Fig 1. Junior Executive Hires

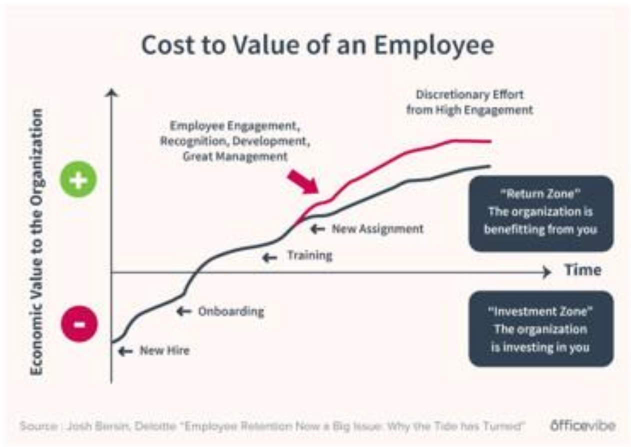
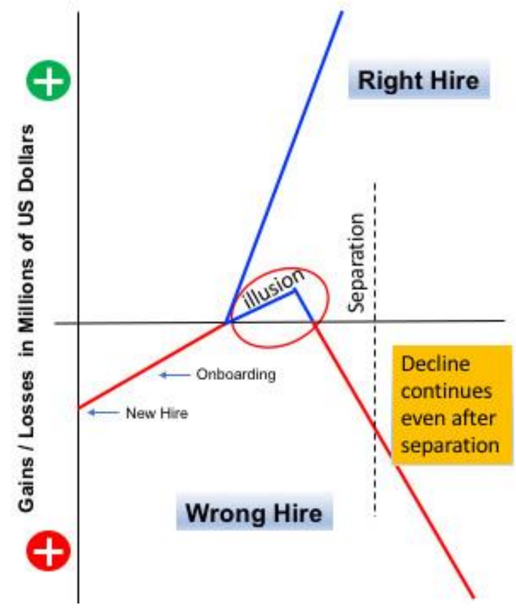


Fig 2. Middle Management, Senior Advisors and CXOs



Re-Thinking Cost To Company (CTC) ... In Industries Prone to Disruption

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1. The concept of CTC

In today's fast changing world, companies, both start-ups and established ones need to re-visit their understanding of the concept of **" Cost to Company "** ... especially when it comes to wrong hires in industries prone to disruption.

Most people in industry understand " Cost to Company or CTC " as the amount in salary + benefits that an individual hire, costs the organisation each year.

That understanding may be OK for hiring at different levels in a steady state humdrum business. However in businesses exposed to disruptive business models, that understanding of CTC can be seriously flawed when applied to even Middle management positions.

By that yardstick, for senior CXO level hires in industries subject to disruptive ideas, it could be a fatal mistake not to upgrade ones understanding of CTC.

The reasons are not far to seek …

Good hires, at the Junior level in stable industries will typically add value above their CTC within a few quarters of being brought in, as shown in Fig 1 (above).

For good hires at a more senior level that value addition can be considerable and the time required to get outstanding results can be quite short (Fig 2, Upper part). If you, as a promoter have hired a senior person who falls into this category then you should celebrate because really good people are so hard to find.

However, if you have a " Wrong Senior Hire " problem in a knowledge business then the future of your organisation itself is in peril. In such cases walking the good man home (as fast as possible) is possibly the best thing you can do.

2. **Mediocrity … and … the cost of Ruinous advice (The New CTC)**

In the knowledge economy of today, it is not how much you pay a person in terms of salary + benefits … but how much they could cost the organisation by executing a disastrous strategy or by giving senior management ruinous advice, due to their inability to appreciate the scale of todays business challenges.

Flawed understanding and losing touch with markets does not happen immediately. There is a process by which this happens and it can be avoided by taking precautions. If an organization does not notice the signs, it will, in a few years lose touch with its customers.

3. The Beginning of Decline

It all starts when an organisation makes its first hires of second rate managers or it starts when an organisation promotes a second rate manager over more deserving candidates.

Once you have hired or promoted a second rate manager you are putting your organization on a path to oblivion. This is an axiom (self evident truth) and you cannot avoid the consequences of hiring the wrong people. In fact even after they exit the organization, the damage they have done persists (Fig 2 above).

The truth is that a second rate fellow will never be able to command the respect of even other second rate managers, and so he will hire third rate managers … Thereby locking an organisation into a downward spiral and a race to the bottom.

4. **Learning From Sir Francis Bacon & Elizabeth I**

Sir Francis Bacon the English statesman of the early 17th century, saw second rate managers for what they were and what they can do to organizations. He thought it was so important that he wrote “ *He that plots to be the only figure among ciphers (Zeros), is the decay of the whole age*”.

That is exactly what second rate managers do. They are so insecure that they do not allow others around or below them to develop. This is the origin of organizational politics and decay.

But second rate managers are very smart people when it comes to protecting their interest. So they finally land up in leadership roles ... and once there they sink the organisation.

That is exactly what Francis Bacon has said , though far more elegantly than us.

Elizabeth I , England’s greatest Monarch, has given the world expert guidance in the area of choosing Advisors.

She showed how organizational strategy can take a BIG leap by bringing in the right advisors. England reached the heights of its glory under Elizabeth I mainly because of the decision she took in appointing Sir Francis Walsingham as her principal secretary in December 1573. This helped her become a highly effective monarch and it led to England becoming the most powerful nation on earth.

So who you choose as your advisor can have a massive impact on the way your organization grows. Some advisors are blunt with their monarchs, as Chanakya was with Chandragupta and there is a lesson in humility in this , that needs to be learnt by CEO's of this day.

When it comes to choosing advisors, understand that the best advice may not come from a person who is focused on being polite to you. It is flatterers who give ruinous advice. Go through any history book and look around your organization, there are lots of such advisors.

Coming back to our discussion, to avoid a race to the bottom that results from bringing in the wrong people, organizations should hire people with the right value systems and emotional intelligence. The skills to look for, in order of importance are :

1. Humility and emotional intelligence : Leading an organisation today (in the knowledge economy) first needs humility and the ability to bury ones ego … so that the best ideas can win.

2. The ability and the courage to take people in your team who are better than oneself

3. Problem solving skills : Companies require problem solvers … Therefore looking for relevant qualifications in terms of degrees acquired, experience etc, is simply not enough.

Sometimes having no background in an industry is a big plus, especially for strategic designers and design thinkers.

A. Can the potential hire you are interviewing, come up with original ideas in any kind of situation, to save the day ?
B. Can a business development manager totally re-imagine her market and re-position a product or service if it is a strategic necessity ? Does she have the courage to think differently ?

Today, the courage to think differently is a HUGE asset in a potential leader. If you find this quality in someone at the middle management level, don't let the guy go. Just grab him.

All of these skills are extremely important as it is only such people who can FUTURE PROOF your organisation.

Most (not all) of “ High CTC folk “ are totally useless anyways. Give them a problem or a changed market situation and they will balk at the challenge.

This is true for many foreign expats as well. Very few of them deliver results even after they have acclimatized themselves to the local environment.

It is therefore best that organizations develop their own people. But use foreign talent to train them if necessary. That is OK.

Bottom line ... Develop your own people and trust them.

5. **Correct understanding of CTC … Critical for Entrepreneurs & Investors**

The two graphs (above) illustrate why a correct understanding of CTC is so important among company promoters and entrepreneurs setting up new ventures.

As always the ability to " really recognize people " is the most important ability of all.

The second most important ability after this is the ability to work with all kinds of people and to get them to deliver as a team.

So understand CTC. It is not just Salary + benefits. It is much, much more.

CTC , especially with wrong hires, is what the individual you hire is possibly going to cost you by executing a disastrous plan or by way of giving you advice that is not well thought out.

– Concluded –