

Hiring Smart



THE FIFTH COMMANDMENT

EMPLOY KEY PEOPLE WITH
PROVEN RECORDS OF SUCCESS
AT DOING WHAT NEEDS TO BE
DONE IN A MANNER CONSISTENT
WITH THE DESIRED VALUE SYS-
TEM OF THE ENTERPRISE.

People do what they like; they like what they know. Experience adds depth to knowledge. The best indicator of how a person will perform in the future is how he or she has done in the past in the same or related activity. Criteria for selecting key people is dictated by the plan, the blueprint, for the business. A brickmason is not needed to construct a wooden building. The plan reflects the operational objectives, the work-a-day culture, and the intentions of the primary participants. The interests and capabilities of a new key person must harmonize with all three.

Commandment One dealt with the primary participants—directors, advisors, officers, and unique employees. Commandment Five has to do with setting the stage for the expanding and ultimately much larger group of people upon whom a growth company sooner or later must depend.

There are two sides to the key-people coin. One side has to do with qualifications in a technical or functional sense; the other has to do with what can best be termed attitude, or, in somewhat fancier terms, inclination to pitch in and enthusiastically participate in building the enterprise. The proper selection of exactly the right key people is akin to building sturdy, square corners on a house under construction; doing so greatly simplifies the later addition of roof joists, wallboard, and siding. Sound, early decisions in picking lead salespeople, supervisors, and senior technicians, greatly simplifies decision making and cooperation as the enterprise grows.

CASE N. Ralph X's itch to run his own show became unbearable, and he looked long and hard for an opportunity he could get his arms around. After a number of months he found something that really excited his imagination. He found it literally right in his own backyard. Ralph was an avid small boat sailor, and he was at the time the champion in his class of high performance, two-person boats, a prominent class in the area. One Saturday after racing Ralph heard that the manufacturer of his boat was on the brink of bankruptcy, primarily due to mismanagement by the boat's designer (who was also the boat company's owner and president).

Ralph checked into the matter, analyzed the situation in depth, prepared an extensive business plan, and raised \$200,000 from a group of eight individuals during a period when most other entrepreneurs were having difficulty in getting money. Ralph left his middle management job, put together a smart board of directors, hired a sales vice-presi

(case continued on next page)

dent with extensive boating industry experience, and prepared to set up boat production. He purchased the fiberglass molds and exclusive rights to the design and name from the then-defunct boat designer and manufacturer. A lot of Ralph's time the first few months was spent assuring dealers across the country that there would be plenty of new, quality boats to sell by the following spring season. He then turned to manufacturing. For a variety of reasons, expediency among them, Ralph hired the original boat designer, call him Y, to head up production. Y picked a plant site on the nearby coast, hired a crew, lined up suppliers, and started building boats for Ralph according to the schedules called for in the business plan.

What outcome would you predict for Case N? To summarize a long, painful story, the promise of the business plan was never fulfilled. Y produced poor quality, overly costly boats that were shipped into the distribution/dealer system. Ralph scrambled to identify and correct the problems. It turned out that the plant was in a poor location and the supply of knowledgeable, dependable labor was erratic at best. By the time Ralph replaced Y and relocated the plant, the damage to the boats' reputation in the field was severe and a boat selling season had passed. During this period of troubles, two new competitors with comparable boats entered the picture. Ralph was never able to regain the original momentum with which he had started despite his expenditure of a lot of extra money on advertising to the trade. He even borrowed money to finance the extra advertising, and he (unwisely, in desperation) personally signed a guarantee for the loan to his company. Five years later Ralph was still paying off the debt out of the salary he earns working for a large real estate firm.

Hindsight is always 20/20, of course, but it is clear that for entrepreneurs there is no substitute for hiring

proven experience in doing what the enterprise needs to have done. In this case, Ralph needed someone who had produced high quality, relatively high priced fiberglass units in volume within tight cost parameters. What he got was a nice guy who loved the boat and had made several thousand of them essentially one at a time.

Entrepreneurs are always under time pressures, very often self-imposed. Expediency sometimes prevails over tight thinking. Nowhere is it as costly to err as in the selection of people around whom essential functional or technical activities will revolve.

How do you protect yourself? Here are four suggestions:

-
- Tough face-to-face discussions
 - Reference checks
 - Scenario questioning
 - Multiple interviewers
-

Tough face-to-face discussions. Entrepreneurs often need to be outgoing and optimistic, even if it goes a bit against their grain. They also like to be liked. (Most people do.) At the same time, many people interviewing for a key position are going to have at least fairly good oral skills, especially salespeople. So there are a number of factors that can lead to false impressions. The effective entrepreneur must cut through the fuzz and get to the heart of the matter: *What specifically has the person done and accomplished during the last few years?*

Use the interviewee's resume or application as a chronological guide and then ask open questions ("Tell me about . . .") to dig out exactly what the candidate has done every month for the past sixty months. Ask for details. Make notes. Clarify discrepancies. Question gaps. Identify accomplishments. When you are done with the interview, you should thoroughly understand the candidate's proven record and his or her feeling about

it. If you are not comfortable extracting such details, turn the job over to another primary participant who is.

Reference checks. With sixty months of activity in hand you are well equipped to verify the highlights and gather additional insight into any key person you are considering adding to the team. Phone two or more references and ask them to tell you about the candidate. Seed the conversation with specific questions from your notes in order to refresh memories. In particular, try to pick up extra input on the candidate's attitude—more about this later in this commandment—and personality. You are not necessarily looking for someone who “fits in” in a conforming sense of the words. But in a smaller company the chemistry between individuals is important. There's nowhere to hide. Besides, the more you know about someone, the better you will be able to guide and help him or her succeed in your company.

Scenario questioning. In a second or third meeting with a candidate, pose some “what if” questions. For example, think back to Ralph and his fiberglass boat company. Suppose he had asked Y one or more of the following questions:

-Tell me, Y, what specifically would you do if we found that our production costs per boat were running 25 percent over budget two months in a row?

-Say, Y, how would you respond to a sudden increase in orders—10 or 20 more boats per week than we planned?

-What would you do if a union tried to organize the plant?

-Tell me about your approach to inventory control, Y.

-Outline for me, if you don't mind, how you would go about assuring that we have boats with zero defects shipped to our customers.

Y's answer to the last question would probably have been a humdinger!

Scenario questioning can help you separate those people who really know what they're about and those who are playing it by ear and hoping they can handle whatever arises. It's the difference between proven experience and potential. It's OK to hire potential as long as you know what you are getting and you are willing to fill in for the lack of relevant experience and seasoning in one way or other to get done what needs to be done, in accordance with your business plan.

Multiple interviewers. No matter how bright you are, Ms. or Mr. Entrepreneur, you will still tend to hire in your own image. We all do it. For this reason alone it is useful to get other people's reactions to candidates you are considering for key positions. In addition, it is entirely possible that some of your colleagues are better than you in sniffing out hidden flaws or weaknesses in people. You are seeking people you will have to depend upon if you are going to progress beyond the sandbox stage and really mother or father a company toward the big time. One reason Commandment One urged the formation of a *team* with consistent values was so that major decisions could be processed through various team members. Ask others to interview interesting candidates for major positions. Listen to your associates' opinions and reactions. Synthesize the evaluations. Every hiring decision entails some risk. The worst case is to get someone on board who is so-so. He or she is not good enough to promote and not bad enough to fire. By arranging multiple interviews and using your directors, advisors, other founders, and trusted confidants, you can minimize the risk in the always touchy art of evaluating people. Assessing a candidate's technical or functional capabilities is hard work. Once that work is done, the second side of the coin, the attitudinal or values side, comes up for thoughtful consideration.

There is an expanding body of literature on the phenomenon increasingly known as corporate or company culture. Any group of people who work together for awhile develop a culture. It typically includes certain accepted rules of behavior and a set of values. The explicit rules and values in a given company's culture may run the gamut from how to dress to how to deal with customer problems and subordinates. The *implicit* rules and values in an organization pick up where the explicit ones leave off. Over time, the combination of stated and unstated rules of behavior and values permeate a work force, for better or worse. They influence behavior. Behavior breeds more of the same, so norms develop. Newcomers violate such norms at their peril! Once again, every established company has a culture. Not every management team in the galaxy of established companies, however, has the corporate culture it wants.

Experience indicates that it is quite difficult to greatly change a culture once it has a firm foothold. Logic suggests that the ideal approach for an alert, growth-company management team is to consciously define a desired culture early in the life of the organization. From that point on, it is a matter of cultivating the targeted culture via the managers, supervisors, activities, and reward systems of the enterprise...and the type of people employed.

There is a growing list of major companies who are adopting a rather general policy of only hiring people at the entry-job level and only promoting from within. "We grow our own," is the underlying thesis. And it is clear that by growing your own, it is simpler to generate a defined, consistent culture across the enterprise. Take a look at the Disney Company sometime. Check out what new employees experience when they become a part of the team at Disneyland, for example. But a new venture can hardly invest time and money to develop its key people

from scratch. It needs experienced help to execute the dictates of the business plan. So what's to be done?

The conflict between growing your own people and culture and needing people now who can perform expertly their first day on the job is best resolved in two ways. First, the criteria for hiring must be broader than just technical considerations. People with specific *values* must be sought at the same time as you are looking for a salesperson or an accounting supervisor with four years experience. Second, each new employee needs a minimum of eight hours of orientation during his or her early months with the company. This combination approach takes time up front during which the entrepreneurs think through what they themselves are about. This approach takes time in the field to ferret out qualified people. This approach takes leaders' time month after month because only the top people in a rapidly growing company can do orientations and communicate rules and values so that they stick in the minds of the staff and actually influence, if not drive, on-the-job behavior.

CASE O. Three middle-aged men formed a company dedicated to the thesis that with an average product for a very narrow but sizeable market segment, noticeably superior customer service, and a forty-hour week for each of them, they could make a lot of money. Within four years their thesis had become reality. In that time they built a company with over a thousand employees. In addition, they executed a public offering of stock at a very attractive price, and the stock price held up very well. Over half of the employees were involved with customer service in one way or another. Early on the three partners formulated their philosophy. Each and every new employee from about number 25 on was (and is) educated in the company philosophy almost incessantly. The key elements in the founders' own words are as follows:

(case continued on next page)

- Any and every company problem is your problem. Therefore, don't pass the buck or point a finger at someone else.
- Glitter on your own time. That is, don't worry about status symbols and showing off on the job.
- We price and sell service; our technology and products are merely buckets to carry it in.
- Let our customers take advantage of us.
- Finish and put your name on every task you start.
- Bake your pride into what you do.
- We will pace company growth to personal growth.
- Simplicity rules here.
- Know what size shoes your customers wear.

A year ago two of the three founders retired for positive reasons to pursue other interests. People were promoted from within to replace those who had left. The company is continuing its dramatic, almost textbook growth. Unplanned turnover in the company is virtually zero.

CASE P. The management team of a successful, midwestern company has organized itself so that one of the four top officers is available for three hours each Monday morning to sit and talk with any employees hired during the past week. The meeting is loosely structured. The officers use some slides and flip chart pages, but mostly the officer puts herself or himself into the delivery, the orientation of the new people. The officers are currently considering expanding the effort so that all the company's employees have lunch with an officer at least once per year, in small groups of six to ten people.

CASE Q. A two-year-old company in Southern California will only hire salespeople who have recently completed their college degrees at night or in a co-op, work-study program. According to the president: "We find that people with such backgrounds are twice as tenacious and productive as other

(case continued on next page)

sorts of people we have tried. They seem to fit into our particular culture and the way we operate here." She went on: "We believe in twelve-hour days with a long vacation once a year to recharge our batteries. We want salespeople who are comfortable with this pace."

In summary, technical and functional skills are only part of what it takes to build a large company from scratch. A new enterprise must have people with needed skills in its early days, of course. An entrepreneur misses an important opportunity, however, if he or she doesn't also look for properly skilled people who want more than a job. The best way to judge what a person can do and wants is to assess their actions in the recent past. Once a new person is onboard, he or she influences—and is influenced by—the unfolding culture. It takes a conscious effort on the part of an entrepreneur to define, cultivate and maintain a discrete culture as new members join the company. It takes an investment of time and energy. Without such an investment, a culture will still develop. But it may serve as an anchor rather than a sail for the enterprise.