


Participant Handout – IVCA Toolkit Series on Using Management Assessment Techniques to Maximize IRR

Presented by ghSMART May 28, 2007

- 1. Human Capital Due Diligence Checklist**
- 2. How to conduct Topgrading Interviews**
- 3. Topgrading Interview Guide**
- 4. Portfolio Company Scorecard Template**



1. Human Capital Due Diligence Checklist

Element	When	Key Elements	
1. Build Scorecards	<ul style="list-style-type: none"> • Pre LOI • Refine during due diligence • Annually in conjunction with strategic plan (post close) 	<ul style="list-style-type: none"> • Individual scorecard for each member of management team • Includes investment thesis and 7 to 10 Key Accountabilities • Utilize SMART goals 	
2. Conduct Interviews	<ul style="list-style-type: none"> • Early in the LOI process for the management team (3 to 5 members) • Consider conducting on the next layer down post close 	<ul style="list-style-type: none"> • Topgrading interviews for all management team members and new hires (must do) • Reference checks for management team members (must do) 	
3. Grade Scorecards	<ul style="list-style-type: none"> • Shortly after completing the Topgrading interviews and Reference Checks 	<ul style="list-style-type: none"> • Analyze data from all interviews • Develop list of strengths and development areas for each candidate • Match skills against the accountabilities and competencies for the role 	
4. Develop Pre Close Action Plan	<ul style="list-style-type: none"> • Near end of due diligence period, after scorecards have been graded 	<ul style="list-style-type: none"> • Individual development plans for each candidate • Discussion of short and longer term outside hires and a recruiting plan (if needed) • Modification of the overall investment thesis (if needed) 	
5. Conduct Talent Reviews	<ul style="list-style-type: none"> • 3-6 months post close • Annually in conjunction with strat plan review 	<ul style="list-style-type: none"> • Fact based review of all management team members and their direct reports utilizing updated scorecards • Individual action plans • Comparison of talent to key initiative 	

2. How to Conduct Topgrading Interviews

Summary

This section will help you conduct the Topgrading interviews that you may use during the due diligence process. Before conducting any interviews, make sure that you have updated or built a scorecard appropriate for the role.

Topgrading Interview

Goal

To collect the data necessary to determine if the candidate has the right skills, capabilities, and experience to accomplish the accountabilities for the role identified on the scorecard. Additionally, you want to determine if their approach, the “how” they get the job done is consistent with your desired approach. This interview should provide a good portion of the information necessary to make the ultimate hiring decision. Finally, this interview will also allow you to identify potential development opportunities or areas the candidate is likely to struggle if hired. With this information, the hiring manager and HR representative can put together an effective onboarding plan to accelerate the candidate’s learning curve and help them avoid potential derailers.

Requirements to conduct

Once again, both interviewers (this is a tandem interview) must be thoroughly familiar with the scorecard for the role, the candidate’s resume/background, and all of the information collected during the screening interview process. A thorough review of this material before the interview will allow you to conduct a more efficient, focused interview that yields great data. Typically the candidate will have passed a screening interview prior to the Topgrading interview, and a slate of focused interviews should be scheduled following the Topgrading interview (likely on the same day in the afternoon). Make sure that the candidate is fully aware that they will be engaging in a two to three hour interview covering their professional career, followed by several shorter interviews (focused interviews). You do not want to surprise a candidate with this information the day they arrive.

Who is involved?

This interview will typically be conducted by two interviewers. It is essential that one of these two be the hiring manager for the position or a senior investment professional. This is not a responsibility that can be delegated. The other person is likely to be an HR representative who is skilled in the overall process. It can also be another member of the hiring or investment team (e.g., Ops Manager or Controller) if they are trained in the interview process and familiar with the scorecard.

How do you do it?

This interview should be conducted in person, in a location that is comfortable and free of distractions. You will not be able to establish the appropriate environment if you are continually distracted by interruptions, emails, or phone calls. It will be much more difficult to establish rapport with the candidate and your data quality will suffer. The interview will typically cover the period from High School up until the candidate’s current position. It is broken down into 5 main parts (approximate times):

1. Introduction (5 minutes)
2. Education (5 to 10 minutes)
3. Professional period (multiple chapters, 2 to 2.5 hours)
4. What’s next in their career (5 minutes)

The third part, where you drill down on the candidate’s professional career is clearly the most important and takes the longest time. However, each of the other sections plays an important role and should not be ignored.

Part 1 – Introduction

Begin the process by spending 5 minutes giving the candidate an overview of the interview and the rest of the day. Answer their questions and make them feel comfortable that they are in good hands with you. This is where you begin to establish the all-important rapport. If you have good rapport, the candidate will share insightful evidence about things they are good at, and also not so good at. Without rapport, it will feel very difficult to get the candidate to talk about their mistakes, weaker areas, and even their big accomplishments.

Part 2 – Education

This section covers high school as well as college and graduate studies if applicable. The goal is to continue to develop rapport and also to lay the groundwork for potential patterns that will become clear in a person's career (e.g., they demonstrate leadership skills, they are very intelligent, they struggle to form relationships and work closely in a team environment, they don't control their emotions well). Let the candidate know that you will touch on 3 parts for each educational period (e.g., high school, college) which include 1) Accomplishments, 2) Disappointments, and 3) Academic performance. Take about 5 minutes per academic period to ask the following **3 questions**:

1. **What are the 2 or 3 accomplishments or high points in high school that you are most proud of?**
 - Don't let the candidate talk for 10 minutes on one area. Seek to clarify the accomplishment and understand why it was important to the candidate
2. **What are the 2 or 3 disappointments or low points from high school?**
 - Don't allow them to tell you that there were no low points. If they truly can't think of any, ask them: **If you had to do it all over again, what would you do differently in high school?**
3. **How did you perform academically? What was your class rank?** If they went to college ask them – **Did you take the ACT or the SAT? What was your score?**
 - Do not allow them to tell you they don't remember their GPA. Everyone remembers if they were an A or a C student in high school. If they don't know the specific GPA, ask if they were generally a B student and that will typically spark their memory
 - The standardized test scores do not have to be exactly to the number either. You are trying to get a sense if this person was distinctively smart, average, or if they struggled. It will be useful for establishing patterns later in their career.

Part 3 – Professional Period (work history)

This part will require a little prep work on your part. You have to group the candidate's professional career into reasonable sized chapters or buckets. A good rule of thumb is that they shouldn't be much shorter than 2 years, not much longer than 7 years, and not more than 6 periods overall. You should try to establish the periods prior to the interview and then review them with the candidate before you begin this section. If the candidate spent 20 years at one company, do not treat that as one period. Break it down into 3 or 4 periods. Also, if the candidate had 6 different jobs in 6 years at one company, don't break those into 6 periods. You will have to do some combining, or you will never complete the interview. When you begin this section, tell the candidate that you are going to spend time on the following **7 areas** for each of the periods: 1) what were they hired to do, 2) their accomplishments, 3) disappointments or mistakes, 4) People issues (teams) 5) their boss, 6) their skills in that role (strengths and weaker areas), and 7) why did they move to the next position. Budget your time appropriately. You should try to get through early periods in about 15 minutes and the most recent periods should not take more than 20 to 25 minutes. Jotting out a planned time allocation ahead of time is a good idea. Tandem interview partners should help keep each other on track. If you find yourself far behind early in the interview, skip ahead to the more recent periods because they likely have the most relevant data. Here are several ways to ask the key questions in each of these 7 areas. You do not need to ask each of the questions for each section, but if you don't get a satisfactory answer it is often useful to ask a similar question in a slightly different manner.

1. **What were you hired to do? How was success measured in that role? What were your key responsibilities? Did you have targets? How did you do relative to your targets?** (2 minutes)
 - This is like defining a mini scorecard for the role. You want to understand what it is they were asked to do and then you can see if they met, exceeded, or fell short of the key accountabilities for the role. A players tend to find a way to meet and often exceed the expectations

2. **What were your 2 to 3 biggest accomplishments, what are you most proud of? Please give me the headline followed by a one or two minute explanation. How did you accomplish that? How were you rated relative to your peers?** (3 to 5 minutes)
 - You want to find out how they did relative to their targets or key accountabilities AND how they did it. Did they improve the safety record by implementing a new training program or did the company by new equipment? What was their secret sauce for exceeding their sales quota?
 - Get them in the habit of giving short answers early. If you start listening to their stories you will run out of time

3. **What were 2 to 3 things that didn't go well? What were your mistakes in that role? If you had to do it all over again, what would you do differently?** (2 to 3 minutes)
 - Don't accept "there were no mistakes or low points" as an answer. If you do it even once, it will be difficult to find out the low points for the remainder of the interview
 - Make it clear that this interview is a little different and that you are looking for the balanced view and their insight into what went well and what didn't go well

4. **Did you have a team in that role? (if yes) How many of the team members were A players, how many were B's and how many were C's? What changes did you make to the team? Did you have to hire anyone or let anyone go? How did the people you hired perform?** (2 to 3 minutes)
 - You want to know if they can recruit and hire A players, and what they do with underperformers. Do they live with C players for years or quickly seek to replace them with A players? Have they ever had to fire anyone?

5. **Who was your boss in that role? What was it like working for them, what were 2 or 3 things they really good at and what were 2 or 3 things they were not so good at?** (1 minute)
 - Ask the question exactly like this. Two fold purpose. You want to gain insight into their relationship with their superiors – do they see them as jerks, idiots, or drunks or do they see them as real people who were good at some things and not so good at others. The second reason is based on psychology. If they talk about their bosses, they are more likely to let you know what they are good at and not so good at

6. **When I talk to [former boss] as part of a reference call, what do you think they are going to tell me were your 3 biggest strengths in that role? What are they going to tell me were your 3 biggest development opportunities in that role? What would your team members say?** (3 minutes)
 - Once again it is important to ask the questions in this order and stick to the script
 - Push them for evidence if they make blanket statements like "He would tell you I was a good at sales." Respond with, **What is the evidence for that?**
 - Don't accept standard interview weaknesses (e.g., too impatient for results, lacked work life balance, too demanding of my colleagues, too much of a perfectionist)

7. **Why did you leave that position and move to the next role? How did that happen exactly? What did your employer say when you told them you were leaving?** (1 minute)
 - This is an important question and you shouldn't move on until you are satisfied with the answer. You need to know if they were pushed out (BAD) or pulled out (GOOD). Did they struggle with the culture, a particular boss, or were they looking for more money and authority?

Part 4 – What’s next in their career

Your goal in this section is to see if the candidate’s career ambitions line up with the job you are hiring for. It may also yield valuable insight into what the key levers to landing this person are (e.g., it is not money, but rather the opportunity to own a P&L or manage a large team). Spend about 5 minutes asking the following 3 questions:

1. What are you excited to go do in the next phase of your career? What are you really jazzed up to do next?
2. What excites you about this opportunity?
3. What gives you pause about this deal?

Tips

- Do – establish rapport early in the interview. Look at the candidate when you are asking questions
- Do – control the interview. Don’t let the candidate dictate the flow
- Do – push for specifics around accomplishments (e.g., sales in dollars relative to targets, how much of a % improvement occurred? On a target of? What was your specific role in making that happen?)
- Do – maintain a positive and curious attitude throughout the interview
- Do – take good notes. You won’t remember the specifics at the end
- Do – go through the data once or twice immediately following the interview while your thoughts are fresh
- Do Not – let the candidate give you 5 minute answers when 30 seconds is appropriate
- Do Not – spend a lot of time talking about you or your past experiences. Focus on the candidate
- Do Not – grill the candidate like a tough prosecuting attorney. You will not get good data
- Do Not – accept vague answers or “there were now low points or mistakes”
- Do Not – ask hypothetical questions or diverge greatly from the structure of the interview
- Do Not – fail to prep before the interview. You will appear unstructured and it will limit the candidate’s confidence in you

3. Topgrading Interview Guide

This following section should be filled out for each chapter (2-5 year segment) of the candidate's career. You should strive to have at least 4 segments of their career.

Years of Employment

Company Name: _____

Role: _____

Expectations and Critical Success Factors

1. **What were you hired to do?** _____
2. What were your main targets and objectives? _____
3. If no targets given, how was success measured? _____

Accomplishments

4. **What are you most proud of accomplishing?** _____

5. How did you accomplish that?

6. How did that compare to Previous year, Plan, or your Peers?

7. **What else** are you most proud of accomplishing? _____

8. How did you accomplish that?

9. How did that compare to Previous year, Plan, or your Peers?

10. **What else** are you most proud of accomplishing? _____

11. How did you accomplish that?

12. How did that compare to Previous year, Plan, or your Peers?

Low Points or Mistakes

13. **What are some things you could have done even better?** _____

14. Optional Questions to Triangulate:

- What went really wrong? _____
- What was your biggest mistake? _____
- What would you have done differently? _____
- » What were the low points of the job? _____
- » What parts of the job did you not like? _____
- » In what ways were your peers stronger than you? _____

15. **What else** could you have done even better? _____

16. Optional Questions to Triangulate:

- What went really wrong? _____
- What was your biggest mistake? _____
- What would you have done differently? _____
- » What were the low points of the job? _____
- » What parts of the job did you not like? _____
- » In what ways were your peers stronger than you? _____

17. What could you have done better to **beat the Previous year or Plan, or what did your Peers** do better than you?

Topgrading (Building Teams of A players)

18. How many people did you inherit? _____

19. How many were As _____, Bs _____, or Cs _____?

20. What changes did you make? _____

- 21. How many were As _____, Bs _____, or Cs _____ when you left?
- 22. What would your team say about you as their manager? (strengths and weaknesses)

TORC (Threat of Reference Check)

- 23. Who was your boss? What was his or her name, and how do you spell that? _____
- 24. What was it like working with him? _____
- 25. What would he say your strengths were? 1) _____, 2) _____, 3) _____
- 26. What would he say your weaknesses were? 1) _____, 2) _____, 3) _____

Reasons for Leaving/Job Transitions

- 27. **Why did you leave?** _____
- 28. Whom did you notify, and what did they say when you told them? _____
- 29. What was your new salary as compared to the old? _____

4. Portfolio Company Scorecard Template

Overall Investment Thesis

- *Our thoughts have evolved to, here are the 6 things we need to do to hit out performance goals.
Less of things about competition, recent history.*
- *Summary of the deal that includes quick overview that may include:*
 - *the market the portfolio company participates in*
 - *competition*
 - *recent history*
 - *financial performance objectives*
 - *exit strategy (including timing)*
 - *key challenges (what would make this deal really tough?)*

Mission for this role

(primarily important for non CEO roles)

- *What is the macro picture around what this person will need to do for the organization?*
- *What elements of the overall investment thesis are they responsible for?*

Key Accountabilities for CEO/Portfolio Company

	ACCOUNTABILITIES	RATING and COMMENTS
1	<p>Achieve financial performance targets.</p> <ul style="list-style-type: none"> ➤ Most recent revenue and EBITDA performance ➤ 3 to 5 year projected revenue and EBITDA. performance to realize desired return (could put both acceptable and home-run performance). ➤ Overview of whether growth will come via M&A, organic, or combination of both. ➤ What are the key challenges to growth? How do you expect they will overcome them? 	
2	<p>Define and execute company strategy to become [concise statement defining what you would like the company to become].</p> <ul style="list-style-type: none"> ➤ How much of a strategist will this person need to be? ➤ Is the strategy well defined and primarily requires someone to execute or is this a dynamic market that will require a CEO who is capable of placing the right bets in an uncertain environment? 	
3	<p>Topgrade (hire, coach, keep top talent on) the company.</p> <ul style="list-style-type: none"> ➤ What is the current state of the management team? ➤ What changes or additions need to be made (e.g., CFO, COO, VP of sales)? ➤ How soon do they have to be changed? 	
4	<p>Execute key initiatives to achieve desired financial goals.</p> <ul style="list-style-type: none"> ➤ What are the major change initiatives or improvements you are looking to this person to lead? (e.g., cost reduction goals, accelerated new product introduction, increase brand awareness in target market) ➤ What will be hardest here? ➤ What are the key skills necessary to accomplish these initiatives (e.g., creativity, salesmanship, project management, great relationships) 	
5	<p>Achieve operating targets related to productivity, reliability, and customer satisfaction.</p> <ul style="list-style-type: none"> ➤ What are the key metrics (beyond EBITDA) that drive the business (e.g., revenue from new customers, cost per unit)? ➤ Are there areas that need improvement, or is it maintenance? 	
6	<p>Define and execute M&A strategy (if applicable).</p> <ul style="list-style-type: none"> ➤ Define overall M&A strategy (e.g., sector, market). ➤ Build pipeline. ➤ Conduct applicable due diligence. ➤ Negotiate and execute the deal. ➤ Integrate acquired operations. ➤ What type of support will the company receive from BCP or other 3rd party providers and what capabilities do they need to have in house? 	
7	<p>Partner effectively with the Board of Directors?</p> <ul style="list-style-type: none"> ➤ Ensure all reporting requirements are adhered to in a timely manner. ➤ Foster a collaborative working environment where both good and bad news are shared in a timely manner. ➤ Take ownership for driving company performance while remaining open to input from board. 	
8	<p>Execute exit strategy.</p>	

	<ul style="list-style-type: none"> ➤ What is the likely exit strategy? (e.g. sale to strategic buyer or IPO) ➤ What is the CEO's role in executing a successful exit strategy? <ul style="list-style-type: none"> ○ Will he need to stay in the role? ○ Establish and foster relationships with potential buyers ○ Be capable of delivering an effective road show 	
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Key Accountabilities for non CEO roles

	ACCOUNTABILITIES	RATING and COMMENTS
1	Achieve xyz targets. <ul style="list-style-type: none"> ➤ What kind of targets will this person be accountable for? (e.g., budget numbers, fulfillment percentages, etc.) ➤ What will be hardest here? 	
2	Execute xyz initiatives. <ul style="list-style-type: none"> ➤ Any major change initiatives or improvements you are looking to this person to lead? (e.g., cost reduction goals, timeline improvement, etc.) ➤ What will be hardest here? ➤ xx 	
3	Topgrade (hire, coach, keep top talent on) the team. <ul style="list-style-type: none"> ➤ What direct reports will this person manage? What is the current state of the team? What changes or additions need to be made? ➤ xx 	
4	Evolve a strategy to become XXXXXX. <ul style="list-style-type: none"> ➤ How much of a strategist will this person need to be? ➤ xx 	
6	Achieve operating targets related to productivity, reliability, and customer satisfaction. <ul style="list-style-type: none"> ➤ What are the key metrics in this area of the business? Are there areas that need improvement, or is it maintenance? ➤ xx 	
7	Integrate with acquired companies. <ul style="list-style-type: none"> ➤ xx 	
8	What other specific accountabilities will be critical to success? <ul style="list-style-type: none"> ➤ 'To do' items? ➤ Areas of expertise / personal strengths needed? 	

Competency Scorecard

COMPETENCIES	COMMENTS AND RATING
Leadership Competencies	
Hires A players	
Develops people	
Removes underperformers	
Treats people with respect	
Efficiency of execution	
Network of talented people	
Flexible/adaptable	
Personal Competencies	
Integrity/honesty	
Organization and planning	
Calm under pressure	
Aggressive	
Moves fast	
Follows through on commitments	
Intellectual Competencies	
Brainpower/learns quickly	
Analysis skills	
Strategic thinking/visioning	
Creative/innovative	
Attention to detail	
Motivational Competencies	
Enthusiasm/ability to motivate others	
Persistent	
Proactivity/takes initiative	
Work ethic	
Sets high standards	
Interpersonal Competencies	
Listening skills	
Open to criticism and others' ideas	
Written communications	
Oral communication	
Teamwork	
Persuasion	
Holds people accountable	
Technical/Functional Competencies	
Sales	
Information technology	
Finance	
Human resources	
Knowledge of the industry	