The Lollapalooza Effect

Berkshire Hathaway, assessment and rethinking talent management

The Lollapalooza Effect

Charlie Munger is the Vice Chairman of Berkshire Hathaway, the holding company run by Warren Buffett. A lawyer, businessman, investor and philanthropist, Charlie Munger has been described as the genius behind Berkshire Hathaway's exceptional success. Now the fourth largest public firm in the world, Berkshire Hathaway has averaged an annual growth in book value of 20% to its shareholders in the last 49 years (compared to 10% for the S & P 500).

Less well known than Warren Buffett, Charlie Munger is a shrewd observer of business life and human nature[1], and in identifying the Lollapalooza effect, he might have part of the answer to a problem that has begun to trouble talent management practitioners.

The Lollapalooza Effect: *"an extraordinary or extreme result caused by a combination of the following factors:*

■ *extreme maximisation or minimisation of one or two factors*

■ *adding factors so a bigger combination drives success, often in a non-linear fashion*

■ *an extreme of good performance over time*

■ *catching and riding some sort of big wave"*

66 *If the result you are observing is a Lollapalooza, look for the confluence of multiple causes and multiple factors operating in the same direction.*

Charlie Munger

Is prediction in talent assessment stalling?

The talent assessment industry - the grouping of executive search/selection firms, specialist assessment practices and test publishers - claims to provide predictive power of future effectiveness that in turn will deliver valued business outcomes. That is the claim; although it is a puzzle that this predictive power seems to have stalled of late[2], despite an increasing array of new assessment methodologies and the promise of Big Data number crunching for better predictive analytics.

It may be that we have to accept that VUCA[3] is more than hype, and that we now operate in a world of such Volatility, Uncertainty, Complexity and Ambiguity, that prediction in assessment has reached its limits. Here the argument is that we have to accommodate ourselves to the reality that "this is as good as it gets". In this scenario, the challenge is less about making advances in predictive power, and more about optimising the candidate experience and improving cost effectiveness. This is a strategy to focus less on gains in prediction and more on identifying ways to make the selection process more appealing and engaging to end users delivered at lower cost.

Alternatively, it may be that the assumptions behind many predictive models are flawed, and when talent management rethinks the relationship between personal effectiveness within context and the outcomes of success it has the potential to improve assessment.

"The game of investing is one of making better predictions about the future than other people. How are you going to do that? One way is to limit your tries to areas of competence. If you try to predict the future of everything, you attempt too much.

Charlie Munger

A thought experiment

The fundamental premise behind talent assessment is that of validity[4] to identify the relationship between the assessment (the Predictor) and some measure of future success (the Outcome). The strength of this relationship determines the predictive power of the assessment, and our knowledge of this relationship reassures us that, firstly we can forecast with some confidence who will succeed and fail, and secondly, locate which predictive factors and specific assessment methods are more or less indicative of future success.

Imagine a data set of 100 people. For each individual we have two metrics, one a measure of some aspect of personal effectiveness (the Predictor on the X axis), the second an evaluation of success (the Outcome on the Y axis)[5]. Typically this mapping of Predictor X and Outcome Y is summarised as a correlation coefficient, an index where 0 indicates there is no relationship between Predictor and Outcome to 1.00, a perfect correlation between the two variables. This correlation can also be visually represented as a scatter-plot[6].

In this first scenario, there is a correlation of something approaching 1.00, and here incremental increases in the Predictor are associated with increasingly higher Outcomes[7]. A graphic that promises spectacular predictive power and substantial organisational gain, it is a long way from predictive reality.

Life in talent assessment is just not that simple. And if it was, something very strange would be going on. This pattern doesn't reflect the vagaries of human nature and behaviour, the challenges of accessing reliable measures of Predictor X, or the difficulties in evaluating Outcomes Y within the flux of organisational life.
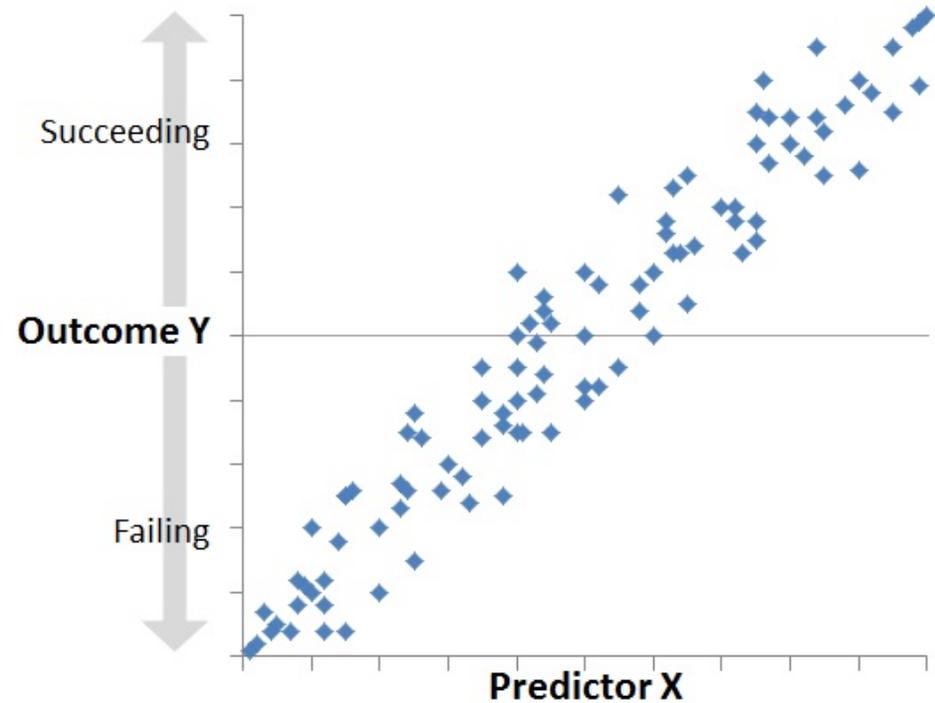
What level of prediction is possible?

Scenario 2 reflects a more realistic world in which our predictive power is not played out in the straight line of a perfect correlation between Predictor and Outcome. In this more typical data set, we have more fuzziness in which we feel less confident that our knowledge of X will predict Y.

This is the talent management world of less than reliable measurement, where the criteria of success are not well-defined, or evaluated objectively with any consistency over time. This is also the world of the intriguing outliers, those individuals who deviate from the overall trend and where low Predictor scores may be high on success Outcomes, and vice versa[8].
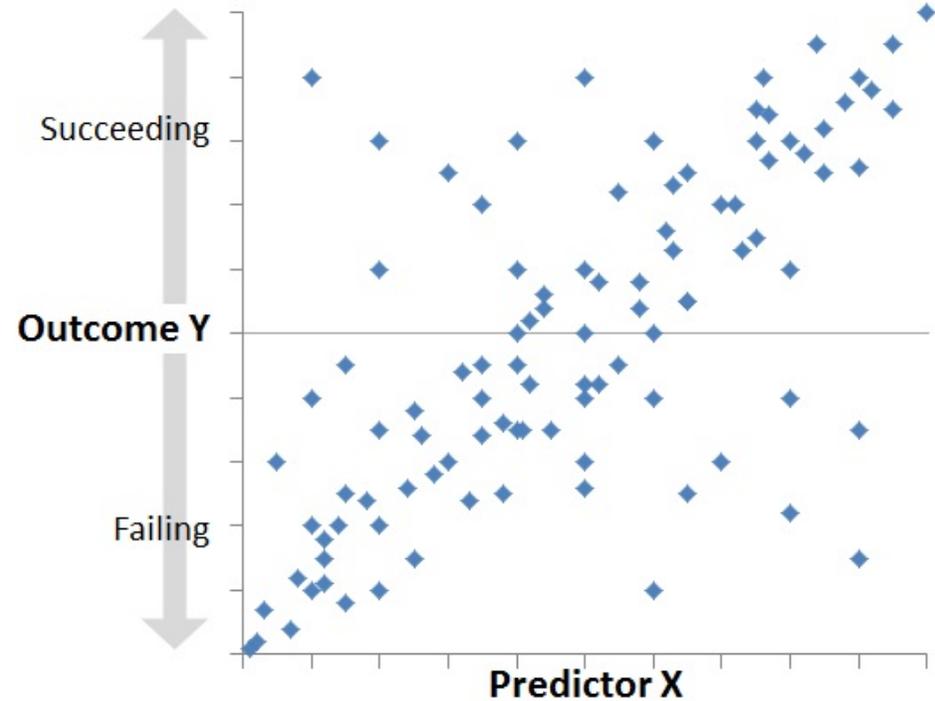
> *Berkshire is in the business of making easy predictions. If a deal looks too hard, the partners simply shelve it.*
>
> Charlie Munger

Prediction and the Lollapalooza effect

What if the relationship between Predictor and Outcome rarely follows a neat linear relationship? What if the typical scatter plot looks more like the pattern in Scenario 3, reflecting a non-linear pattern[9] between the Predictor X and Outcome Y? There are three zones on the graph to highlight.

Zone 1 is the **zone of failure**. This part of the graph displays those individuals in the data set where low Predictor scores are associated not just with low Outcomes, but with very low Outcomes. The issue here isn't simply that a grouping within the data set can be predicted to under-perform, but that the Outcomes associated with these individuals will be counter-productive and damaging to the organisation. Intuitively, most talent management practitioners recognise this, and that a key part of the assessment challenge is to screen out these individuals, as quickly and cost effectively as possible.

What dynamics underpin the pattern of Zone 1?

The first is the **absence of the positive factors** associated with success. For individuals low on those factors associated with positive outcomes, failure is much more likely than success, and the more gaps, the higher the odds of greater failure. An individual, for example, low on such personal assets as intelligence, conscientiousness, and emotional intelligence can succeed (some individuals just get lucky), but failure is the more likely outcome. And the lower the individual is on these positive factors, the greater the expectation of failure[10].
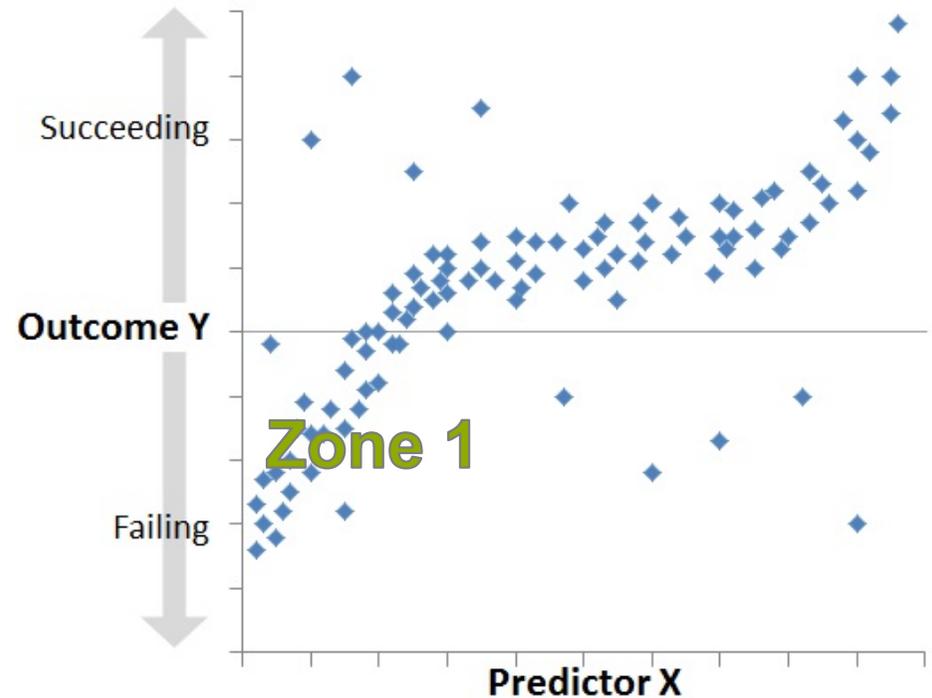
Prediction and the Lollapalooza effect

The second dynamic explaining failure in Zone 1 is the **presence of negatives**. In the subset of failure, there is a grouping of those individuals who might possess significant talent and motivation, but also seem destined to seek out failure. These are the people who ignore the Charlie Munger advice to "avoid the stupid and idiotic", and are determined to embark on the foolish and reckless.

What underpins the "stupidity of failure"? At the level of life tactics, there is a listing of idiotic things to do that can only have highly harmful consequences, for the individual personally, as well as for their colleagues and the organisations that employ them. What seems to connect much of this counter-productive behaviour is an ego that is out of control in search of short-term gain, and willing to take unnecessary risks. Other common factors include any permutation of irrational fear, greed and envy that ensures even "smart" people behave in spectacularly foolish ways. Throw perverse incentives into the organisational mix, and the potential for failure increases[11].
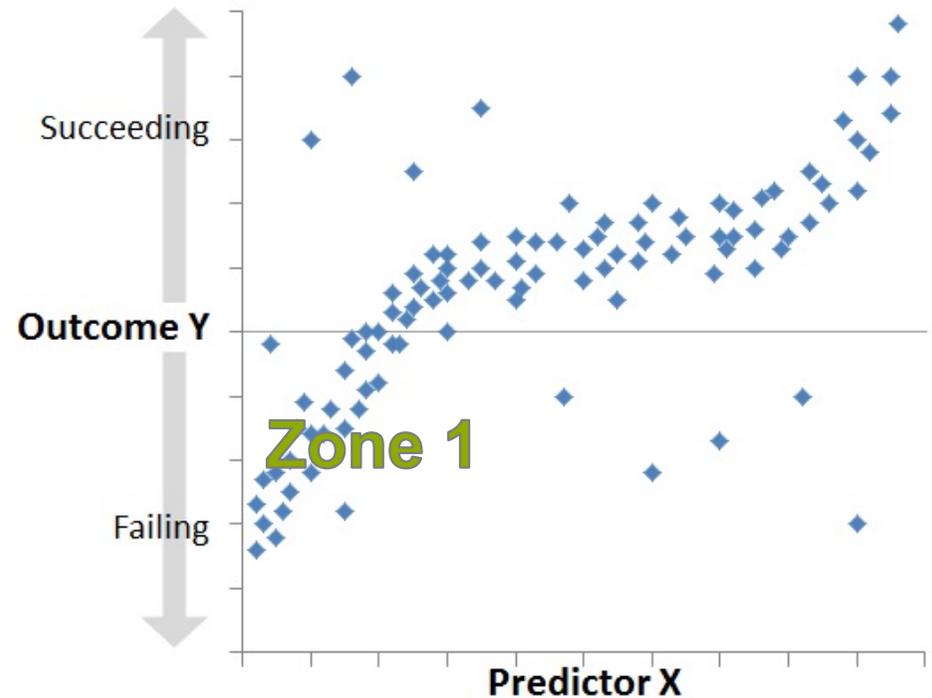
> **Other people are trying to be smart. All I'm trying to be is non-idiotic. It's harder than most people think.**
>
> Charlie Munger

Prediction and the Lollapalooza effect

Zone 2 is the **success plateau**, that part of the graph where individuals move up the Predictor axis and shift out of the failure zone and make the transition into success. What is notable here however is that improvements in the Predictor factors do not translate into corresponding increases in success Outcomes. Yes, a shift up the X axis is associated with a bit more Y where increases in effectiveness are associated with gains in success, but not by all that much.

This is an uncomfortable reality for talent management practice. Despite efforts in assessment to select, for example, only those in the top quartile on the Predictor identified as important to future success, there is only a modest organisational gain. This might also explain why the massive investment in leadership development over the last two decades has not resulted in a leadership renaissance[12].

The issue isn't that greater accuracy in assessment doesn't deliver gains (it does), or to argue that more targeted and relevant development doesn't result in improvements in effectiveness (it does). The problem is that the predictive gains and improvements in effectiveness are accompanied by only relatively modest organisational returns.
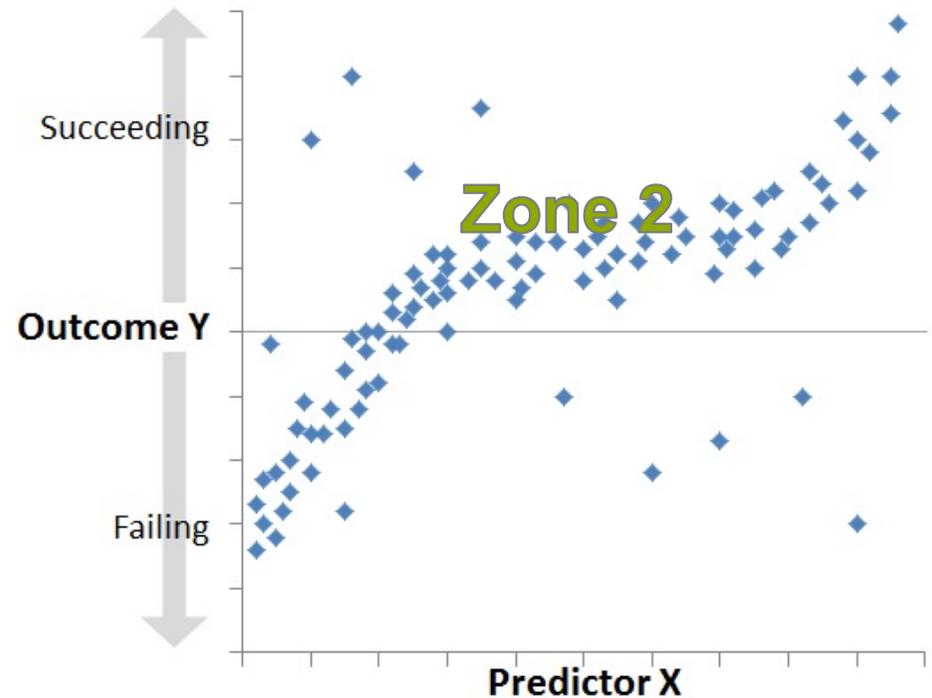
Prediction and the Lollapalooza effect

In Zone 3, individuals move into that tipping point that goes from moderate to exceptional outcomes. This is the **positive Lollapalooza effect**. Here a relatively modest shift further along the Predictor axis is associated with a massive hike on the Outcome axis. This is the phenomenon of the hyper-performers[13] in which performance doesn't follow the normal distribution curve but the pattern of a Power Law. It isn't just that the highest performers on the Predictors do very well. It is that they do outstandingly better. These are the individuals who achieve the benefits of the Lollapalooza effect.

This is the world of success in which a small number of individuals achieve extraordinary outcomes; the "winners" who take a disproportionate number of the prizes.
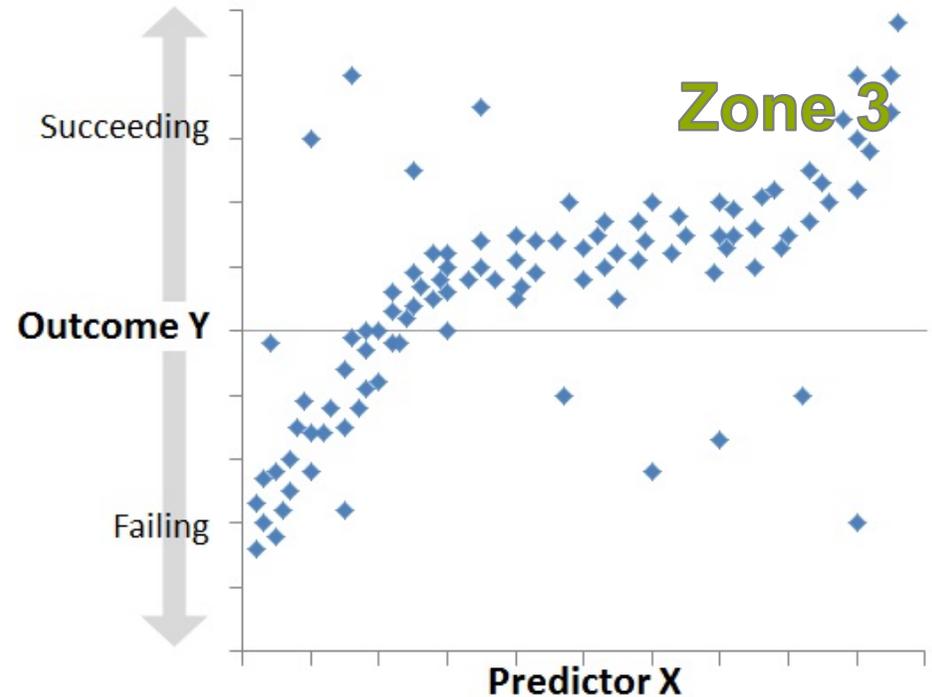
66 *The top 0.01% of success is a multiplicative system. Everything's gotta go right. The world is too competitive to allow for anything else.*

Shane Parrish

Lollapalooza Effect and the one exceptional factor

What dynamics trigger this tipping point to produce a positive Lollapalooza effect? Here combinations of different interactions are critical, but seem to require any mix of the following:

- **the presence of at least one exceptional factor**

- **the interaction of multiple positive factors**

- **consistent performance over time**

- **catching and riding a big wave**

> *The great rewards never go to the merely excellent but to the outstanding.*

Richard Koch

Whilst the strength-based perspective has its critics[14] it makes an important point; playing to our strengths is a good starting point in achieving success. A well-developed strength has the potential to become a source of excellence, the level of excellence that makes a positive Lollapalooza effect more likely.

Take general mental ability as an example. At first sight, the difference between an individual at the 84th percentile and another at the 97th percentile may look relatively unimportant. In reality, the difference in outcomes is sizeable[15]. Intelligence of course is only factor, and although extremely high levels make the Lollapalooza effect more likely, they do not guarantee it. Neither does outstanding success require extraordinarily high intelligence[16].

Other factors developed to the point of excellence also have the potential for exceptional success. Outstanding levels of personal charm have delivered the Lollapalooza effect for some individuals, as have Herculean amounts of resilience and perseverance. And finely developed skills in commercial acumen and negotiation have been a lever for some entrepreneurs to progress from performing quite well to performing extremely well.

The risk for this theme is the reliance on the exceptional strength when that strength either becomes less relevant (the valued outcomes of success change) or over-played. When a strength becomes over-played, it becomes a hazard and a contributory factor to decline[17].

Lollapalooza Effect and the interaction of multiple positive factors

Talent assessment has historically been better at collecting data than integrating information from different sources into a coherent predictive model. This is the common strategy of hoping that if a candidate completes enough assessment exercises, some pattern might emerge. This approach also tends to apply an additive predictive model in which forecasts of success outcomes are made by adding up all the predictor scores. Competency based assessments, for example, often seem to assume that the more competency boxes ticked the better, and that overall effectiveness can be forecast from the number of ticks.

Imagine a scenario to build a predictive model for the Lollapalooza effect in leadership? Which factors[18] should be included in the model?

- the **credibility** of the individual
- the breadth and depth of the **capabilities** the individual can draw upon
- the **character** that is fundamental to their operating approach
- the **career management** strategies and tactics that can be deployed
- the range and quality of the **connections** the individual can access

Somebody once said that in looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you. You think about it; it's true. If you hire somebody without [integrity], you really want them to be dumb and lazy.

Warren Buffett

Lollapalooza Effect and the interaction of multiple positive factors

Credibility

The first question to ask: is this individual credible and believable? Credibility provides authority, legitimacy and a reassurance that the individual can operate effectively within leadership roles. Without credibility, there are no followers, and without followers, there is no leadership, only leader-ing[19].

At best credibility is shaped by a consistent track record of achievement, relevant experience, and the regard and respect of peers. Here credibility is the meritocratic outcome of effectiveness. But credibility is also fickle and can be deceptive. Credibility can be driven by many factors, some of which have little to do with real leadership impact. A career resume which lists impressive job titles within "big name" companies looks good but may be more a reflection of good luck and smart career management than of any personal talent on the individual's part. And, self belief, social confidence and positive communication at the corporate cocktail party may be nothing more than that, and say little about leadership effectiveness in the real world.

Capability

This component of leadership represents the range of skills and talents which enables individuals to take on the problems and challenges facing the organisation. This typically is a mix of strategic thinking, effectiveness in execution skills, organisational influence and team leadership that allows individuals to juggle the demands of working life, responding to different expectations up, down, across and outside the organisation. Capability also factors in relevant functional and technical expertise.

This is the area in which the competency movement has directed most attention. Defining the specific capabilities key to the

organisation's competitive future provides a blue print to guide assessment activity and factor within a predictive model.

Character

Character is about the fundamental inner qualities, principles and ethics (often mapped as a mix of integrity, resilience, courage and authenticity) which shape a full understanding of the role of leadership and what is required to operate effectively. Daniel Goleman, proponent of EQ, acknowledges that the vocabulary of Emotional Intelligence is an attempt to grapple with the theme of character: "there is an old fashioned word for the skills that Emotional Intelligence represents - character." There is nothing new here. Peter Drucker, 50 years ago said, "It is character through which leadership is exercised, it is character that sets the example….It is not something one can fool people about."

Peter Drucker was right: character is the fundamental component of leadership. He was also wrong. In recent times we have allowed ourselves to be fooled by leaders without character.

Career Management

Leadership operates in the real world, in the organisational "shadow side", a world in which organisations do not operate with perfect rationality. The most talented candidates do not necessarily get the job and the "cream does not always rise to the top." At its fundamental, leadership success is not "win-win" for everyone. It is a competitive game in which one person's advancement threatens the position of their peers, and the progress of peers constrains the individual's options. Talented individuals who do not understand the realities of corporate life or how to advance their own personal agenda will find it difficult to compete with peers also keen to achieve their goals.

Lollapalooza Effect and interaction of multiple positive factors

Career Management isn't simply highlighting that aspect of leadership which recognises and skilfully plays the political game. Career Management[20] it is also the shrewd deployment of self-management skills to direct time and energy around the "art of the possible", and balance competing life and work priorities to advance personal aspirations.

Connections

Talent assessment focuses on the individual and the evaluation of the range of qualities, experience, mind sets and skills that can be drawn on to tackle the challenges of working life. But effectiveness isn't just a matter of the personal assets (or liabilities) of the individual.

Individuals can also access additional experiences, insights and talents through their connections to other individuals[21]. Some individuals draw on a wide range of contacts, contacts which span different disciplines, organisations and sectors, individuals who are also highly experienced, capable and innovative in their thinking. Other individuals have a limited network, restricted to people similar to themselves within a fairly narrow sphere.

This theme of course can be over-played in assessment. Here we run the risk of the "old boys club" that is a barrier to greater inclusiveness and diversity. But in the networked world of collaborative working, connections are an important multiplier for the Lollapalooza effect.

The five themes, Credibility, Capability, Character, Career Management and Connections provide the fundamental building blocks of leadership. However they are not stand-alone components. There is an inter-play across them, and understanding these interactions is key to the Lollapalooza effect.

Imagine a scenario in which ratings are available for two individuals.

Candidate 1

Credibility = 9
Capability = 8
Character = 0
Career Management = 9
Connections = 7

Candidate 2

Credibility = 6
Capability = 7
Character = 7
Career Management = 4
Connections = 5

If overall effectiveness can be predicted from an additive model, then candidate 1 looks the better bet. Alternatively if prediction is optimised in a multiplicative model, where any number times zero is a zero (no matter how large the other numbers), then candidate 1 is immediately screened out. This is prediction that accepts the weakest link in the chain argument. It is also prediction in which an accumulation of factors multiplied increases the likelihood of the Lollapalooza effect.

Lollapalooza Effect and consistency of performance over time

Time is the friend of the wonderful company, the enemy of the mediocre.

Warren Buffett

There is the type of individual whose performance varies from astonishing brilliance on one day to utter chaos the next day. This is the Roller Coaster individual who can pull out the stops to deliver sensational results, but then goes on to make catastrophic mistakes.

Astonishing brilliance receives organisational attention, and there is no shortage of individuals who have built a reputation based on one shining moment of apparent genius (sometimes resulting from a piece of outstanding good luck). Here the Halo Effect anoints these individuals as "special ones" to trigger a self fulfilling prophecy[22] for greater success.

The Lollapalooza effect is helped by a consistent level of performance. In most fields of endeavour, constancy of purpose and consistency of delivery is critical[23]. As with compound interest where small differences in interest rates produce significantly different outcomes over time, consistency of input is critical for Lollapalooza type outputs.

Overnight exceptional success is possible, and a few lucky individuals achieve it. Patience to deliver over time is a better strategy for the Lollapalooza effect.

Lollapalooza Effect and catching and riding a big wave

This is the Lollapalooza effect as generated by timing within context. The reality is that the achievement of massive success outcomes does not hinge only on the individual, the combination of their experience, talents and energies, or even the connections the individual can draw on. The Lollapalooza effect owes much to the context in which individuals operate within and the opportunities for the "big wave" that make success easier rather than more difficult.

This isn't simply the argument that "success arises from a combination of history and geography" and that personal success owes much to the luck of being in the right place at the right time. No doubt luck[24] plays a major part in the Lollapalooza effect, but the "big wave" argument implies another dynamic at work. These are the exceptional outcomes achieved by "loading the dice" to make success "easy". This is success as context and the recognition that the more favourable the circumstances within this context, the greater the chances of a Lollapalooza effect.

Berkshire Hathaway likes to invest in "easy companies", companies where the business dynamics are favourable. Strategically the Lollapalooza effect occurs when an organisation has:

- the wide "moat" of a durable competitive advantage
- highly differentiated products or services that are difficult to copy
- an essential product or service that provides pricing power in the market place

"When these conditions are met, we can anticipate disproportionate returns from our investment."

We identify one foot hurdles we can step over rather than acquire any ability to clear seven foot hurdles.

Warren Buffett

Catching and riding some sort of big wave

At an individual level, the equivalent applies. There are contexts that are favourable to performance, and where success is stepping over the one foot hurdle. And there are circumstances that are so unfavourable, success to clear the seven foot hurdles is unlikely.

The impact of context, and the spectrum from highly unfavourable to highly favourable makes cause and effect difficult to determine. Is the individual's success a consequence of *how well they have rowed the boat, or how fast the stream has been flowing*?

Most of the time for most individuals, outcomes are likely to be a mix of personal effectiveness and positive circumstances, but the Lollapalooza effect is more likely with a tail-wind of a favourable context.

One must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm thinking that its paddling skills have caused it to rise high in the world.

Warren Buffett

FAVOURABLE	UNFAVOURABLE
working with well-established firms with a stellar reputation	working for poorly performing organisations with a damaged brand
operating in a business with substantial investment in new products or new markets	facing significant pressures of decline and fighting to survive
operating within business success and easy access to resources	operating on a shoe-string with limited resource
operating within a structure of clear accountabilities	operating within a structure of confusing responsibilities and reporting lines
working within efficient processes and responsive systems	having to make do with out-dated systems and cumbersome processes
working with highly professional, motivated and supportive colleagues	dealing with people who are demotivated, difficult and destructive
working within a culture of decency and civility that is respectful and honest	operating within a badly behaved culture that is highly politicised and aggressive

The paradox of context

A paradox complicates the story when we map out the context in which individuals have operated within - in the past and in the current circumstances they now face. Mapping the interaction of favourable vs unfavourable circumstances in the past and current context identifies four leadership groupings.

For individuals who have previously operated in favourable circumstances, and now face current favourable conditions, the outcome is likely to be the "**Easy Pickings**" of moderate success. These are the individuals who have struck it lucky in the past to find themselves in an environment where a tail wind of happy business and organisational circumstances has propelled them forward in their careers. Life has been good, and a solid track record of accomplishment has been established, and they find themselves now in equally favourable circumstances.

Alternatively these are the individuals that may create concern in talent reviews. Their achievements may be less about their own personal qualities and more about the sheer good fortune of their past and current circumstances. These, as Warren Buffett points out, might be the *"ducks that quack a lot when the lake rises"* unlike the *"right thinking duck which compares its position after the downpour to that of the other ducks on the pond."* Put in an unfavourable work situation, because these individuals have not developed the mind set or repertoire of skills to overcome the tough stuff, we shouldn't expect much of the Lollapalooza effect unless luck continues to be wonderfully kind.

The second grouping of individuals is the "**Question Marks**". These are the individuals whose past success has largely been propelled by operating in favourable circumstances, but now find themselves in a more difficult and challenging environment. Here

	Current Favourable	Current Unfavourable
Past Unfavourable	Lollapalooza of exceptional success	Warriors of survival
Past Favourable	Easy pickings of modest success	A question mark about future success

The paradox of context

the tail wind in their previous work environment has now become a head wind and it is not a comfortable experience.

For some this new challenge is an opportunity to "dig deep", discover new strengths and build the kind of character that will develop the qualities of resilience and courage. For these individuals, this shift towards greater challenge can be a humbling and transformative experience, and a transition to outstanding levels of success. Others however become exposed when faced with challenges beyond their past experience and current repertoire of skills. For some this challenge is too much, and decline is triggered.

The third grouping represents the individuals who have faced adversity in the past and can be expected to encounter more of the same in future. These are the "**Warriors of Survival**". Whatever life has thrown at them in the past has strengthened them, built reserves of resolve and character and a confidence that problems can be tackled and overcome. (An alternative narrative is any career spent in an unfavourable operating environment results in a certain unrelenting ruthlessness. This describes the type of leader with the qualities outlined by entrepreneur Felix Dennis: "Tunnel vision helps. Being a bit of a shit helps. A thick skin helps. Stamina is critical.")

These individuals continue to face a head-wind and one that provides few opportunities for the exceptional success of the Lollapalooza effect. At best, these individuals are the organisational stoics who accept the "slings and arrows" of business life and can be relied upon to deliver despite the obstacles they have to overcome. At worst, the risk is that they become battle-fatigued, energy levels drop and disillusionment is the consequence.

The fourth group represents the **Lollapalooza contenders**. These are the individuals who in the past have worked in demanding working environments, developing a mind set and building a repertoire of skills that enables them to overcome challenge and adversity. They now find that the wind has shifted. The Lollapalooza contenders have a tail wind in which circumstances now operate in their favour. To paraphrase Warren Buffett, having acquired the ability to clear seven foot hurdles, these individuals have the challenge of stepping over one foot hurdles.

For the Lollapalooza contenders, this is the moment of the "big wave" of opportunity. These are the individuals who know the tough stuff of business life but also recognise that events have changed to optimise the chances of success.

Implications

If the Lollapalooza effect is more than a thought experiment, but one that indicates a common dynamic between Predictors and Outcomes, it is unsurprising that talent assessment has not seen much gain in its predictive power. Given the permutations of multiple interacting factors needed for the Lollapalooza effect, it is unlikely that any predictor combination will forecast future exceptional success.

But an insight into the Lollapalooza effect does have the potential to enhance talent management activity and the associated outcomes of performance improvement, succession coverage and organisational versatility and resilience. If talent management:

- screens out **likely failure** rather than attempt the ambitious project to forecast exceptional success

- avoids the **fragility of complex predictive models** to keep its assessment systems simple

- factors in a better **understanding of context** to be more insightful in explaining past success and predicting future success

- locates the **dynamics of context that are helping or hindering** exceptional levels of performance

it improves the chances of achieving a Lollapalooza effect to deliver outstanding organisational returns.

"When two, three or four forces are all operating in the same direction, you don't get simple addition. It's like a critical mass in physics where you get to a certain point of mass - but you don't get anything much worth seeing if you don't reach the mass.

Charlie Munger

Failure is easier to predict than exceptional success

The Anna Karenina success principle[25] is a reminder that outstanding success is based on many different factors, but that any one deficiency can result in failure. The Lollapalooza effect of exceptional success is exceptional because it is rare and hinges on a complex pattern of interacting factors when the stars move into alignment.

This implies that predicting failure should be a more straightforward task than any enterprise to forecast exceptional success. And this seems to be case in other predictive tasks (e.g. identifying the failure or success of start up firms)[26]. Here risk factors are identified in the assessment process and the presence of any one of these risk factors is sufficient to screen out the individual. This is talent assessment as a defensive manoeuvre to avoid the selection of those candidates with the potential to damage the organisation.

This strategy also suggests a shift away from any enthusiasm for the "one thing" explanation of success that characterises much of the talent assessment industry. A shiny new predictor (e.g. grit, learning agility, growth mind set) jingles-jangles[27] with the promise of new predictive power but then disappoints when the evidence is reviewed. There is no one thing for outstanding success and any reliance on the one thing predictor can only disappoint.

To paraphrase Charlie Munger: *"it is remarkable how much long-term advantage talent management can have by screening out future failure rather than take on the difficult task of predicting the exceptional."*

> *If my job was to pick a group of 10 stocks that would out-perform the average, I wouldn't start by picking the 10 best. I would pick the 10 or 15 worst performers and take them out of the sample, and work with the residual. Start with failure and engineer its removal.*

Warren Buffett

Keep the predictive model simple

Big Data holds the promise of providing algorithms that factor in every possible variable in complex equations for extraordinary predictive accuracy. This is talent assessment with the claim of an impressive validity correlation coefficient[28]. But often the claim is based on an exercise in "fishing and fitting".

If we **fish** in a big enough data set, patterns will be identified. These patterns are then used to generate a regression equation that **fits** the data set[29]. An impressive regression equation then becomes the exciting claim of future prediction. The problem arises when this algorithm is applied to a different data set to make genuine predictions for the future rather than explain a past effect. Unfortunately the analysis from this cross-validation has a bad habit of delivering disappointing returns, and the whiz bang of a new algorithmic firework turns out to be a damp squib of modest validity. When patterns are random patterns - identified in a fishing expedition - rather than reflecting meaningful causal dynamics, this is to be expected.

In the world of Berkshire Hathaway, investment success does not hinge on complex mathematical models, models that are either so complicated that no one understands them, or so fragile[30] any predictive accuracy disappears when circumstances change slightly. Berkshire Hathaway's investment philosophy is based on understanding the few fundamentals that underpin a decent business that can be expected to be profitable for the long-term.

Similarly in talent assessment. 50 constructs bundled into a complex equation with a validity coefficient reported to four decimal places is a red flag of fishing and fitting[31.] We simply need a shrewd insight into 5 or 6 factors, the inter-play of these factors and their relative importance to the organisation[32].

You don't have to know everything. A few really big ideas carry most of the freight.

Charlie Munger

Prediction is optimised when we understand context

Talent management has still not quite recovered from the War For Talent and its prescription to: "buy in the best, bright and the beautiful" to deliver business success. This was based on the assumption that talent exists as *the "sum of a person's abilities - his/her intrinsic gifts, skills, knowledge, experience, intelligence, judgement, attitude, character and drive"* and that "A players" with this talent should be identified, rewarded disproportionately and promoted as quickly as possible. As it turns out, those firms who applied the WFT formula did worse over the last decade than their more sensible peers who ignored the advice[33].

The War For Talent philosophy continues. One test publisher[34] recently argued that "test designers and publishers are the arms merchants", and talent management consultants are the "hitmen and mercenaries" in this war. Putting aside the awful inappropriateness of this war imagery, there is no evidence that a talent management philosophy that hinges on the identification and recognition of the A players - has worked.

As Boris Groysberg in "Chasing Stars"[35] pointed out, talent is just not that portable. He argues that if the superior performance of the A players is predominantly a function of personal talents and efforts, a move from their current work environment to a different context shouldn't affect performance. But it does; the performance of the stars "declines, sharply for a prolonged period of time".

Context matters, and a failure to understand the context within which an individual has operated in their past or can be expected to work within in future, limits our insights in talent assessment.

We can mistake the lucky outcomes of a favourable past for exceptional talents and motivation. Here we allow the speed of the river to shape our assessment of rowing prowess. And we limit the pool of available talent if we only look at individuals who have enjoyed a favourable context, and ignore the strong rowers in slower moving rivers. We also run the risk of derailment when we promote fortunate individuals who have paddled happily in the past into roles where the river might not flow so easily.

"Only when the tide goes out do you discover who's been swimming naked.

Warren Buffett

Changing the context optimises the Lollapalooza effect

When a person with a reputation for genius takes on a business with a reputation for tough operating conditions, it's the reputation of the business that is likely to remain intact.

Charlie Munger

The Lollapalooza effect - at an individual or organisational level - is unlikely when:

- the business **strategy** is fundamentally flawed and there is no wide moat of enduring competitive advantage
- the organisational **structure** is a confusing tangle that fails to translate business priorities into coordinated and productive effort
- the organisational **culture** is one of arrogance and complacency and lacks urgency and discipline in execution.

Faced with this dark triad of a broken strategy, structure and culture, organisations typically turn to the external market place to bring in the "Lollapalooza leader" to transform their business fortunes. This is the search for the corporate saviour[36]; a manoeuvre that has met with limited long-term success.

If the Lollapalooza effect is more likely within the big wave of a favourable context, then a talent management strategy focused primarily on the identification of the high potential star performers[37] may be missing something important. When talent management is repositioned and integrated with organisational development to help design and implement improvements in strategy, structure and culture, it makes it easier for individuals to perform. This is less about talent assessment looking for individuals who can step over seven foot hurdles, but talent management as keeping the hurdles to one foot.

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The Lollapalooza effect combines two different management philosophies.

In one mind-set, performance is largely about individual talent. The talent management challenge is to identify the right people with the right stuff (or more realistically to screen out those with the wrong stuff[38]). At best, this is a talent management strategy that targets limited resource towards those individuals more likely to have most organisational impact. At worst, this approach can become elitist and create a "them and us" culture in which the super stars exploit the system in a way that becomes highly damaging for the long-term[39].

There is another talent management philosophy in which organisational effectiveness is less about the personal heroics of the individual, and more about collaboration within a supportive working environment and an organisational culture that enables performance. Here talent management efforts are less about spotting those with the "right stuff" and more about attention to the context that reinforces the right results. This is attention to the situational factors that are helping and hindering performance[40]. This approach to talent management also remembers Charlie Munger's advice: *"Perhaps the most important rule in management is to get the incentives right"* [41].

Both talent management philosophies have their relative virtues. We optimise the Lollapalooza effect when they are integrated into a coherent strategy for organisational development.

It's not the bad ideas that are the problem. It's the good ones carried to excess.

Charlie Munger

Conclusions

What of talent management itself? Surveys of practice in this field continue to report that it is "not quite there yet" and is stuck on the success plateau of doing OK. There is a frustration that it's not got to the tipping point that triggers exceptional returns. Applying the principles of the Lollapalooza effect to the talent management enterprise highlights:

The impact of at least **one exceptional factor**. This is the challenge for a talent management function; to identify a current strength - an activity that is working well and viewed positively within the organisation - and build on it to make an outstanding impact.

The **interaction of multiple positive** factors. When talent management relies on the one thing, that one thing often has unintended negative consequences. When talent management joins up the dots to connect different strands of activity as part of a coordinated and integrated enterprise, it gains from the multiplier effect. This is also talent management applying the principle of the weakest link to locate any specific process that is undermining overall impact.

The benefit of **consistency over time**. This is the principle of the "hard yards" of sustainable success and the importance of disciplined effort over time. To achieve the Lollapalooza effect, talent management requires patience in delivery, focused around a few simple things executed well.

Catching and riding a big wave. This is talent management as strategic alignment to ensure its priorities reflect the business challenges facing the organisation. When talent management is caught up in a fashionable fad, it is vendor led. When a talent management function understands the specific opportunities and risks facing the business, knows how to reposition itself and re-allocate resources to changing priorities, it seizes the moment when it can have the greatest organisational impact.

The promise of talent assessment to make a positive business impact, well established in the 1980s and 1990s[42], has not seen significant gains in predictive power in recent years. The noisy hype of the talent assessment vendors conceals some uncomfortable realities. It is doubtful that many of the claims have been subject to independent replication, or more importantly, will translate into genuine practical benefits in a selection context or in other high-stakes applications[43].

The Lollapalooza effect provides insight into the dynamics of predictor and outcome and highlights the importance of the interactions between the individual and the context in which they operate. It also reminds us that talent management re-positioned as organisational development might yield greater returns than one preoccupied with talent assessment where predictive power has stalled.

"When four or five forces come together to operate in the same direction you get Lollapalooza effects – which can make you rich or they can kill you.

Charlie Munger

About AM Azure Consulting

Established in 1994, we work with a broad portfolio of clients – in the UK and internationally - in the design and implementation of online services in recruitment and selection; management assessment, development and career management; online leadership tool kits, 360° feedback; performance management and talent and succession management.

If you are interested in our approach to talent management, our consulting expertise and assessment tools and software:

Call us: 44 (0) 1608 654007

email: officesupport@amazureconsulting.com

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We:

- summarise complexity to provide solutions that are pragmatic and build and maintain momentum for our clients.

- help trouble-shoot the messy organisational problems to see the key issues, identify options and put in place actionable plans that make progress.

- cut to the chase to focus on the distinctive challenges of our clients. We enjoy the innovation that results from our clients with ideas and we help translate them into practical applications.

- draw on an extensive research base, library of resource and range of tool kits, and up-to-date thinking to help design and implement practical solutions quickly.

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10. In 2014 when the Coop Bank appointed Paul Flowers as its Chairman, his lack of relevant banking experience, any credibility to navigate a complex organisation through turbulent economic times and the absence of key skill sets might have been a red flag to signal future problems. It was not. Flowers had "passed the personality test" and was selected. He was then removed, leaving the Coop Bank with a £1.5bn hole in its' finances.

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12. Jeffrey Pfeffer and leadership bullshit; http://www.forbes.com/sites/danschawbel/2015/09/15/jeffrey-pfeffer-what-most-people-dont-know-about-leadership/#1ed544f528ab Why leadership-development programs fail; http://www.mckinsey.com/global-themes/leadership/why-leadership-development-programs-fail

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