY: Harper Business.

Let's look at an example to illustrate this point. Decision-making scientists asked engineers at two large organizations how they would rate their own performances. Nearly 40% of those surveyed suggested they were performing at the top 5% of their organizations.[2] As human beings, we are inherently biased to be overly optimistic and overconfident about our abilities. This logic extends to selecting future leaders for our business.

When selecting the right talent using gut instinct alone, on average, predicts 1% variability in future leader performance.[3] That is next to nothing. Yet most leaders in the engineering and construction industry rely exclusively on their intuition, limited data and minimally effective hiring tools to make leader selection decisions. This approach brings great risk in the form of promoting people before they are ready and losing talent due to perceptions of an unfair and biased selection process. While large, publicly traded companies can often recover from these mistakes, the majority of companies in the E&C industry are closely held and have most of their value tied up in just a handful of key people. To build a great and enduring future for the industry, this outdated model of leadership selection must be disrupted.

A Flawed Approach

The industry's intuitive and reactive method for selecting leaders, coupled with an already thin bench of internal leaders to draw from and only a few individuals at the top making key leader decisions, is due for disruption for a few critical reasons:

1. Selecting the wrong leader can be costly.
2. Using the wrong tools to select leaders can open your organization up to legal risks.
3. Using our own unconscious biases can make people decisions extremely difficult.

While the construction industry has made great strides in improving risk management from a financial and operations perspective, methods and practices for leader selection remain astonishingly outdated and put companies at risk.

The Financial and Legal Impact of Bad Selection Processes

A single bad hire at the executive level can be costly for an organization on several fronts. For one, it is estimated that the wrong executive hire could cost anywhere from $240,000 to millions of dollars.[4] This data will resonate with many executives who see the cost of putting the wrong PM or superintendent on a job and yet that same recognition often fails to inform the even more critical decision-making of executive selection. While the exact cost of putting the wrong candidate into a strategic leadership role in your business is a function of several unique factors, there are several direct and indirect costs that will come into play.

The cost of a bad hire includes lost opportunities for the organization, poor performance or weakened customer relationship effects as well as culture and morale disruptions. And the second-order effects, such as loss of confidence in the executives making leadership selection decisions and a feeling of "I can't get ahead" because of bias toward favored employees or family members, can be even more damaging. These issues may generate greater damage than the more commonly discussed costs associated with recruitment, including the executive's compensation, severance pay and the cost of hiring a replacement.

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[2] T.S. Zenger, "Why Do Employers Only Reward Extreme Performance? Examining the Relationships among Performance, Pay, and Turnover," Administrative Science Quarterly 37, 1992: 198-219.

[3] Schmidt, F. L., & Hunter, J. E. (1998). The validity and utility of selection methods in personnel psychology: Practical and theoretical implications of 85 years of research findings. Psychological Bulletin, 124, 262-274.

[4] http://www.forbes.com/sites/falonfatemi/2016/09/28/the-true-cost-of-a-bad-hire-its-more-than-you-think/#177e65ae71e2

At its core, leadership selection is a deeply personal, even emotional process and, as such, brings out all the devils of unconscious bias and perception unmoored in fact—all wrapped in the pressures of high-risk decisions that can impact a company for years. With this is mind, a rigorous and objective process is not just recommended; it is required.

Biases Get in the Way

As leaders, we would like to think we are unbiased in our decisions, that we weigh information fairly, and that we make rational decisions about people. We are all subject to biases. Our brains are great at devising shortcuts and creating rules of thumb about how the world operates and how people operate in it. If you doubt this, consider how many times you have heard: "I just had a bad feeling about that person," or "I knew they would be a star from the moment I met him or her." For the most part, this serves us well. These mental shortcuts help us learn quickly and operate effectively in an environment that places an ever-increasing importance on our ability to think deeply and process information.

But in the case of leader selection, our biases and mental shortcuts can backfire, leading to costly decisions. The following biases are especially relevant in our industry's talent landscape and can interfere with the leader selection process.

First Come, First Served. In an environment where great talent is hard to come by, we are naturally drawn to those candidates who are available, familiar and willing to take on the work in question. In most cases, those candidates who appear "next in line" or who apply first for the role may not be the best fit—even if they seem like the most obvious choice. This bias can get in the way of thinking more strategically about succession. Those with tenure and a history of technical and operational excellence (i.e., great project execution) are often considered first for key executive roles. However, while these candidates may be perfectly suited for the current phase of the business, they may be spectacularly unsuited to lead in an unpredictable and volatile future.

Just Clone Me. In our industry, executive selection and succession are often managed by a narrow group of people, usually determined through ownership. This can result in a fallacy that those who are "like me" are the best fit for the business and role. In this way, CEOs and hiring managers at the top may have narrow views regarding the best fit for the role and often end up selecting someone like themselves. This can be problematic for a few reasons. First, your current leader may be overestimating his or her effectiveness in the role. Second, the future, strategic needs of the business may require a vastly different approach and a new set of competencies.

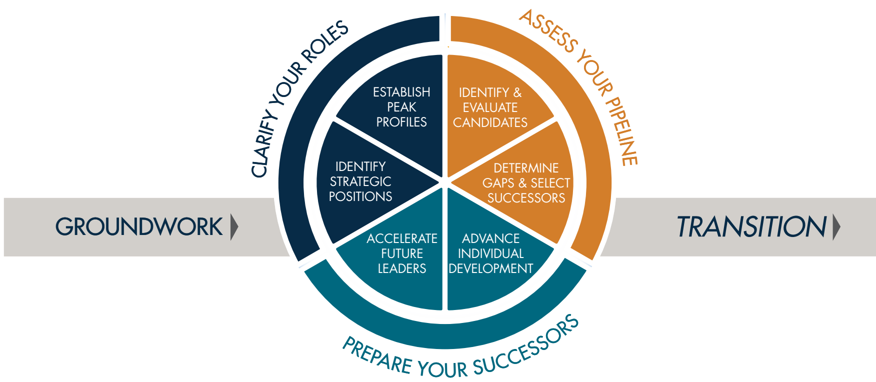
If It's Not Broke, Don't Fix It. As businesses evolve, they move through somewhat predictable life cycles, each of which requires a different leadership style. For example, during the business' startup period, leaders must be highly entrepreneurial, willing to take risks, hands-on and highly sales-oriented. Not surprisingly, later life cycles require more of a systems builder, discipline and a process approach. For example, if a retiring CEO born into an entrepreneurial environment searches for someone just like himself/herself, the results can stunt future organizational growth and health.

Time Is On Our Side. Leader selection is one of the most critical aspects of a transitioning leader's legacy. The ultimate test of a successful leadership transition is when the next generation is ready to take the reins and move the company forward on a successful path. And yet, time and time again, we hear, "It's not like I'm retiring next year." The planning fallacy is the tendency to underestimate the time required to do something well. Transitioning someone into an executive role with sufficient time is critical because it 1) helps new leaders ensure they have a true understanding of the role and expectations, and 2) gives new leaders a head start in the new role.

A New Approach

Leaders can drive organizational success by using more effective practices in succession and selection. The following outlines key areas that FMI has identified through in-depth industry research and that are part of a broader approach to succession management (see Exhibit 1).

EXHIBIT 1 FMI's Peak Succession Model



Source: Model is based on in-depth industry research

Set the Groundwork:

Start Early. It may seem premature, but effective succession planning begins five to 10 years before the actual transition happens. In fact, the processes at play for succession should always be in motion. In effective succession planning, for example, leader evaluation and talent reviews are consistent and part of the regular rhythm of the business. In this model, organizations have access to many data points on internal candidates and can bring a variety of perspectives about an individual's fit for a new role. Furthermore, in this model you can identify future gaps that will need to be filled externally at some point and start networking and creating powerful recruitment strategies to find the right fit versus the immediate fit.

Clarify Your Ideology. Executive transition is emotional, deeply personal and challenging for those individuals who are transitioning out of the business. Transitioning executives often wrestle with how to capture the essence of the organization and preserve its core even as the organization grows, changes leadership, tackles new strategies and explores new markets. Crystallizing the soul of the organization can help clarify what type of leaders will fit with the culture.

Establish Your Goals and Strategies. Clarifying the organization's near- and long-term goals helps executives better understand the competencies needed to capitalize on these strategies. For example, consider the company that's moving from public markets and into private markets. The competencies relating to relationships, interpersonal influence and negotiation must change significantly. A leader who will execute on strategies related to team and talent development will likely need competencies around interpersonal sensitivity, motivating and inspiring, and mentoring and coaching others.

Clarify Your Roles:

Establish Peak Profiles. In our industry, leaders tend to overestimate the level of technical skills and background needed for a leadership role while underestimating the need for softer skills and competencies. The reality is that deficiencies on either side can derail a leader. FMI recommends a process of defining the role requirements, technical skills, minimum qualifications and required competencies to succeed in the role. Put simply, role requirements define what you do, technical skills and minimum qualifications define what you need to know, and competencies are sets of behaviors that will define how you do it. Competencies play a critical role in leader assessment and selection and can help align talent with your organization's strategic direction.

> **Criteria for Great Competencies:**
>
> - They align with organizational values
> - They align with your vision for the future and your strategies for success
> - They differentiate an average performer from a star player
> - They should be concise and focused

Assess Your Pipeline and Evaluate Candidates:

Use Structured Interviews. In most organizations in the E&C industry, interviews are a collection of arbitrary questions, including some personal favorites among hiring managers. Through a more rigorous, structured interview approach, companies can better predict future performance. In structured interviews, interviewers utilize an organized discussion guide that is closely tied to the actual job profile or a "Peak Profile." The interview guide also includes recommendations for rating and scoring candidates. Using this method, selection specialists train interviewers on how to ask questions effectively and rate candidates objectively.

Add Objective Assessments. In addition to structured interviews, assessments that have been validated for the use of candidate selection (internally or externally) help remove biases and shed light on blind spots or hidden strengths. When choosing the correct assessments, organizations can identify areas where their candidates align with the Peak Profile and areas where candidates may fall

Characteristics of A Structured Interview

- Interview questions grounded in Peak Profiles measure skills and behaviors related to future job performance more accurately.
- Using this method makes the hiring process more legally defensible and reduces biases in decision-making.
- Interview questions tend to be more challenging compared to unstructured methods.
- Once developed, the interview guide becomes easy to use.
- Structured interviews also incorporate questions to assess a candidate's alignment with the company's core values.

short. Assessments will also identify red flags that hiring managers may want to probe or explore in more depth during follow-up interviews. A selection specialist can ensure that the assessment tool chosen is both valid and maps well to your Peak Profile.

To be validated, assessments must be interpreted as being relevant to the job while also reliably predicting future job performance. In addition, the organization's selection assessments must not adversely impact protected groups such as women or racial/ethnic minorities. Assessments are being utilized more commonly to weed out ill-fitting candidates quickly and with less bias. Some of the more advanced assessment tools, like Pinsight Leader Simulation, use online platforms to simulate an executive's experience, assessing leader behaviors in real-time and determining fit and readiness for executive roles. Drawing from the science of behavior and personality, and insights from tools like Pinsight, selection specialists can provide readiness timelines, an assessment of future potential, cultural fit and alignment with the organization's strategic goals.

Examples of Valid Selection Assessments	Examples of Assessments to Avoid for Selection
Pinsight Leader Simulation	Myers-Brigg Type Indicator (MBTI)
The Hogan Battery	The DiSC Personality Assessment
The Watson-Glaser™ II Critical Thinking Appraisal	Emotional Quotient Inventory (EQ-i)

Getting the Right People in the Right Seats: The Succession Priority

With the baby-boomer generation retiring at a rapid rate, and with skilled, experienced labor becoming more and more difficult to find and retain, E&C firms must take a more strategic approach to identifying and selecting future leaders. Fundamentally, leadership selection decisions are the ultimate privilege and responsibility of senior executives. These choices arguably do more to shape an outgoing leader's legacy than any other business decision. That is why these decisions are so difficult and why any seasoned executive can tell many stories about the wins and losses when it comes to identifying the right leaders. While a rigorous and objective process for selection will never fully ensure the right choice, it does greatly improve the chances of success. In the face of a market that puts an increasing premium on talent and employees who rely on leaders to make accurate and informed decisions about their careers, disrupting the traditional selection model is not just a business imperative, but it's also the right thing to do.

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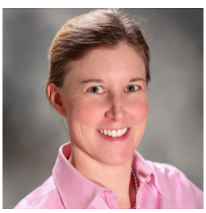

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