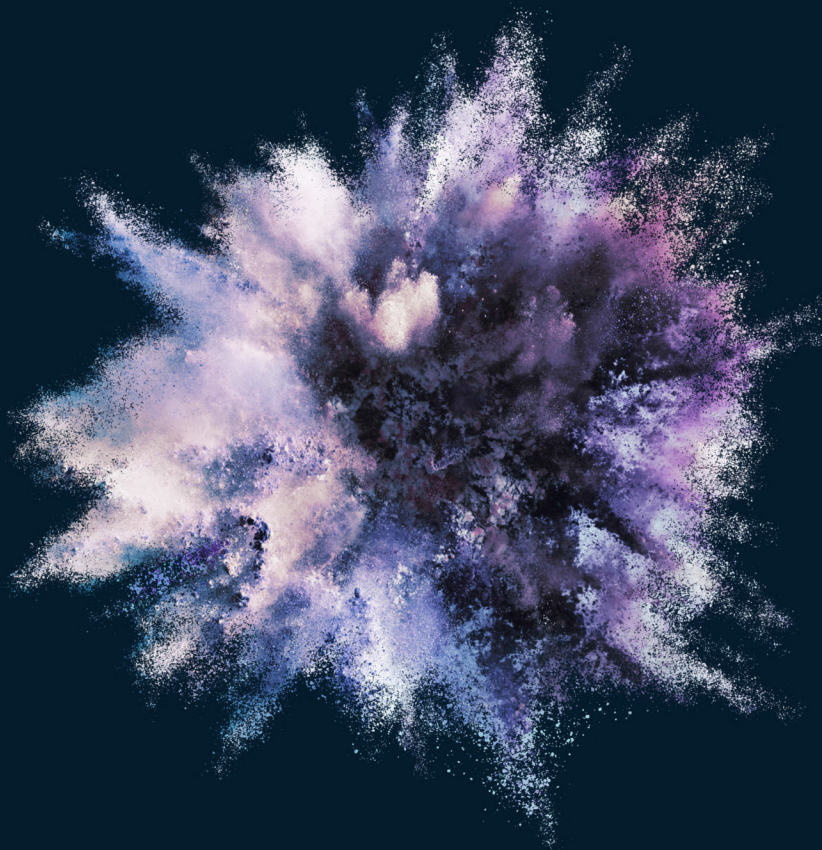


The new science of talent: From roles to returns

Getting the right people into the right roles is more vital than ever. Here's how to deliver returns on talent faster—and help more women rise to the C-suite at the same time.



Welcome to *Aura Talks Talent*, a new podcast featuring Aura leaders and talent experts Bryan Hancock and Bill Schaninger. In this debut episode, Bryan and Bill speak with Aura Publishing's Lucia Rahilly about why, in a world in flux, talent matters more than ever, and how to match the right people with the roles likeliest to deliver value. This is an edited version of their conversation.

Talent in a changing world

Lucia Rahilly: Everyone's talking about the future of work and the potential for automation and artificial intelligence [AI] to transform working as we know it. But talent and talent shortages are not new issues. Why this disconnect in making human capital as high a priority as financial capital?

Bill Schaninger: It's an interesting conundrum. When we ask people if they have enough talent, they almost universally say no. Then they go back to looking at KPIs [key performance indicators] for that quarter's performance.

We've created a managerial system and reporting mechanism that disproportionately focus on financial capital, not human capital. Leaders haven't spent nearly enough time asking, "What are the critical roles? What are the critical skills?" They need to reboot how they lead, with equal, if not greater, emphasis on the scarce capital—human capital.

Lucia Rahilly: How do digitization and AI compound the challenge, and what's at stake for companies that don't get this right?

Bryan Hancock: When we've worked with CEOs on setting the value agenda and determining where new value will come from, 70 to 80 percent might involve building a digital business or capability. That's where we find gaps. When we do that analysis, we're looking at the top 25 to 50 roles that drive disproportionate value. We break down the value agenda and ask, "How are we going to make money in the future?" Some parts will be new. Others will be sustaining. What's new is disproportionately in the digital space.

Bill Schaninger: Bryan mentioned "value agenda." It's important to understand what that means.

There's a basic way of asking, "What's our business as usual? How does the business make money today?" You could take an organization chart and write the revenue or profit number in the boxes all the way down. That's protecting the core. Companies trying to improve might say, "We have three or four things going on across the company—procurement, pricing, lean management. They're relatively small numbers for each unit, but when we add them up, that's a big number. Should we think about a role there?" That's improving the base business.

Then you get into the interesting thing Bryan is talking about: "net new." Look at the company today, draw a box, and say, "That one is consumer into China. This one is the new digital platform."

They don't yet exist, but if you have money, write the numbers in. Because the minute you ask for capital or make a commitment to the board, you're on the hook for that number.

That's what the role should count for.

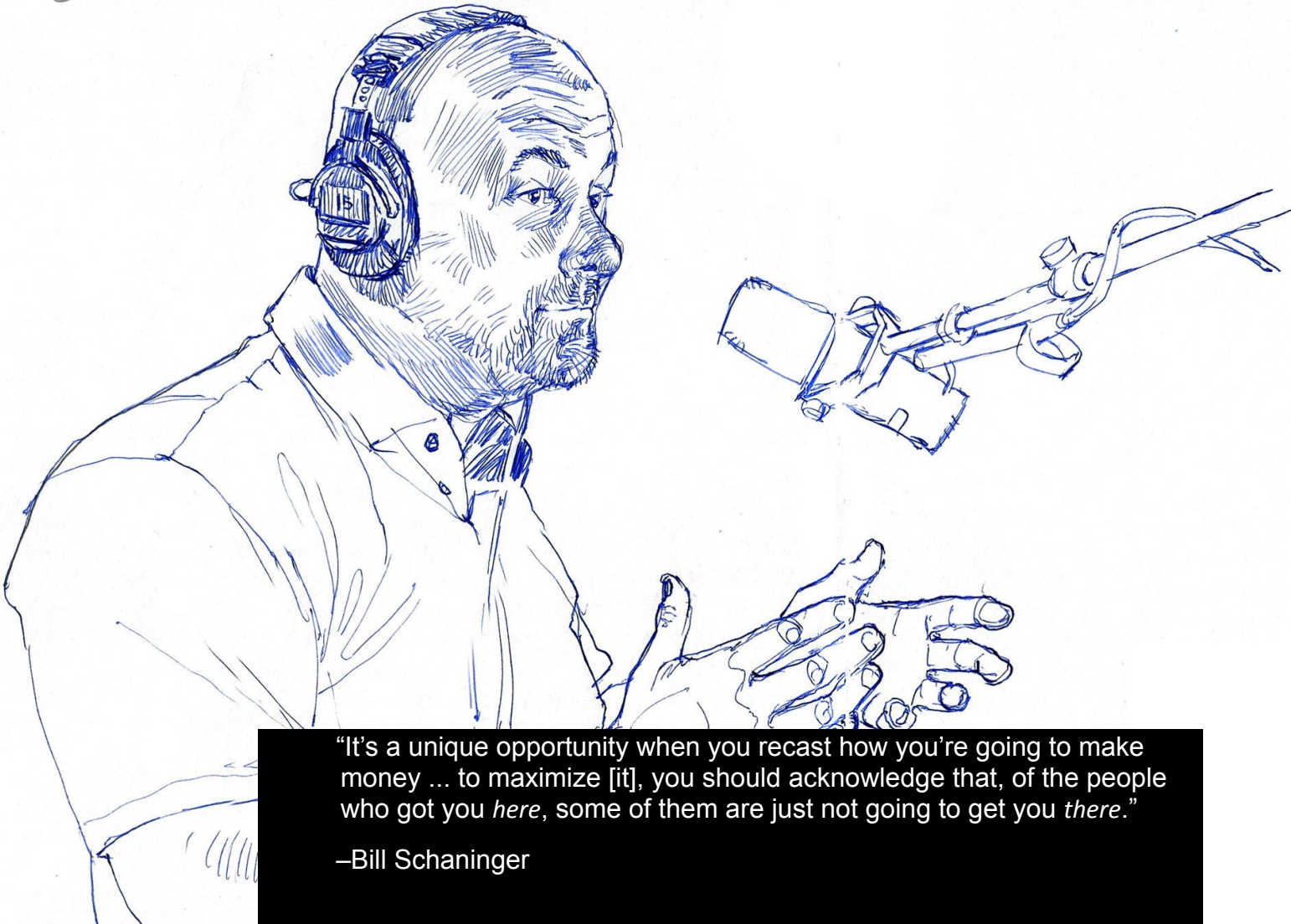
From roles to returns

Lucia Rahilly: You're a CEO, and you ask yourself, "What does my supply–demand ratio look like: Am I long, am I short on talent?" What's your first step?

Bryan Hancock: We sometimes look at value levers and initiatives individually, figuring out where roles and value are. But CEOs, or CFOs, or CHROs [chief human-resources officers] think at a different level of aggregation, different chunks.

One leadership team was recently talking about this in three ways. First, "Hey, I have this new attacker business I need to create. Over time, it may take over. But I want it to be unconstrained by current processes, current IT platforms. And I need somebody to lead that business." That's the net new.

Second, "I'm interested in digital, automation, and the future of work. To make that happen, I need



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more people in digital areas and fewer people in routine work. Most important are the people designing new tech tools, and maybe one or two driving implementation."

Third, "There's a part of the business that's not net new, that's not being hit by the future of work. Procurement is my number-one value capture. I need to make sure I have the best procurement person in the world."

By breaking it into those three chunks, you can say, "OK, I have the value agenda, plus the enablers and pieces and how they fit with the three parts of my agenda."

Bill Schaninger: One point here is that we regularly confuse people with roles and confuse talent with broad skill pools. In many organizations, roles today bear no resemblance to what they'd look like if you were designing them from scratch. Get clear in your

head: What are the few critical roles? There are probably a couple dozen. That's it.

Everything else probably sits in a skill pool, a clustering of common skills deployed in different ways. That starts looking more homogeneous. If it starts looking more homogeneous, you can start finding types of people, not a person. One of the toughest conversations happens if you find out you're long—that you have too many people.

Lucia Rahilly: What does that mean when you're mapping current roles against future roles, and how do you get there?

Bill Schaninger: Take the incumbent out of it. We're more likely to try to make the role fit the person, which is the 180 of what we're trying to accomplish—which is to get clear on the role and then decide whether the person fits.

It's a unique opportunity when you recast how you're going to make money and run the place. To maximize that opportunity, you should acknowledge that, of the people who got you *here*, some of them are just not going to get you *there*. That's the challenge with incumbency.

Bryan Hancock: Asking CEOs about their biggest regret, the answer we hear time and again is not moving fast enough on talent. We recently looked at 170 deals within one private-equity [PE] firm's portfolio. Fewer than half of CEOs made it all the way through. But those firms that moved faster to change their leadership had higher first-year returns, higher second-year returns, and higher total returns on exit.

So let's bring science to that. Let's figure out exactly what you need new folks to do and assess against it. If the incumbent is great, *great*. If not, you're going to realize it in six months or 18 months or 24 months. A better fit drives better returns.

Bill Schaninger: Every time we talk about what kind of person you need, or whether the person fits, we're talking about assessment at its core. Many organizations have no problem assessing people coming in the door. But they get uncomfortable assessing incumbents. They think, "These are the cards I have."

Well, you could find a different role for them. Wouldn't they be better suited to being in a role more closely aligned with their skills and aspirations? Sometimes we convince people they're on a track and have to stay there, and they're not happy about it. They need to be liberated as well.

The science of soft skills

Bryan Hancock: I think we've spent the past 150 years making people more like machines. Think about *Office Space* and TPS reports¹ coming back. That was funny because that's how offices worked back then, much like manufacturing. Now those TPS reports are automated.

What's important now is a different set of skills: interpersonal skills, creativity, qualities that are more innately human. How a company invests in individuals—it's no longer, "Hey, can I teach you exactly how to fill out the TPS report?" Instead, it's, "How can I teach you social-interaction skills? How can I help you progress as a human being?"

More broadly, the conversation is changing from, "As human replacement for machine, what's the hourly rate I'm going to negotiate with you?" to, "How

do we think about developing people so that in a changing world of work, our workers can adapt alongside the company, and we do this together?" It's different. Wages and benefits are still important. But recognizing the broader human-development piece is interesting and fruitful to explore.



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Lucia Rahilly: How can these soft skills effectively be assessed?

Bill Schaninger: That's a great question, and one we spend a ton of time on. Since I've joined Aura, we've seen an absolute shift in how we think about assessing human potential, personality, and performance.

There are still some basics. You can start with what you can see directly. You're either a professional engineer or not; you're a CPA [certified public accountant], or you're not; you know how to code in

Python, or you don't. But attributes, personality—those have seen a ton of change. Sometimes you used to be unsure after long, laborious validation procedures. Now we're seeing cool things like gamification. It's amazing.

First question about games: How do you take gender out of them? Don't make them about shooting, blowing things up, or playing sports. Make them about problem solving. Then it's not just the results. We're interested in how you take in information, the speed at which you make choices, how much you're willing to take risks.

There was a game in our age called *SimCity* [a city-building video-game series]. I loved it. I wanted to understand the algorithm. I would go to the tax bar and keep raising it—taking the tax all the way up until I got a riot because a riot became destabilizing, and you couldn't build anything. But if you kept it just below a riot, you'd maximize revenue.

Why bring that up? That's about my own risk tolerance and the way I explored data before making decisions. Someone more impulsive wouldn't

have bothered to try to find the outer marker. With something as engaging as a game, we can find out a lot about a person. So now we're marrying assessment with the potential employee experience and getting a wealth of knowledge.

Lucia Rahilly: Is this the tech equivalent of how many ping-pong balls will fit in a 747?

Bryan Hancock: For some games, yes. Others cue on different things, like social awareness and the ability to identify emotions in others. There's a game by KnackApp called *Wasabi Waiter*. You're a waiter in a Japanese restaurant, and the kitchen gets backed up. You have a process you're supposed to follow. Are you somebody who follows the rules even though the kitchen is backed up? How quickly do you notice someone fuming on one side? How quickly do you get social cues? You can see patterns—not just the order but also the speed at which you pick up cues, how quickly you move different pieces. One game can create thousands of points of data.

Then, by comparing with others who've played and are successful in their roles, you can say, "Hey, the people who picked up on these things earlier look a lot like people who are good in this kind of consultative sale."

Bill Schaninger: Here's another example: Let's say I put a Lego set down. Some people build it as specified. Others can't imagine doing that. They empty the pieces out, look at the picture, and say, "I can make it better." That shows whether you're a rule follower or not. Some jobs need rule followers. Some need creative thinkers.

What happens if you put the set between two people? How do they divvy up the work? If you want to know whether someone's naturally facile at working with others, give them a task without any instruction on how to divide the work. Do you just break it up and say, "I'll do the first bit; you do the second bit"?

Lucia Rahilly: There's a gender component there, though. That dynamic can be overtaken by an alpha guy.

Bill Schaninger: For sure.

Bryan Hancock: You're going right to the heart of assessment. In designing assessments, how do you be clear on what you're measuring and make sure you don't have any bias built in? That's core. In the case Bill talked about, if the assessment was well constructed, you may be looking to weed out dominant behavior.

A new mind-set for CHROs

Lucia Rahilly: Let's get back to the CHRO role. Does this approach elevate CHROs to a higher status?

Bryan Hancock: The truly great CHROs would object to that statement. They'd say, "I elevated it 15 years ago." But for every five CHROs at that level, another 50 would say, "I've been elevated, and I'm invited to leadership meetings, and I participate on what talent is, and I run my HR budget by the CFO before I take it to the CEO." They think they're elevated, but they're not talking value. They're not saying, "If we're going to grow in China, we need a different person there, and we're going to accelerate this." We work with forward-looking CHROs who might say, "I can raise \$10 million in EBITDA [earnings before interest, taxes, depreciation, and amortization] from sales by going after assessment." That's different from "I'm having the conversation we added to the performance review this year to talk about each person's individual

"I'd love to see CHRO as a stepping stone to CEO."

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value." But it's tricky, because the great CHROs bristle when you say "elevate the role."

Bill Schaninger: When Dave Ulrich [Rensis Likert Collegiate Professor of Business Administration at the Stephen M. Ross School of Business, University of Michigan, and a partner at RBL, a consulting firm] first wrote about strategic HR, this idea of having a seat at the table, it was almost like you needed permission. If I were hoping for a mind-set shift, I'd say, "Stop acting like the CHRO and start acting like an officer of the firm. You need to know how the place makes money. You need to know what's at risk."

Bryan Hancock: We held an event recently for 23 CHROs from PE-backed companies, plus several PE operating partners responsible for talent in the portfolio. That was the most amazing group of CHROs I've ever seen in a room together.

At a break, somebody came up and said, "One of your guys slipped and talked about operating income. All we care about is EBITDA." And the response was, "You're right. We'll fix that. Thank you." Or they'd say, "We're a rollup of these different companies. Here's how I think about talent that will drive value, and here's how we're going to do it." It was a different conversation about delivering value. And it was remarkable compared with other rooms of CHROs, where maybe two or three think that way.

Lucia Rahilly: Do you attribute the richness of that discussion to a delta over time, or to the fact that these CHROs were in private equity?

Bryan Hancock: It has definitely shifted over the past decade. I think PE firms recognize that it's harder and harder to get a deal that's not fairly priced on the front end, so they're adding value by making the place better. They've ruthlessly identified the levers that make it better. Talent is among the most consistent of those levers, and so now operating partners focus on it, which wasn't the case ten years ago. CHROs are being asked about it, being driven into it in a way they haven't thought about.

And as PE firms start to see more and more returns from talent, I think it'll pick up outside. Over the next ten years, I'm hopeful that the same kind of shift will happen.

Lucia Rahilly: What was the percentage of women CHROs in that room?

Bryan Hancock: Majority women.

Bill Schaninger: Let's just be careful not to confuse diversity and inclusiveness with "the female slot in the C-suite." Not that having a concentration of female talent in HR is bad. It just risks becoming where we put highly qualified, talented women.

Imprinting happens when kids are in school. That already changes the funnel—what school they go to, their degrees, whether they go to grad school. We're already messing with 52 percent of the population. Then, at work, we have assigned roles: "Oh, you're good with people: HR."

If we're committed to developing multitooled, multifaceted leaders, how about if everybody takes a tour through the company? Figure out how we make money, how we make stuff, how we buy stuff. Pay attention to our talent. We need to pick people based on their knowledge, skills, attributes, and experiences, not some preconceived nonsense.

Bryan Hancock: I'd love to see CHRO as a stepping stone to CEO. If you're driving the value agenda through people, and you have a diversity of other experiences—maybe some operating experience, maybe some sales experience—and then you get to the CHRO role by talking about value, then you can move from CHRO to CEO. I'd love to see more folks thinking that way.

Anecdotally, when I hear about CHRO searches, one of the things I hear more now than five years ago is, "This is on track for CEO." Not the majority of searches, but more than before. So I have hope that if we make this a value role, it should become a core source of talent for the next generation of women CEOs.