

# *Companies Change but Leaders Don't*

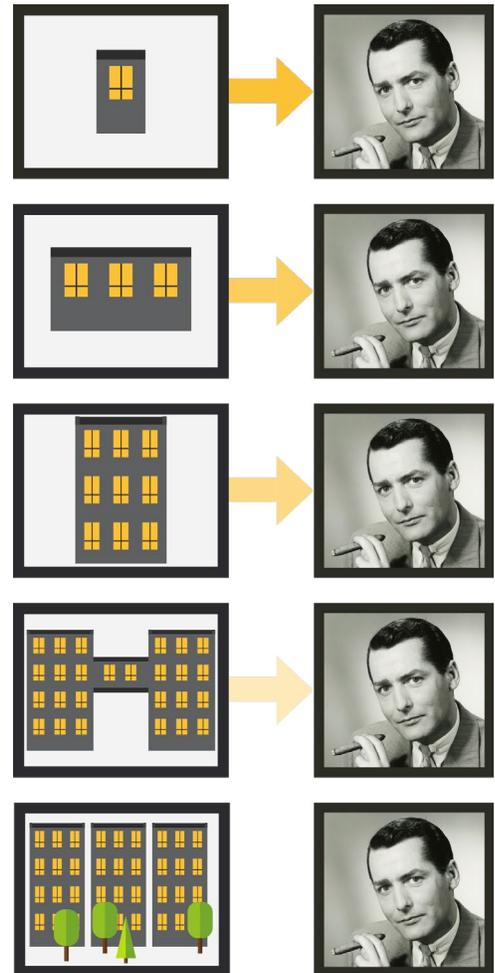
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# Companies Change but Leaders Don't

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It's a simple but powerful truth: companies change faster than leaders do. Companies evolve as they respond to market opportunities, economic cycles, regulatory changes and assorted strategic challenges. Their evolutionary pace has accelerated as globalization brings more competitors and technology disrupts traditional service models.

Leaders . . . well, leaders try very hard and have great intentions. However, leaders' capacity to meaningfully change is far more limited than we might like, especially their capacity to excel in fundamentally different situations.

Given that companies evolve quickly and leaders more slowly, performance gaps appear. Some gaps result from leaders not having the capabilities or mindset required to win in the new environment. Others form when leaders aren't as engaged by the new environment and reduce their commitment

and effort. The larger the gaps, the more likely an organization will stumble when it tries to execute.

The good news is that we know how to keep performance and engagement high by minimizing those gaps (or maximizing the "fit"). These insights allow us to better predict which leaders will succeed as our organization evolves and to better manage talent to maximize performance.

In "Why Fit Matters" we describe the science of fit and how to apply it to better predict performance and potential.

## **Why Fit Matters (the "light" science version)**

As always, we start with the science and the science of organizations and of individuals suggest that we should pay close attention to fit.

Simply defined, fit is the extent that an individual's intelligence, personality and capabilities match an

organization's unique requirements. Fit matters because higher fit means higher satisfaction, commitment and retention. Each of those is a primary component of engagement, and engagement influences performance, so higher fit should create higher engagement and higher performance.<sup>1, 2, 3</sup>

Fit also matters because we can more accurately predict an individual's potential if we know how she or he will fit with the future state of an organization.

So if fit increases performance and helps predict potential, we should want to ensure our key leaders

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always fit as well as possible.

### **We Fit with Strategy and Change**

But fit with what? We believe the science supports that two organizational factors – Strategy and Change – largely explain how leaders fit with an organization's needs (see Figure 1, p. 4). The organization's strategy dictates what that manager needs to accomplish. The amount of change dictates how they need to accomplish it. Together they set the context in which the leader has to manage and with which she needs to fit.

- **Fit with Strategy:** An organization is likely trying to achieve one of two goals – win by being the most innovative or by being the most efficient.<sup>4</sup> Different capabilities and mindsets are required to succeed at each. Winning through innovation may require greater risk-taking, creativity and comfort with ambiguity (all personality driven factors). Winning through efficiency may take more dispassionate thinking, a process orientation and Six Sigma capabilities (a mix of personality and learned capabilities).

For example, Amazon's Jeff Bezos is a brilliantly innovative leader who's led Amazon through multiple waves of innovation. He's built an efficient

company too, but Amazon wins because of its innovations. Now drop Jeff into Exxon Mobil where he would have to lead an efficiency-oriented company. Would he be the best CEO for that job? Fit suggests he wouldn't. Personality, intelligence and years of practice have made him a great fit for a specific type of challenge.

- **Fit with Change:** An organization may be experiencing a merger, economic shock, rapid growth, turnaround or similar event that demands great change leadership. Or, it may just be experiencing the typical ups and downs that mark daily life in an organization. Success in each scenario requires very different capabilities.

Science says that the leaders who fit best with high change organizations will be more charismatic,

inspirational and make better connections with their followers. Leaders who fit with lower change environments simply have less of those capabilities.

Having these insights should be great news. If we know that fit matters, we can develop everyone in the right direction to maximize fit and performance. Unfortunately, people change far more slowly than organizations do.

### **People change more slowly than organizations**

It's quite generous to believe that any leader can succeed in any situation, but the facts don't support that optimistic view. We know that people may excel in a given challenge and then perform poorly in a different challenge. How can the same bright, thoughtful, hard-working person show up that differently? Two factors explain why:

1. **How we're wired:** Our view that people don't change quickly is based on the incredibly strong science about intelligence and personality. It's those two traits that best predict potential in any situation and our levels of each change little after our late teens.<sup>5, 6</sup>

- **Intelligence:** We know that our individual intelligence determines how fast we learn and how fast we process and apply information. It's

the largest predictor of success in any situation and it can explain up to about 25% of why we succeed.<sup>7</sup>

- **Personality:** Our personality (the academic 5-factor version) predicts another 15% - 20% of potential but more importantly creates fit (or lack of fit) with certain situations. There are elements of personality that give you the detail orientation necessary for quality financial analysis or the creative thinking that delivers stunning advertising graphics.<sup>8</sup>

Those two traits are the foundation for individual performance. Everything else is secondary and affected by those factors. For example, everyone can learn a new behavior but if that behavior isn't consistent with your core personality then it will take significant effort and repeated practice to master. And, your underlying personality may still guide your behaviors no matter how much effort you put into changing them.<sup>9</sup>

## 2. What we've

**practiced:** On top of our personality and intelligence are the capabilities and behaviors that we learn over time. These come primarily from our career experiences and the more we practice them, the more dominant they become. For example, if your career has focused on turning around distressed businesses then you've likely built strong capabilities in financial analysis, operations management,

organization design and some other select areas.

Your 20 years of practice in that area also means that, by definition, you haven't practiced creating innovative new products for 20 years. Someone else has, however, and they're going to be better than you at that for a long time.

When we say people don't change as fast as companies do, these two factors explain why.

We're constrained by hard-wired personality and intelligence and by the years of practice we've spent honing a specific set of capabilities.

### Using Fit to Predict Success

If organizations change more quickly than people, we need to better predict those changes to ensure we match the right leader with the right situation. We use the simple, powerful Executive Fit Matrix (Figure 1) which juxtaposes the strategy and change dimensions to do that.

You can assess the fit of leaders in your company through this simple exercise:

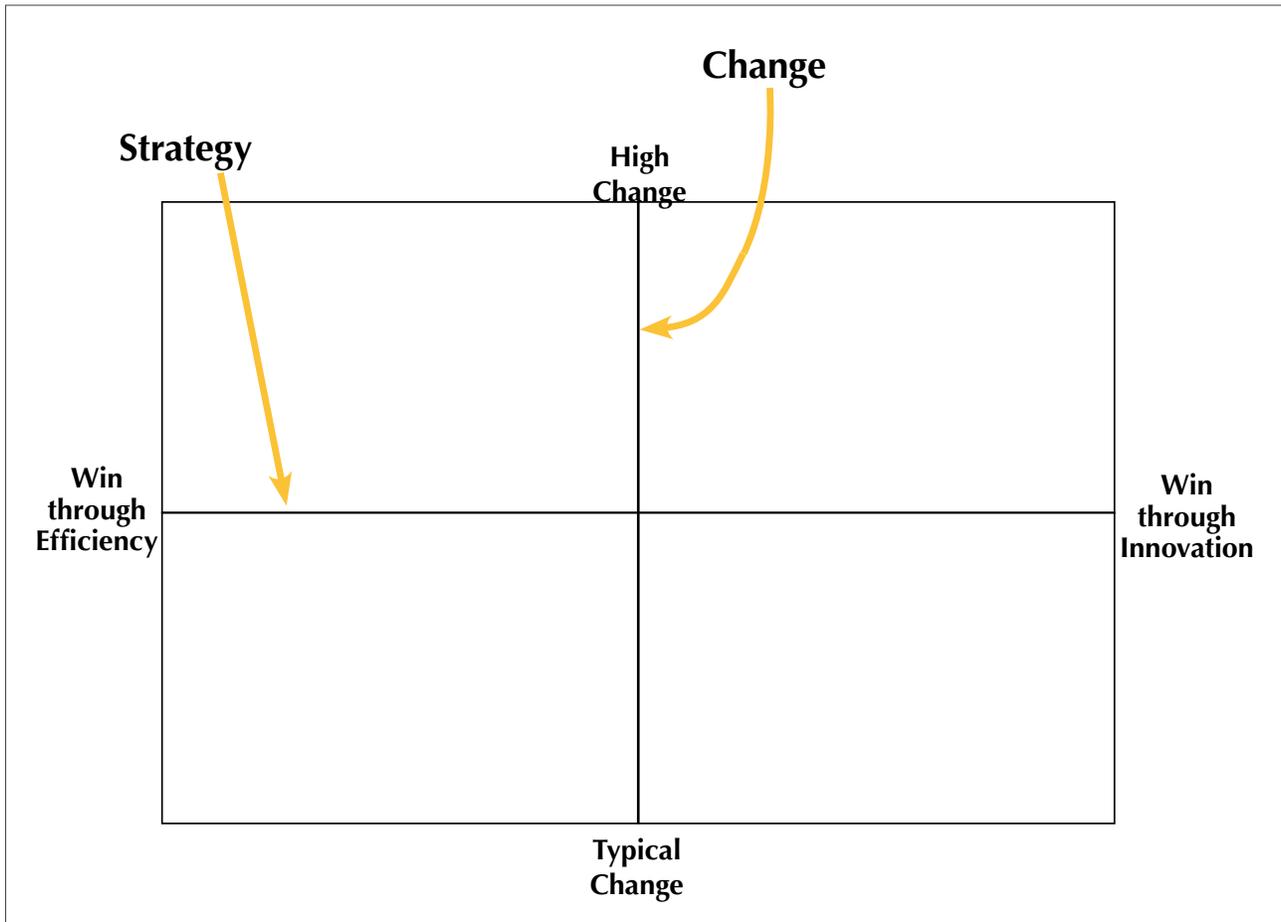
#### 1. Assess your current strategy:

Determine where your organization is today on the two dimensions. Are you trying to win through efficiency? Through innovation? Is there tremendous change occurring or just the typical ups and downs that mark corporate life? Make an "X" on the worksheet chart to show where your organization is today.

#### 2. Predict your future strategy: Answer the same

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**Figure 1: The Executive Fit Matrix**



questions as above for where you predict your organization will be in the next 3 – 5 years. That prediction can be based on your company’s stated strategy, your knowledge of the organization, industry trends or any other relevant factors. Make a “F” on the chart to represent the future position.

3. **Map your team:** Using those two dimensions, identify where you believe each executive team member functions best. Do they love high change and effectively lead others through it? They might be higher up the change axis. Do they push new ideas and dislike organizational constraints? They

might be more to the right near the Innovation anchor.

4. **Make the build/buy decision:** Evaluate the gaps. The larger the gaps, the more difficult it will be for the leader to succeed in the new environment. Moving up the change axis requires a fundamental shift in behaviors – often going against personality type. Moving left or right on the strategy axis requires a fundamental shift in capabilities. Both shifts might cause the leader to be less engaged because they aren’t excited about working in the new environment.

### A few things to consider when evaluating fit

- **Fit matters more for senior leaders:** It's essential that the CEO and his or her team fit tightly with the strategy. It's helpful if the level below that fits but after that level other factors are more important to individual success.
- **Compensating with others isn't a strategy:** "Our CEO isn't a perfect fit so we surround him with people who are." That statement should generate an immediate short sale of the company's stock. It suggests that the top leader at the firm isn't the best person to lead your organization's strategy. A better strategy is to find a CEO who fits.
- **A balanced team isn't necessarily an advantage:** There's organization folklore that says a more diverse team will deliver a superior result. So you might think that there's some benefit to having your executives spread across the grid. In reality, a more aligned team will make faster decisions and execute those decisions more effectively. A team with more diverse opinions will produce less risky decisions.

### A More Thoughtful Approach

Too often we see senior leaders fail because their organizations didn't consider how they would perform in the face of new strategies and increased change. When we consider fit we recognize that an individual's success depends on more than just their unique capabilities, no matter how strong. The business context and challenges they face are powerful predictors of how well they will fit, engage and perform.

Evaluating fit, not just individual capabilities, provides a more accurate measure of an individual's potential and ensures that we manage our most valuable talent in the most productive possible way.

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