

The Secret to Hiring a Star Executive



On average, it costs 2.5 times the salary to replace an unsuccessful Chief Executive Officer. Loss of productivity, relocation costs, and search costs contribute heavily to this multiple. This does not take into consideration that there will be a loss of organizational focus due to the leadership void caused by the termination of an organization's CEO because of poor performance.

Do you have a hiring strategy for your Chief Executive Officers? Executives are chosen for their wisdom and guile, but more importantly, they are chosen for their potential to produce results. What hiring practices are in place in your organization to acquire the best possible candidate for the CEO position?

Unlocked Potential has the answer! In a research project supported by NC IDEA and the Council for Entrepreneurial Development (CED), Unlocked Potential conducted interviews with a collection of top executive officers in the Research Triangle Park region of North Carolina. The interviews identified specific competencies that determine the success of a CEO.

The research details these critical competencies in and how to use them to find the best possible candidate for a CEO position.

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Executive Summary

Overview

The search for a Chief Executive Officer is a process that will determine the organization's future. The CEO hiring process has to take into consideration the candidate's previously gained competencies, on-going development of key competencies, and their natural born abilities. These practices will make the difference between the organization that excels and the one that self-destructs.

The distressing situation is that few seed and early stage companies use a validated interview system. Many times the questions used to hire the CEO candidate are reflective of the individual's interview *preferences* rather than of the hiring committee. What results is an integration of data that compares apples to oranges when it should be comparing apples to apples.

With today's globally competitive economy and ensuing pressure to produce results in the shortest period, it is crucial to hire a CEO that has the highest probability of initial success. That individual is one who not only takes inventory of their skills *but also* demonstrates a *drive* to continually improve them.

The objective of *this white paper* is to identify the critical *competencies* that are required for success in the CEO position.

Uncovering the Critical CEO Competencies

The following organizations, in the Research Triangle Park region of North Carolina, were asked to submit the names of several CEOs of innovation-based companies in the \$0 to \$50 million revenue range whose performance they would rate as "outstanding":

NC IDEA

Intersouth Partners

The Aurora Funds, Inc.

Research Triangle Ventures, LLC

Academy Funds

Piedmont Angel Network

Wakefield Group

Sockwell Partners, Inc.

North Carolina Biotechnology Center

Silicon Valley Bank

Council for Entrepreneurial Development

The following nine Chief Executive Officers were selected based on the frequency their name was mentioned in the submitted lists from the organizations listed above:

Christy Shaffer – Inspire Pharmaceuticals
Peter Durand – Integrian, Inc.
Peter Young – Biotechnology Executive
Ping Fu – Geomagic, Inc.
Scot Wingo – ChannelAdvisor Corporation
Peyton Anderson – Affinergy
Dan Pelak – InnerPulse, Inc.
Doug Young – LiveCargo, Inc.

During the competency interview, each CEO answered the following questions:

“What competencies or skill sets are necessary to be successful as a CEO?”

“What experiences were instrumental to your present success?”

Following the series of interviews, the competencies were compiled and arranged in functional areas noting any trends that existed in the responses.

To avoid steering the responses into any pre-defined competencies, open-ended questions were asked instead of using a rating scale of set competencies.

Competencies of Successful Early Stage CEOs

The critical competencies identified in the interviews were:

- ✓ Know How To Sell
- ✓ Know How To Organize Your Resources
- ✓ Surround Yourself With Great People
- ✓ Bring Out The Best In Others
- ✓ Embody Trust and Honestly
- ✓ Maintain Unwavering Commitment To Your Vision
- ✓ Learn From Your Mistakes
- ✓ Seek Out The Best To Learn From
- ✓ Know What To Say and How To Say It
- ✓ Know When and How To Listen
- ✓ Make Tough Decisions
- ✓ Develop Talent
- ✓ Understand Leadership Differences

Know How to Sell

“I’m a big believer that you have to be a salesperson all the time. You are always selling to people.”

Several of the CEOs stressed the importance of their sales function. When people think of sales function, they think of the traditional concept of selling a product or

service. The CEOs pointed out that many early and mid-stage companies are selling in the traditional sense. They also pointed out that selling functions took different forms in the CEO role. Selling skills are involved in activities such as fundraising, securing strategic partnerships, and talking to people about their company, service, or product. It is extremely important that the CEO of a company, regardless of the stage, possess effective sales skills.

Know How to Organize Your Resources

“If a person is not organized, a person just cannot do their job effectively. They really cannot manage the team and all the other areas that they have to run in a business: managing investors, raising money to doing the nuts and bolts of the business comes down to organization.”

Organizing your resources is a very efficient skill to possess as a CEO. One resource is time. The efficient use of time was not only restricted to their own, but also (the time) of others.

CEOs also take great care in selecting goals and tactics that directly contribute to overall strategic priorities. These prioritized activities are then communicated to others within the organization that is responsible for executing them. Schedules are developed and screened to make sure that important activities are accomplished on time. Each leader puts a high emphasis on their execution and that of the people who work for them.

Surround Yourself with Great People

“Surrounding yourself with high quality people is the most important asset. To not be afraid that the people with whom you work have equal or more knowledge.”

The CEOs interviewed counted the selection and motivation of human capital as being an extremely important factor in the success of the organization. They do not feel intimidated to surround themselves with smart people. In fact, they feel strongly that it is crucial to hire people who are smarter than they are in areas where they are not an expert. They put the success of the team and the organization before their own egos.

Hiring the best people and placing them in the job that best *utilizes* their skills are crucial to the success of the organization according to the CEOs *interviewed*. Motivation through a shared vision, which demonstrates how each person contributes to the vision, was also mentioned.

Human capital management did not end there. Evaluating progress towards objectives and having frequent discussions emphasizing the exchange of feedback are activities that form part of the performance management process within the organizations led by these CEOs.

Bring Out the Best in Others

“People have to recognize that what they do makes a difference. It really does not matter how large you are. I think that leadership is finding those things that motivate others so they can feel comfortable and good about what they are doing. They need to believe that you are supporting them in their efforts and they will continue to look and continue to find ways to reach higher levels.”

When talking to these leaders, it was obvious that they were very skilled in getting people to do what they ordinarily would not do. These leaders had the ability to keep their employees inspired, motivated, and focused *on* the vision. One of the things that a number of these leaders did on a regular basis throughout their careers was to take an inventory of their leadership skill set, identify those skills that were not as strong as they could be, and then seek to develop those skills so they could improve their performance. This *behavior* set the stage for what they expected from their *people*.

Embody Trust and Honesty

“I think fundamentally people have to trust you and they come to that conclusion very quickly. They ask themselves “Is this person going to tell me the truth good or bad? Is he going to help me the first time I need help?”

“First and foremost is honesty. People with whom you work will know eventually if you are truthful; whether your character is such that you can be trusted, whether the vision you have is believable and whether information you give them is misleading. Eventually, they will find out if you are trustworthy and honest so you cannot afford to do anything other than be honest and straight forward.”

“You don’t have to have all the answers, but if you say you are going to follow up, make sure that you follow up in the time period that is required.”

Truthfulness and honesty must be displayed at all times. The CEOs were adamant about not only establishing trust with the people they worked with, but also being diligent in keeping that trust. They realize that while it takes a long time to build trust, it takes only one mistake to take it away. Without trust, the CEOs interviewed know that success is going to be impossible.

Maintain Unwavering Commitment to your Vision

“I think what separates CEOs will be an unwillingness to give up, to find a solution, and to stay passionate and involved.”

“Never accept failure as an option. There are mistakes, there are lessons that you can always learn from, but it does not mean that you have to accept failure. It means that you might succeed at something a little bit different or there might be a modification on what you are setting out to do.”

"It comes down to a willingness and tenacity to do what it takes, to not give up. When you are an entrepreneur or CEO of a company, you are faced with a lot of chances and situations where you could just give up but it is so hard to do."

These CEOs believe in what they wanted to accomplish and work to make their vision happen. The enthusiasm and passion that they exhibit is crucial in enrolling people in their organizations. They exemplify the commitment and the hard work that it takes to be successful. Their passion and hard work are a source of inspiration to all in their organization.

These leaders believe in their vision and communicate it to whoever will listen. Whether it is the organizational vision or the strategic objectives, they communicate in a way that enrolls the people in their organizations and creates buy in.

Learn From Your Mistakes

"It is not only the learning from your mistakes that is important but also not making the same mistake repeatedly."

The CEOs looked at the mistakes that were made throughout their careers as opportunities for learning. They learned important lessons from these mistakes and they made sure that they did not repeat them. They also learn from people who have gone before them and use their experiences for their own learning. When the CEOs talked about their mistakes, they never talked about them as signs of failure, but rather of opportunities for learning.

Seek Out the Best to Learn From

"I think that surrounding yourself with mentors and advisors is great leverage for anyone."

"The first and most important skill that I have learned is the ability to listen and take feedback from others."

"My mentor said to me before the meeting, "Look, whatever you do, if you don't know the answer just say that you don't know. Do not try to make up something."

The CEOs see the importance of mentors. They sought out people they admired and asked them for help. They identified gaps in their *own* skill development and found the best person that they could learn from. The job at the top is very lonely and isolated. These CEOs know the importance of having someone to teach them as they advance.

Know What to Say and How to Say It

"I had an executive in Connecticut at headquarters that gave me a lot of coaching. He said that the word "perhaps" or "have you considered this?" are a lot better than saying, "Let's just do it this way.""

"I think I've come to a conclusion that over the years, one of the most important skills is communication both internally and externally. It also relates to the importance of building a relationship and understanding the need to maintain that good relationship with virtually everyone whether they are your customers, your partner, the FDA or whomever."

"To effectively communicate with the board, our investors and our staff would be the number one skill that a successful CEO has to have."

"You have to have good people skills because you deal with people, customers, employees and shareholders on a daily basis."

"Email is the worst communication tool. The emotion and content of the facial expressions don't come across and people might think that the person was a jerk when in reality he was trying to get the job done."

Each of the leaders stressed the importance of communication skills. They emphasized the ability to communicate with a number of different groups. The groups that are communicated with are very diverse and require different types of communication skills.

Communication skills are also pivotal in relationship building and the development of strategic alliances.

Know When and How to Listen

"You have to be a great listener as well. I think that one of the things that let us be successful several times was the ability to listen to customers and be very customer-oriented."

"The most important skill that I have learned is the ability to listen and take feedback."

"Step back, listen, and try to repeat back what you heard from the person you are talking to."

The skill of listening is crucial in areas from negotiating a deal to really hearing what is going on in an organization. Listening is used for collecting data as well as building relationships. Listening to the needs of the customer or investor dictates the information that needs to be presented.

Make Tough Decisions

"An important competency is the ability to make the tough decisions and take a stand. I have learned this skill from some of the people on my staff that do a better job at it than I do. For example, when you have to look across the room at someone you like personally but are not doing the job correctly. You have to take a strong stand with them for the good of the organization."

CEOs have the ability to identify and execute the decisions that are best for the organization and its individuals. They base their decisions on data, observation, and feedback. Termination decisions are hard to make and may appear insensitive. In reality, these decisions usually have a positive impact on the organization. Even though it may be negative for the individual when the termination is occurring, in the end, the individual ends up in a place that better utilizes their talents and aptitudes. The CEOs have the ability to see that the outcomes of their tough decisions are positive to the organization even though it may affect a person that they like personally.

Develop Talent

“Oftentimes, many companies do not do enough to mold good talent and I think the first thing that they don’t do is to take the time to show them what they are not good at and how to help them improve it.”

These CEOs work very intensely to hire the best and then identify the skills that these people need to develop to become even stronger performers. They believe in *regularly occurring* communication with their direct reports and a coaching role to grow their employee’s skills.

Understand the Leadership Difference

“An understanding of the difference between leadership and management is very important. Management is tactical, making sure that you are dotting your I’s and crossing your T’s. It is about holding everyone to his or her metrics, their numbers, and the way they treat people. Leadership is more visionary, strategic. It is setting a direction for the company. It is showing passion!”

These CEOs exemplify the leadership spirit. They speak of their companies, their people and their product or service whenever and wherever they can. They have an infectious passion.

For instance, persuading an individual to accept a smaller compensation package in exchange for being part of something great only happens when that person or leader believes in the vision and shows passion by example. Remember the cliché: “Don’t just talk the talk, walk the walk.”

Putting It All Together

Using the preceding competencies as the basis for the CEO search will result in hiring the best individual for the job. The use of a validated interview process, based on proven competencies, will ensure a good hire for this critical position.

The premise of behavioural-based interviewing is that past performance is a great indicator of future performance. The goal of behavioural-based interviewing systems is to hire individuals with a record of demonstrating proficiency in the competencies required for the CEO position. Without demonstrating the execution of the critical

competencies in the past, the hiring committee cannot be assured that the individual will perform once they get in the position.

Some examples of behavioural-based interview questions are:

“Tell me about a situation when you had a limited amount of time to make an important decision that could determine the future of the company or business unit.”

“Tell me about a specific experience of yours where you were asked to do something that you felt was against your moral principals. Describe the situation and tell us what you did.”

The information obtained from behavioural-based interviewing is especially helpful to the Boards of Directors who are recruiting a CEO for their company. Many times, there is no validated interview process used. When behavioural-based interviewing is used, the individuals in the hiring committee will all be on the same page as to the competencies that are important for the position. When data integration is completed and a hiring decision has to be made, an apples to apples comparison of each candidate will occur and the right person will be hired for the job. Without a validated interview system, it will be very difficult for a consensus to be reached and the time to hire will increase. In many cases, the wrong person will be given the job with costly consequences if that person has to be removed or leaves.

The first step in implementing a behavioural-based interviewing system is integrating the competencies into questions that will be used in phone and face-to-face interviews. The key is to develop questions that invite the candidate to give an example in his/her past experience that demonstrates proficiency in a particular competency. It is important to stay away from questions that ask what the individual would do in a hypothetical situation. Behavioural-based questioning will distinguish the individual that will perform successfully versus the individual who will not perform successfully when he/she is in the heat of the moment. Ideally, there should be three separate documents used in behavioural-based interviewing systems: one phone screen and two face-to-face interview guides. As a rule, there should be a minimum of two rounds of face-to-face interviews.

Behavioural-based interviewing also requires interviewer training in order to fully understand the responses. Since the individual will be using examples from previous jobs, there is a chance that the interviewer may not understand the example if it comes from an area that is not familiar. In addition to the interview guides, there needs to be some kind of rating scale to aid in data integration and candidate review. The rating scale should rate each competency as well as the overall impression of each candidate. The use of a rating scale will facilitate data integration among members of the hiring committee.

A basic assumption of behavioural-based interviewing is that everyone involved in the selection process will use the same guides. This will assure consistency and prevent anyone from asking any questions that could leave openings for legal action.

Now let's look at the components of a good CEO interview process.

The first step in the interview process is the phone screen. The phone screen should be a structured part of the interview process. The interview guide includes behavioural-based questions on the most critical competencies for the position. An effective phone screen will determine if the person should be brought in for face-to-face interviews or should be passed over.

Each phone screen interview should take no more than 30 minutes. Based on the assumption that there are soft costs to interviewing (time of the interviewers, loss of productivity, and interview fatigue) as well as hard costs (travel expenses, coordination costs, etc.) it makes sense that you only want to bring in the most appropriate candidates for face-to-face interviews. Each of the top candidates should be interviewed a minimum of two times with a third interview occurring if there is a tie between the top candidates.

Once a list of qualified applicants has been compiled, a pool of between three and five candidates should be brought in for face-to-face interviews. It is very important that the first round of executive interviews are completed and initial data integration be completed prior to moving on to subsequent interview rounds. This way, data integration will be easier because all the interviews will be fresh in the minds of the hiring committee. The two rounds of interviewing should not be conducted on the same day. This gives the interviewers an opportunity to integrate the data and identify the things that were impressive and the things that were red flags. It also allows time to identify areas where more clarification needs to be obtained.

Individual interviews should never be scheduled with no break in between. Having half an hour between interviews will allow interview note consolidation and preliminary data integration to be completed. If preliminary data integration is left until the end of the day, the interviewer's recollection will be obscure and could compromise the integrity of the interview process.

The third round of face-to-face interviews can serve as a tiebreaker or as a final opportunity for red flags to be explored further. Depending on the size of the hiring committee, the first and second round interviews should be conducted in teams. The advantage of this format is that while one person asks the questions, the other person can listen to the responses and ask clarifying questions. If the group agrees that no candidate is perfect for the position or if a job offer is turned down, it is very important for the hiring committee to make a decision as to whether the runner-up is a strong backup or the search process needs to be started all over again. A compromised hiring decision never works out. Restarting the process will set the CEO hiring timetable back but will save money and aggravation down the line. The important point is NEVER; NEVER settle for second best if he/she does not fit the hire profile or if the first choice falls through in the offer phase. You may be asking yourself "Why should we use the process described here when we can save more time and do it faster?" Remember the old saying, "Hire Slow, Fire Fast!"

Summary

Using a behavioral-based interview process based on the competencies contained in this research will result in:

- ✓ Increasing the chances of hiring the “right” candidate and reducing the chances of hiring a “wrong” candidate.
- ✓ Reducing the lead-time necessary for executives to get up to speed, since they will focus on learning about the organization, not learning the skills necessary to do the job.
- ✓ Maximizing performance in critical success factors which results in milestone achievement.
- ✓ Decreasing the chances of early replacement of the executive due to poor performance.
- ✓ Making the executive more productive earlier on in performing job functions.
- ✓ Exceeding strategic goals and attaining the organizational vision.

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