

## CxO Best Practices Breakfast Series -- Proceedings from Session #2 – May 10, 2006

### Executive Recruiting and Talent Acquisition

**Sponsor's Note:** *The following proceedings were transcribed as a courtesy from the program notes by Bridgepoint Consulting, LLC, a 2006 sponsor for the Austin Technology Council 2006 Best Practices series.*

#### Description:

Talent matters. A team of A+ players is your best insurance that your project will make it to the next level. Therefore, it is critical to find effective methods of selecting, attracting, and retaining the best talent available. Recruiting the best employees for your organization is an ongoing challenge for every manager, supervisor and Human Resources professional. If you're looking for solid, proven best practices and up-to-the-minute ideas in recruitment, interviewing and selection, you will need to address some essential questions about who you are looking to hire.

#### Session Leaders:

Dan Sullivan: Moderator, member of the Austin Technology Council board of directors

Jeff Browning: Recruiting Partner, Austin Ventures

Mike Mayeux: Founder and CEO, Novotus

Dan Meyer: Talent Partner, Sevin Rosen

Scott Uhrig: Founder and Managing Partner, Whiterock Partners

#### Dan Sullivan

- Only one main context setting comment, as moderator: In Dan's experience, the most expensive part of a search is getting rid of a "bad apple" when you make a poor hire, therefore:
  - Take time to define your job requirements and evaluate candidates
  - Don't fall into big companies' traps of bureaucracy and thinking that everyone else will vet the candidate
- With that said, the panel format will go in the following manner – each panelist will briefly introduce himself, followed by a broad-based, hourly interactive Q&A session, moderated by Sullivan

#### Jeff Browning: Recruiting Director, Austin Ventures

- Recruiting Director for Austin Ventures, on their 9<sup>th</sup> fund now - 2/3 of fund for very early stage, making an investment of \$100K or more
- 3 parts of making company successful: money, ideas, people
- Looking for people 24 x 7
- Jeff's background is:
  - 5 years corporate staff at Dell
  - 5 years executive search
  - 6 years venture talent at AV

**Mike Mayeux: Founder and CEO, Novotus**

- Instead of executive search, their focus is on director level placements on down
- Recruitment process outsourcing is their focus
- Fortune-level companies doing great job; decided to learn from them and sell a comparable service to other companies
- They place people in all roles: sales & marketing; accounting and finance, engineering, and IT

**Dan Meyer: Talent Partner, Sevin Rosen**

- 25 years in talent searching, Austin, Dallas, California, both Silicon Valley and San Diego
- Works with portfolio companies to assess their needs; uses search firms as needed
- Actively selects and manages search process

**Scott Uhrig: Founder and Managing Partner, Whiterock Partners**

- Focused on retained executive search: VPs, CEOs, COOs, usually 4-5 at a time, mostly tech industry
- Current searches: (as of May 2006)
  - CEO search for Zebra Imaging
  - VP, Triactive
  - VP, Engineering for Metreos
  - VP Sales for another IT company

**Questions & Answers Session:**

Q: Austin lost some great people during the dot com “bust.” Did anyone track those people so they could be recruited back?

A: Unfortunately, they weren’t tracked very well. The good news is that Austin is a unique draw – people want to come back to Austin.

Q: How do funded companies’ “legacy” teams integrate into community? These are the people who started a firm but have been replaced.

A: The venture firms try to help these executives stay in the loop through a variety of means, mostly on a regional basis. They sponsor various meet-and-greet roundtables, personal introductions between different portfolio or companies, etc.

Q: How long does the wait occur before a talent change that a VC perceives is need is acted upon?

A: Could happen at any time, including as a prerequisite to pre-funding. If it’s determined a change is needed, the VC tries to let management know early on.

Q: How important is domain expertise?

A: Of utmost importance - it’s the “first box checked” on the list of critical criteria for a hiring manager. You want the answer from the candidate to be “I’ve been there, I’ve done that, it’s in my space.” You never take domain risk *and* role risk at the same time – you just don’t do it. There’s not enough time for learning curve for a senior executive to be in their appointed role for the first time and be unfamiliar with the industry domain.

Some caveats: domain knowledge is more important for the CEO or VP of sales & marketing; it’s slightly less important for a VP of engineering or CTO, because they are a little more domain agnostic. Overall, the smaller the company, the more domain knowledge needed. Subject matter experts (SMEs) are critical – customers don’t want subject matter “wannabes”

Q: When can you bring consultant vs. full time hire?

A: Finance/Accounting is the most frequent situation where a consultant may be the better, less risky strategy and where a consulting role is valuable. However, in early stage companies, full-time hires are critical not just for the particular skill set (like Finance or Marketing) but also to get another executive on the team to help drive strategy. Most of the time, AV prefers the company to make full time hires.

As a company gains size, there is merit to looking at “shared services” (in contrast to consulting) to get predictable cost & quality of people, especially when there may be multiple interim needs.

Q: How do you choose an executive search firm?

A: First, educate yourself about executive search: the process, the key issues, the timelines and techniques, etc. Then, like choosing an executive, find someone that has domain expertise in your area of need for executive search. Finally, expect results...you want someone who is quick acting – at AV, we expect some results in 1 week. If a typical search takes longer than 90 days, “heads will roll.”

Additional criteria to take into consideration when selective your executive search firm:

- geography helps – good when the firm knows the local people well
- bandwidth – a good search firm knows when they are too busy and they will tell you so; on the flip side, big firms have a hard time saying “no” and it’s common to find their associates doing 10-12 searches, which they just can’t do to get good results
- their knowledge of the candidates and research abilities – there are probably only 10-15 candidates that are going to really be the ideal options for a position, nationwide...a good search firm knows this and gets down to that short list immediately

Q: How do you involve the company’s executives in the search?

A: It’s appropriate for all of the execs to get involved in the interviewing process, but if the search is for a VP level, the CEO makes the final choice, because the candidate is going to work for him/her.

Q: What is the real value of a search firm?

A: If they are good, they determine in a consultative manner what the business drivers are:

- corporate goals,
- why do you need the person,
- what are the metrics/expectations sought by the company,
- what’s the board’s opinion about what is needed and how it differs (if so) from the hiring authority (like the CEO)
- and other key qualities in the decision-making/success formula

Q: For finding staff people for a company that are not the execs, what is the value of the search firm?

A: They can provide industry comparable data and quickly understand the other questions, such as:

- compensation,
- other necessary/key qualities of the hire,
- the other attributes are most important to the candidate’s managers

Q: How do you deal with acquiring people when the target industry changes all of a sudden? For example, take the case of a company whose product is originally targeted for private industry but then a major government agency takes an interest, demanding they build to the public sector’s needs? How do you address such an opportunity from a talent perspective?

A: There would be 2 fears in this scenario:

1. diverting the company's focus to another industry that is so speculative – that might be a signal of a bigger problem with strategy?
2. going for the public sector as a key market; it is such a long sales cycle industry that great care must be taken in hastily “chasing problems” in federal/state without signed deals or term sheets

Q: What is/are executive search / staffing firms charging these days?

A: You should expect to pay a good executive search firm 1/3 of 1<sup>st</sup> year cash compensation (base + cash bonus). So, if base is \$200k and cash bonus is \$100k, then search firm fee would be \$100k. Average retained search fees are:

- \$60-65k, for VP-level;
- \$70-85k, for CEO-level;

For lower level hires, for example, a senior developer/manager, the standard fee typically comes down to 30%. Terms must include free replacement, if the candidate doesn't work out in the first 90 days.

For other contingency-based staffing, the discounted rate the past couple of years has been 15-25%; however, everyone is in the process of raising their prices. Looks like it is headed up to 30% again, like in the dot com “boom.”

In comparison to exec search, the cost per hire/service level agreements that panelists have been seeing recently range from \$1500 – 5500 per hire for outsourcing. For customer service / call center positions, fee is down in the hundreds of dollars (for example, for locations like Travelocity)

Other trends that are driving up recruiting prices, whether retained exec search or talent outsourcing:

- the number of offer rejects (because candidates have more options to choose from)
- an increased cost of advertising positions
- recruiters working more hours to fill positions than in recent past

A good “industry comparables” resource for fees/costs is [staffing.org](http://staffing.org) – they produce a very credible, info-rich report and website.

Q: How should a salesperson –especially in the services business – respond to a client request to refer candidates from their network? Should they consider charging (a reduced) fee?

A: Advise against it. Unless you are in the business and able to put the time into managing a successful process or providing expected options like a replacement search in case the candidate doesn't work out, you should avoid taking a fee. Instead, consider the goodwill from the client; also, possibly ask for a strong endorsement and a referral to 3-4 potential clients for business, rather than a monetary fee.

Q: How do you source for candidates at the mid-level, not execs?

A: There are many different options and, you should use all of them, if possible:

- personal networking;
- job boards
- other advertising/marketing
- existing “signed up” talent pool – one firm reported getting 50% of its placed candidates from their pool of talent, because of the instant network effect of everyone getting notified of new positions, ASAP

Q: What are some interviewing points for execs?

A: Bottomline: past behavior is the best indicator of future performance. So, get them to answer “What did they accomplish in previous positions?” “What were the expectations of them?” “What are their expectations for the new position?” “What do their references say about them?”

Great resource is Smart’s “Topgrading” – CXO panelists were fans of the structured interview. The better your up-front work in preparing for a candidate, the better the results in the interview. Additional techniques:

- have the interview team members ask different questions throughout day; slice up questions like a pie; then, get back together at end of day; compare all results
- also, ask the candidates “What do you think about this opportunity?” “What questions do you have for me?” The best candidates, it is clear that they have done gone basic due diligence. They have very specific questions about the opportunity, scenarios, products, etc.
- always check references – use the “back channel” of contacts that know candidate; do background checks; use assessment tools...none of these are the absolute measure, but all are helpful at providing more data to use in decision-making process

Q: How do you assess a culture match of the candidate to the company?

A: Again, rely on reference check. Amazingly, candidates don’t take time to ask their references “What are you going to say about me?”, so some surprisingly candid comments can come out of checking references about culture.

While it seems that a fit with the incumbent team is critical for a good match, there is danger in having VPs assess the cultural fit of an incoming CEO candidate; the interviews may be too superficial; a caution may be that the current team wants an executive fitting their culture...they already operate via bad ideas.

Q: What if the candidate is strong on every level but culture?

A: There are occasional situations where you may need to hire a “mismatch,” e.g., a tech person with the skills you have to have, but is a problem otherwise. Approach such situations knowingly and create an environment where you “Keep them in a box”...in other words, their primary interactions with peers or staff is via a buffer, so they don’t upset the team

Q: How do you deal with the tradeoffs that realistically are present in a candidate’s capabilities? It’s hard to find the “perfect” candidate for a senior position. Most people are an “A” in certain criteria, but “B” in others.

A: Time helps; as the process goes on, the “pain” of going without staff wears down the hiring authority. Just be clear up front about criteria: what are “must haves” vs. the “nice to haves.” To help them get management to prioritize criteria, some techniques search firms will use to drive the process include:

- getting buy-in to a written spec – it’s key
- ask the question: “Give us a name or a company of who you have in mind that you think would be ideal”...helps to make it real...this also helps to advance the discussion of tradeoffs.
- manage the expectations of the venture boards which often have high expectations...it’s not uncommon for them to want a “rock star” for a “B”-quality deal

Q: If you are a candidate, how do you get yourself into the loop of talent under consideration by search firms?

A: Use networking events liberally, but smartly; most execs in Austin are generous with their time in providing a follow-up meeting and potential referrals. Understand the principles of

“getting on the bus” found in the book “Good to Great” – another recommended resource from the panelists. When you meet with contacts, be prepared to explain yourself in 3 ways very crisply:

1. what’s your passion?
2. what are you good at?
3. how can you help a firm make money?

When writing down your information for presentation (in resume or CV), consider the following:

- don’t use “functional” resumes (“ever, Ever, EVER”...according to AV’s Browning) – these are resume’s that emphasize skills and industries first, and downplay timeframes, companies, and accomplishments. Hiring authorities want to know:
  - What you did – that’s the most key!
  - Where you’ve been, and when
- don’t assume that a technical recruiter/search firm is deeply technical or knows the companies that you reference – help them by writing a short line or two describing what the company does
- don’t lie - EVER!
- don’t “apologize”, for example, no need to highlight that the company was sold while you were there, was downsized, you got laid off, etc.

## **Adjourn**

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