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Recruiting Your Next CEO:

Practical Advice For Irish Boards

INTRODUCTION

Recruiting and identifying the next CEO are fraught with risk. But while the risks are known, they can also be managed, so that in the end, the board and its search committee feel strongly that the individual they have chosen will prove to be the right choice. This author conducted extensive research on CEO recruitment and he shares his findings and advice with readers.

For many companies in Ireland, choosing and recruiting a new CEO can seem to be a daunting prospect, given that the risks of choosing the wrong person don't bear thinking about. But there are a number of things that boards can do to increase the chances of success in what is an exceptionally important task.

For most boards there will be an element of compliance that needs to be borne in mind. In terms of State bodies they will need to be in adherence with The Code of Practice for the Governance of State Bodies adopted by the Government in Ireland or the UK Corporate Governance Code, which applies to Companies on the Main Securities Market (MSM) of the Irish Stock Exchange that are incorporated in Ireland. Additional obligations under the Irish Corporate Governance Annex also apply to relevant Irish listed companies.

But most importantly, to ensure the continued good health and strategic progress of the business the appointment of a CEO has to be the right one. It is important to remember however that there is an opposite risk from allowing the right person to walk away, whether they are an excellent internal candidate who jumps ship or an external candidate that goes on to manage a competitor.

Whilst it is a business critical activity, it is true to say that the methods adopted tend to vary between sector, size and country.

In the world's largest companies there is an overwhelming propensity to appoint from within with 80% of CEO appointments being internal promotions[1]. Smaller companies have a tendency to appoint more of their CEOs directly from outside with the internal candidate proportion dropping to around half[2] possibly due to a perceived lack of skills available within their smaller talent pool.

By the same token in the US two thirds of candidates will come from inside the organisation whilst in Australia this drops to 60%[3].Globally however there appears to be a general trend towards appointing internally.

The number of internal appointments also changes based on sector. For example in Canada private companies appoint internally 80% of the time as opposed to 35% of public bodies[2]

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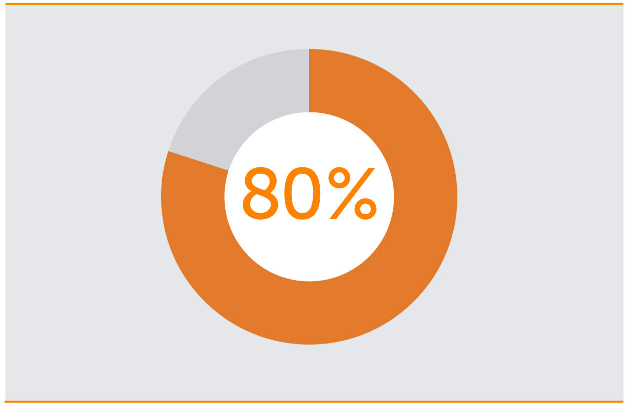

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WILL THEY STAY?

It's clear that companies that have a stable board and more importantly Chief Executives with long tenure tend to exhibit better results than those that move rapidly from CEO to CEO.

Hewlett Packard has made serial poor choices with CEO's leaving in rapid succession culminating in the firing of Leo Apotheker in 2011 with an eye watering severance package. When his successor, Meg Whitman took over in September 2011 she became HP's sixth CEO in as many years. The severance packages that HP have paid out to departing CEO's over the last decade alone would give any other company pause for thought so it's clear that it is important to get it right first time.

One of the often quoted thoughts is that paying a CEO a worldwide 'market rate' is the only way to attract and retain top talent, in fact the evidence shows that executives tend not to move between countries and to a lesser extent between sectors[5]. What is often much more important to an executive is the chance to be at the top of an organisation that they feel comfortable in and where they can make a difference.

A work history of many short lived jobs may give the board pause for thought here but it is important to find out what is behind the headlines. A good candidate may have been given a number of challenging assignments within a large group and so have many different company names on their CV or alternatively may have been tasked with setting a company up for sale or listing.

One of the biggest indicators of the likelihood of a successful tenure as CEO is that they come from the same sector. The understanding of the marketplace means that they have less to learn and have more transferrable skills. This gives the new executive a chance to focus on understanding the culture of the company and formulating options for change.

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Internal candidates also tend to stay in place longer. Already imbued in the culture of the organisations and with an understanding of the people, politics and challenges they have much less to learn on their first day. This can make the handover process smoother and of course negates the need for significant on boarding.

The educational attainment of the candidate also appears to have less bearing on whether the person will be successful in the job or not. What is of more use is understanding what messages education sends out in your organisation and in your culture.

In a highly educated workforce, especially in technical or educational fields, having someone at the top of the company that does not command academic respect will no doubt produce challenges. Conversely, in a very entrepreneurial, owner managed business often highly educated individuals are viewed with suspicion as being 'out of touch' with commercial realities.

The message really has to be that understanding the nuances around education is important, but much more important is getting the right person for the role regardless of whether they hold an MBA or not.

THE APPOINTMENTS COMMITTEE

Given the already identified need for compliance and transparency how should a board go about appointing a new CEO?

For good corporate governance the board should look to form an appointments committee. Whilst the board as a whole will need to agree on the next CEO, the appointments sub-committee will take on the heavy lifting of identifying, interviewing and recommending the best candidate for the role.

The makeup of the committee is very much up to the board to decide however there are some practical thoughts that need to be considered.

The search and interview process is likely to be a fairly intensive time and it will be important that the committee members are available to meet and interview a number of candidates.

Personal attributes also need to be considered. Appointing members of the committee that are likely to jump to rapid and sometimes unfair conclusions is unlikely to yield acceptable results. Bear in mind also that the meetings of the committee should be minuted and all deliberations must be carried out in the spirit of relevant legislations around discrimination and diversity.

In an ideal world the appointments committee will feature a healthy mix of executive directors and non-executives with relevant experience and sound decision making skills.

It is also possible that the appointments committee may devolve the search process to another committee or delegated executives who are able to devote more time to the process. This is where an exceptional executive search company can pay dividends, to a large extent either supplementing or supplanting the search committee altogether.

The main board need to provide the appointments committee with a brief that allows it to understand exactly what it needs to present to the board. Questions that need to be considered here are those such as (but not exclusively) whether the search and appointment is a confidential one, what level of remuneration they are able to offer and what timescale they need to work to.

There may be a requirement on the company to include a minimum number of minority candidates on any shortlist or the board may suggest that in order to increase diversity they would like to interview minority candidates, in which case this will have to be borne in mind by the committee.

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THE SEARCH PROCESS

As with any project choosing a new Chief Executive should begin with first principles. The question to ask here is "what do you actually want?"

Generalities are not helpful as they will tend to produce generalist candidates. So simply saying "We want the best person for the job" is not as useful as stipulating the qualities and experience they need to bring to the table.

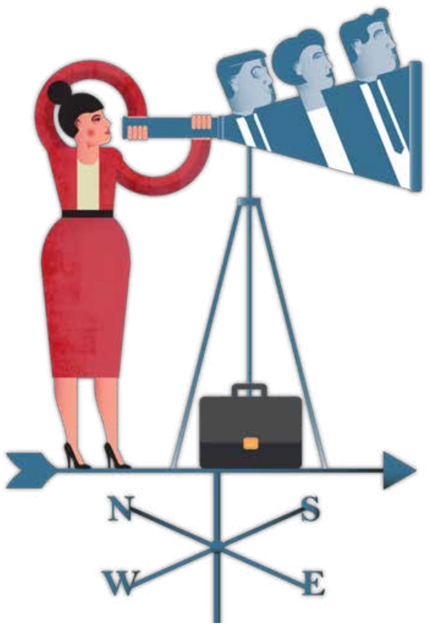
Strategically the business should have a direction that it wants to follow and finding a candidate to deliver this strategy should be the aim. Appointing someone with a history of change projects or turnarounds is unlikely to be helpful if the business is a mature and stable entity.

It may be useful for the committee to use theory such as Greiners' growth model to understand where the company is in relation to the business cycle and what expertise they need to be looking for. By analysing what the company requires the new CEO to achieve the committee can then move on to producing a list of the desired attributes the person should possess.

The committee should look at producing a list of competencies that the person should exhibit. It may be helpful at this stage to stratify these into three types; essential, strategically vital, nice to haves.

'Essential' attributes are the things that a board could reasonably expect any competent CEO to do. These include being able to understand financial statements, being able to communicate effectively at all levels and being adept at stakeholder management.

Whilst some of these will be common to all companies, others will be specific to the type and sector that your firm exists in. For example a listed company will require a CEO who can speak confidently to a room full of investors and who can easily build and maintain relationships with shareholders.



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These 'core competencies' are often overlooked as people tend to assume that they are a given but it is important to explicitly state that this is what you need and what is expected.

The second category, 'strategically vital' is a selection of competencies that will allow the new CEO to achieve the board's stated strategy for the company. These will naturally be specific to the company but will not be unique. That is to say that the company may have an individual strategy requiring specific competencies but the skills to deliver it will be available in the marketplace generally.

The third category, nice to haves is one that can largely be seen either as a bonus or as a tie-breaker.

A well-qualified and experienced CEO will have picked up a whole host of skills that, whilst not directly relevant to the sector, marketplace or size of company that they are recruited for may still come in useful.

An example of this would be the person who had launched a new line of coffee into supermarkets. Whilst this may not at first sight seem applicable to a firm making deodorants, the skills of launching a new FMCG product into a crowded marketplace would be helpful.

When looking at competencies, one of the problems identified by boards at this stage is that everyone wants everything and it is all a priority.

It is important that the chair of the appointments committee limits the strategic level competencies to a maximum of six or so that are really vital to the success of the company. It is arguable that a company that seeks a new CEO with too many skills will either find a generalist or won't identify anyone at all!

The final specification should be agreed with the main board and once the person specification has been agreed upon the search can begin in earnest. At this point it is often helpful to look for an executive search company for assistance although many really good companies will offer to guide the appointments committee through the person specification process too.

Writing in a 2005 Harvard Business Review article4, Ram Charan stated, "In CEO succession, it takes a ton of ore to produce an ounce of gold."

FINDING A NEEDLE IN A HAYSTACK

In general terms there are two methods of finding candidates; broad and targeted.

A broad search will encompass a variety of channels such as advertising, recruitment companies, job boards, internal advertisement and personal contacts. The aim here is to produce a very wide pool of candidates to select from.

This is a time consuming method but can produce very good results with candidates appearing from unexpected quarters. Again a recruitment partner is useful here as they are able to run a first 'sift' to ensure that only viable options are presented to the committee.

A targeted search is where the committee has a good idea of a small number of candidates already who fit the bill. These will come from personal contacts and networks allied with a competitor search to produce a highly targeted list of people who could all do the job.

This can often be a quick process, especially if the search committee are only looking to consider a few candidates on a short list but it can suffer from a lack of transparency and it is difficult to counter allegations of the 'old boy network' . It is also fair to say that the pool can often end up looking like the candidates are all of 'a type' which means that the company may not get a fresh outlook in their new CEO.

It is possible to combine the two approaches to give as wide a view of the market as possible but it is also possible to obsess over getting a large a pool as possible without actually making a decision.

A final word on the search process – don't discount the interim market. A top quality interim will give you a number of benefits. Firstly you'll gain valuable breathing space to bring in the right permanent candidate which is especially useful in the case of a sudden departure, you'll get someone with a network of contacts who may have suggestions for a long term candidate and you'll also get a potential recruit in place on a 'try before you buy' basis.

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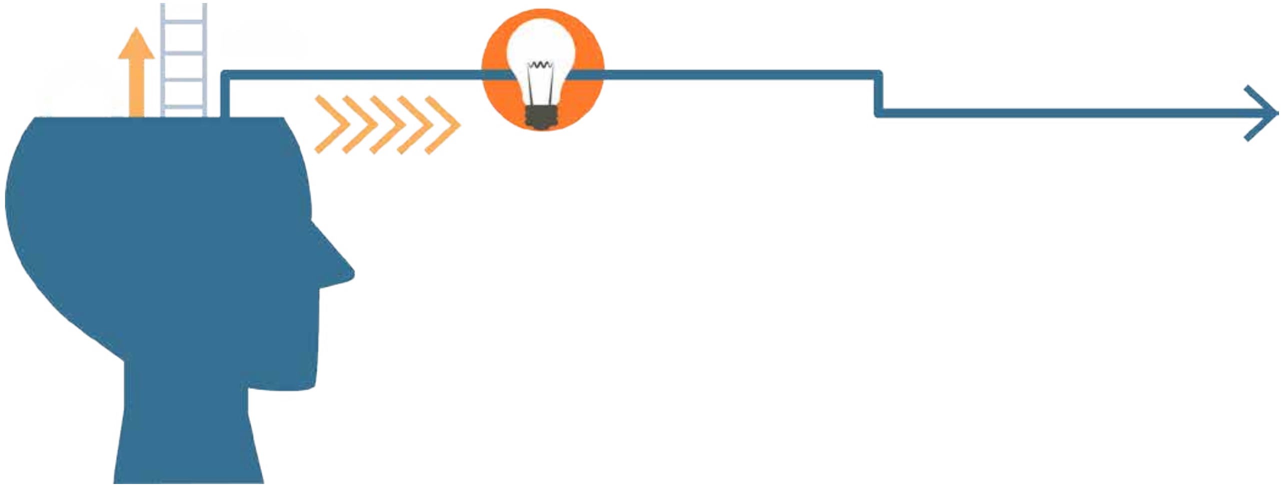

PRODUCING THE SHORTLIST

The committee at this point need to choose a shortlist of candidates who they wish to interview. It is worth understanding just how much time needs to be invested in the interview process and producing a shortlist just for the sake of it is a retrograde step. It is vital that the committee have the freedom and strength of mind to decide to move backwards in the process and begin the search again if the first round of submissions proves disappointing.

It is also important to appreciate that sometimes a shortlist of one can go forward to interview. Of course comparison will be impossible, but an outstanding candidate that ticks all boxes may well be worth interviewing as someone with that much of a skill set will be quickly snapped up.

In many organisations there is a procedure that must be followed to ensure that a shortlist is fair. This can include aspects such as including internal candidates in the process and similarly there may be rules that need to be followed in terms of anti-discriminatory practice such as including a minimum number of women or minority candidates in the list.

The shortlist needs to be produced on a completely unbiased basis, matching the skills on a CV with the competencies you have identified earlier in the process. Including someone who does not have the vital skills is pointless as it is unlikely their other attributes will make up for the shortfall. If you identified a skill as vital earlier on what has changed your mind?

THE INTERVIEW PROCESS

Interviewing a CEO should take a reasonable amount of time. History is replete with instances of companies that have rushed through this stage only to later regret their choice.

This part of the process has to be much more about finding the right person for the job and the right job for the person. Beating a square peg into a round hole won't work here and it's is a responsibility of the committee to understand that if they find someone with the aptitude for the role but who simply won't fit in to the culture then they need to move on. Think laterally about your interview process, what will bring out the best in your candidate?

Again with respect to transparency it is a requirement to set out the hiring process in advance and apply this with all candidates fairly. The organisation risks reputational damage if it appoints a new CEO after only one good lunch whilst the unsuccessful candidates went through a rigorous selection procedure.

In general terms the process will have a mix of both formal and informal elements.

The first interviews should be more formal affairs and it is useful to have a series of standard questions that can be asked of the candidate. This will give a useful standard to which you can benchmark each candidate and provides a level playing field.

To achieve a fair and balanced view it is also helpful to hold interviews using more than one interviewer on a panel. Try however to limit the amount of people involved as getting them together all at the same time may prove difficult and more than three people asking questions will mean that the interview will take a huge amount of time.

The committee should look to set interview questions that relate to the type of challenges that the CEO is expected to face when carrying out the strategy of the firm. So for example a company that is intending to buy or sell parts of a group may want to find out about the candidates' experience of due diligence.

Interviewers will find it more helpful and instructive to ask more about experience rather than simply whether they have completed a particular task or not. Changing a closed question such as "have you had due diligence experience" to an open ended "Tell us about the challenges you've encountered in due diligence work" will pay dividends.

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The interview process at the CEO level needs to be much more of a collaborative process than an adversarial one. Many board members may feel that they need to 'catch out' the candidates however this is much more likely to put off good quality executives. It is vital that the interview process is seen much more as a method of marketing the opportunity to the candidate rather than proving that they have flaws. It is important for board members to remember that if the candidate in front of them is successful then they will be working in the executive team with them so forming a good working relationship early on is a must.

Another point to keep in mind at the first interview stage is that you are looking for interesting themes that can be explored in subsequent meetings so don't be afraid to go slightly 'off-piste' but do keep in mind that a rambling discourse is probably going to be less helpful than a focused and planned meeting.

Scoring each candidate against your strategically vital and essential categories will be a useful way of avoiding bias but alongside this make sure that each member of the interview panel takes good notes that can be referred to later to inform a discussion.

Following first interview the appointments committee will meet and discuss the candidates, eliminating any that fail the 'essential' test and agreeing to see those that best meet the strategically vital and nice to have categories.
At this point it is a good idea to check some 'back channel' references. These are discreet soundings of mutual acquaintances who may be able to give an insight into the character of your target. It is important to maintain confidentiality and if there is any chance of a leak then this should not be undertaken but try and find as much information to feed into the process as you reasonably can.

The second interview, again probably formal will be convened to develop the themes discussed at the first meeting and allow the candidate to further explore the opportunity. One outcome from this has to be that the panel get a positive answer to the question "If offered, would you in principle accept the position?" Obviously at this stage the position isn't being offered, but there is no point in going further with any candidate that really isn't interested or who is lukewarm on the prospect.

At this point the search committee should have a preferred candidate that they can take to a third meeting. This is probably a much less formal occasion and can be done over a lunch or dinner, including key members of the board. By this point the directors should be happy with their choice and the candidate should be in a position where they are keen to come on board. Agreement should be sought on the compensation package, timings and working conditions.

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Although all will probably be keen to tell the world of the appointment, there are a couple of subsequent stages which need to be completed to avoid any embarrassment.

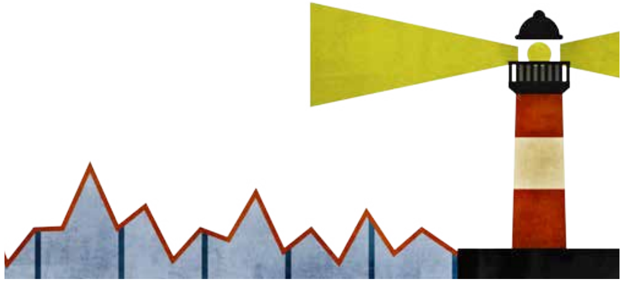
Reference checks need to be completed satisfactorily. These should include right to work, employment history, criminal records and qualifications checks. The reputational risk to a company that employs a CEO that lies on their CV is a real concern and the background checks need to come back positive before any written offer is made. The directors must be certain that their prospective CEO does not have a 'fatal flaw' that would mean they were unsuitable for the post and to that end should arm themselves with as much information as is possible.

As soon as the decision has been made it is important to speak with significant stakeholders. These could include funders and investors but may also include very senior employees. The aim at this point is to gain buy-in to the new start so to a large extent it is a selling process and avoids any surprises. The last thing you want to have on the day of the announcement is a call from the largest shareholder telling you that they don't like the person you've chosen.

One word of caution though, throughout this process there may be a need for confidentiality either on the part of the company or the candidate and this should be borne in mind whenever discussing the process with people. If necessary a Non-Disclosure Agreement should be signed.

Once the choice has been made and communicated confidentially to those who need to know then a formal written offer will need to be made. Depending upon the company, there may be regulatory issues here so it must be a conditional offer on the basis of any registrations or agreements that need to be sought.

Listed companies also need to be mindful of the announcement rules and the issues around insider trading. Information security will be at a premium here and the company must make sure it is compliant.



AFTER THEY JOIN

Research shows that the single biggest factor in CEOs leaving jobs early is that they do not adapt quickly enough to the prevailing company culture. This is especially difficult if the candidate has come from a job they have held for a long time and has little experience of other organisations.

It is tempting to think that if you are paying a lot of money for a highly experienced and very well educated CEO then they should be able to hit the ground running however this is a somewhat naïve outlook. Everyone, from the top to the bottom of the organisation takes time to adapt to their new surroundings and the board should think about protecting their investment rather than presenting a sink or swim mentality. It is worth spending some time asking referees how flexible and adaptable the candidate is to give an idea as to how much support will be needed through the transition process.

It is incumbent upon the board to give clear direction on this and a simple explanation to the new CEO that they expect them to adopt company culture quickly sends out a message immediately.

It is true of course that not all companies will want to retain the current culture and the new CEO may have been tasked with changing an embedded zeitgeist.

That having been said if cultural fit is important then make sure that you put in place the right conditions for it to flourish including on boarding sessions, 360 degree feedback and prior notice to the CEO and stakeholders that the board understand that this will be a challenge.

Another method of helping your new CEO to settle in is to assign them an executive coach or 'board interpreter'. This director will be charged with ensuring that the new CEO understands where everyone fits in,what things are important and what the 'in' jokes are. The soft skills and information needed for a CEO to survive and thrive are often neglected so giving them a helping hand, even if it is only for a relatively short time will pay dividends in the future.

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SUCCESSION PLANNING

Research shows that more than ever the most profitable and successful companies are tending to promote from within.

Investment in succession planning is vital if a company is to survive a sudden CEO departure but also helps to retain the best talent, giving them a clear and defined path to the top.

It is worth contrasting our earlier example of HP with Procter and Gamble. P&G embed succession planning in the culture of the organisation in their program "Build from within" and the success of this is evidenced in the fact that it has had 12 CEO's in 12 decades.

Even when P&G make a misstep, as commentators characterise the appointment of Bob McDonald in the teeth of the 2009 recession, they tend to keep faith with their CEO and McDonald still had a tenure approaching 5 years. In fact P&G have just appointed 35 year veteran of the company David Taylor as their next CEO, again promoting from within.

Research shows that companies practicing succession planning and recruiting their CEOs from within suffer less from transitional shocks and are more profitable as a result.

SUMMARY

For Irish companies finding just the right CEO is a vital board level task. It doesn't have to be too onerous though.

By adopting a structured approach to the job in hand and devolving tasks where possible it doesn't have to take a huge amount of the board's time and can produce a very successful conclusion.

Understanding exactly what is needed beforehand, adopting a methodical approach to a candidate search and structure to the interview process the company can identify candidates with the right level of skills and experience to take the helm at the largest enterprises.

Refrences

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FOR MORE INFO CONTACT

Shay Dalton | Managing Director
+353 1 661 0444 | sdalton@lincoln.ie

CONNECT WITH US

5 Fitzwilliam Square | Dublin 2
e: info@lincoln.ie
t: +353 1 661 0444

Lincoln.ie

Lincoln
Recruitment
Specialists

T : + 353 1 661 0444
A : 5 Fitzwilliam Square, Dublin 2
W: Lincoln.ie