

## Elite Talent – what is it? V2

### What is the purpose of this article?

Enable the investor, founders, board of directors and C-Suite to discuss the role of elite talent in their company's success.

### What are the critical learnings in this article?

- 1) A small percentage of people can generate much of the value within any team or role. This is elite talent.
- 2) A small percentage of roles can generate much of the value within your company. This is high potential elite talent.
- 3) Elite talent is rare. High potential elite talent is even rarer.

### What is the value and need for elite talent?

In today's competitive business environment, there is unlimited capital for companies that have the potential to create major value, The talent to create major value is rare.

One study of talent across many types of organizations showed that: <sup>1</sup>

- 1) The top 1% of people account for 10% of the organizational output.
- 2) The top 5% account for 25% of organizational output.
- 3) The top 20% account for 80% of organizational output.

Adding one elite performer to a team, can increase overall team performance by 5-15%. <sup>2</sup>

Google found that people performance follows a power law distribution, and not a bell curve. Top 1% of workers generate 10 times average output. <sup>3</sup>

McKinsey's research on private equity portfolio company CEOs showed that: <sup>4</sup>

- 1) Top quartile CEOs deliver shareholder returns that are 9% higher than industry peers, every year that they're CEO.
- 2) In some industries, top quartile CEOs deliver 16% higher yearly shareholder returns.

One company with thousand of employees, found that 37 roles delivered 80% of the company's EBITDA <sup>5</sup>

### How does "Moneyball: the art of winning an unfair game" by Michael Lewis, illustrate elite talent.

- 1) Billy Beane became the Oakland A's baseball team general manager in 1997.
- 2) There was over 100 years of baseball wisdom on how to select talent, especially from school. The front offices, managers, coaches, scouts, and players all shared a common point of view regarding the best practices for selecting talent.
- 3) Billy Beane did not follow 100 years of wisdom. He took a fact-based, mathematically analytical approach.
- 4) The Oakland A's then reached in playoffs in 2000 to 2003. In 2002, the A's player budget was \$44 million U.S., the New York Yankees' player budget was \$144 million U.S.

My observations:

- 1) You don't need everyone to be elite. One person can change the organization.
- 2) The basis for change was selecting the right talent in the first place. (E.g. out of high school) rather than trying to change existing talent.
- 3) Money alone does not ensure elite results.
- 4) Fact-based analysis is critical. Cambridge physicist Ian Graham developed the mathematical model which was used to select the manager and players for the Liverpool FC rugby team, resulting in them winning the 2018-2019 UEFA Champions League.
- 5) You succeed if you do something both different and better than others.
- 6) But then the other teams copied Billy Beane's approach. In today's hypercompetitive world, competition improves, thus elite talent needs to also improve. If elite talent doesn't improve, it will no longer be elite.

### Why do you need high potential elite talent ?

The definition of a high potential person is someone who can become key driver of organizational performance i.e. "generate exorbitant output that can influence the success or failure of their organization. This is different from individual career success. Many leaders that advance in their personal career don't turn their teams or companies into competitively differentiated success. XX

High potential people can impact your company's success both today and in the future. High potential people can change to continue to be elite in new roles or changing existing roles. Yesterday's requirement for elite capabilities may be different from today's requirement or tomorrow's requirements. Someone who was elite yesterday might not be elite today or in the future.

### What are the characteristics of high potential elite talent?

- 1) Cognitive skills
  - a) Long-term memory
  - b) Working memory: hang onto information while using it
  - c) Logic and reasoning
  - d) Visual processing
  - e) Processing speed
  - f) Attention
    - i) Sustained – for long periods of time
    - ii) Selective – without distraction
    - iii) Divided – doing two things at once
- 2) Ability to quickly learn and unlearn: paradigms, frameworks, methodologies, data, facts, knowledge.
- 3) Fluid intelligence the ability to solve problems without past experience. This is critical for innovation, which is coming up with new and better solutions.
  - a) The future is impossible to predict but actions and decisions are focused on this unpredictable future.
  - b) The future will also be different from the past. i.e. there won't be historical experience to draw upon.
  - c) Able to provide direction when there is no map.
- 4) Character
  - a) VME (Values, Morals, and Ethics) Warren Buffett supposedly said "...looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you."
  - b) Courage: It takes courage to make the right decision. The right decision is often not: the cheapest, easiest, lowest risk to the company, lowest risk to you, and what everyone else is doing.
  - c) Perseverance, especially against all odds.
  - d) Knowing when to stop persevering. One leader told me "If you're digging yourself into a hole, stop digging."
- 5) Relationship skills:
  - a) The ability to create and sustain a network of personal relationships.
  - b) Persuasion and negotiation, which is key to managing different points of view and interests.
  - c) Creating and maintaining followers. A leader without committed followers is not a leader.
- 6) Communications activities include:
  - a) Write, speaking, singing, drawing, and body language
  - b) Speaking and singing also include tones, pitch, etc.
  - c) Communications is two way:
    - 1) Broadcasting
    - 2) Listening, which includes analysis of input
  - d) Communications can have a variety of outcomes, including:
    - 1) Understanding other people
    - 2) Changing the belief, emotions, and behaviours of others.
    - 3) Learning such as facts, knowledge, ways of thinking.
    - 4) Building trust and relationships.
    - 5) Persuading people to take certain actions.
    - 6) Gaining the emotional and intellectual support of people.
- 7) Creativity

A Google search of creativity reveals many very different definitions of creativity. Two definitions are:

  - 1) "The *ability to think about a task or a problem in a new or different way*"
  - 2) "*Creativity involves two processes: thinking, then producing.* If you have ideas but don't act on them, you are imaginative but not creative"

### How do you select elite talent?

- 1) The best predictor of how someone will perform in a job is a work sample test (29%) <sup>6</sup> For example, when recruiting board directors, they should serve for one year as a board observer, to enable assessing them.
- 2) The two second best predictors are: are tests of general cognitive ability (26%); <sup>7</sup> and structured interviews (behavioural (tell me about a time) and situational (what would you do if) (26%)). <sup>8</sup>
- 3) Four interviews predict whether to hire someone with 86% confidence and each additional interviewer adds 1% confidence. <sup>9</sup> This assumes that you are clear on what value the role provides, the specific characteristics of people who can deliver that value, and do a combination of work sample and structured interviews.

- 4) The definitions of elite talent change over time. At the 2023 Collision conference in Toronto, one presentation shared a survey of over 200 Chief Technology officers. The top three things they were looking for in employees: ability to collaborate, ability to learn, ability to problem solve. Coding skills and knowledge of coding languages was not in the top 3. Several years ago, coding skills would have been the competitive differentiator.

#### **How do you select high potential elite talent?**

- 1) You first select for elite talent, using the criteria described above.
- 2) Then you do additional assessment using the seven high potential characteristics described above.
- 3) You'll have to use enhanced behavioural questions and background checking.
- 4) Psychological testing is also required. This can be done by software, psychologists, or some combination

#### **What are your next steps?**

- 1) Create the definitions which are commonly understood within your company, including: talent, value, elite talent, high potential elite talent, etc. Your words and definitions may differ from what is in this article.
- 2) Determine which company roles would benefit from elite talent. Consider the time, effort, and skills necessary to assess, select, and develop elite talent. The initial scope of your analysis ranges from the board of directors through to the most junior entry level employee. Contractors may also be within scope. If there are investors which control or greatly influence your company, they are also within scope.
- 3) You can also focus on the roles which have the greatest current, or potential, impact on company value. These roles will require high potential elite talent. The you'll need additional time, effort, skills, and software to assess, select and develop high potential elite talent. These roles won't necessarily be the highest roles in the organization chart, but will be at many levels. Include the board of directors, CEO, and C-Suite in your analysis
- 4) You will need a process to allocate the extremely scarce high potential elite talent. Years ago, the board of directors and CEO were focused on allocating the very scarce capital – potential capital is now unlimited. Thus, the board and CEO need to focus on talent allocation. You'll also need a process to allocate high potential elite talent at the board of directors.

#### **Footnotes:**

<sup>1</sup>Tomas Charmorro-Preeuzic, Seymour Adler, and Robert B. Kaiser, "What science says about identifying high-potential employees." Oct 3, 2017

<https://hbr.org/2017/10/what-science-says-about-identifying-high-potential-employees>

<sup>2</sup> Ibid

<sup>3</sup> Laszio Bock, *Work Rules* (New York: Hachette Book Group, 2015), 182

<sup>4</sup> Maria Capozzi, Sacha Ghai, John Kelleher, and Kurt Strovink, "CEO alpha: a new approach to generating private equity outperformance", McKinsey article March 2023

<https://www.mckinsey.com/industries/private-capital/our-insights/ceo-alpha-a-new-approach-to-generating-private-equity-outperformance>

<sup>5</sup> Ibid

<sup>6</sup> Laszio Bock, *Work Rules* (New York: Hachette Book Group, 2015), 91

<sup>7</sup> Ibid., 91

<sup>8</sup> Ibid., 91

<sup>9</sup> Ibid., 103