

Attracting World Class Talent to the Small Successful Company

Putting Together the Right Offer

By

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Overview

When you are glancing through the business section and see that an individual who you think highly of has joined a startup or smaller company, do you ever just wonder why? Why leave a secure position with a major player in a specific market sector to join a company which has promise but lacks the resources of the bigger company?

Many have realized that this is an opportunity to play a pivotal role in a leadership capacity and to truly leave an imprint. Sure, the risk and reward components are present; but the bottom line is the internal drive the individual has to make a difference and the desire to be the architect of an organization.

Attracting World Class Talent

First and foremost, early stage companies need to understand that key executives aren't interested in using their own financial resources for normal living expenses! The following example may clarify this point. John Jones is currently the CEO of a biotech company and was one of the two founders of the company that was started 12 years ago. His eyes light up when he tells you about how the organization was founded based on sound science. He is proud of the federal grants they attained and how they were able to get key members of the team on board. He does not gloss over the trials and tribulations they went through. After all, whatever doesn't kill you makes you stronger.

John describes how the funding took hold - early angel investors, then going to venture capitalists when the timing was right. He describes how the company worked at positioning itself for purchase or maybe an IPO and the path to the initial stock offering. He is proud of where his organization is today – a biotech company with a market cap value of \$450 Million dollars.

Today, John's company is probably at the 3rd stage or early 4th stage of size and maturity. They have over 200 employees. Exciting, right? The problem is he finds the structure, the departments, the quarterly reports, and all of the other aspects of a large company don't offer the same excitement as when the company was a smaller growth company.

As one of the two founders, he is financially set and has a comfortable life. John Jones finds himself the founder and CEO of a successful company and the key leader and visionary of the organization, yet you can sense that he'd be open to new opportunities. A Stage 1 or Stage 2 company with proven science or technology would be attractive enough to investigate from his perspective.

So, you have a potential candidate expressing some interest. It is important now to evaluate where he is at from a total compensation perspective.

- Base salary: \$465,000
- Bonus up to 50% of salary based on clearly defined performance targets
- Executive vehicle program of \$900 per month
- Health club membership at \$400 per month
- 6% match on 401K up to 15%
- Stock options tied to performance that could be 0 – 10,000 shares per year with 3 year vesting and a 10-year exercisable period

As one of the founders of your company, your background is in science or technology and you realize that you need a CEO to take your company forward. (This same situation could be for a COO, CMO, CTO, CSO, CFO, or a key VP). Can you attract this type of talent? You know this is exactly what you need at this stage of your company's life. Is your exit strategy to sell your company or do an IPO? If it is, how can you attract a proven individual who has done this before?

It is human nature to reflect on your own position in the company: your base is less than half of what the potential candidate is earning; you have no car program, no health club, and haven't even thought about a 401K; you participate in a group health plan through a national association you belong to. "Whoa," you think, "this is never going to work!"

You not only need this type of talent, you have to have it and can attract it! If your vision is to be a company with a \$250 Million market cap in 10 years or be sold for \$250 Million, then bring on the individual who has done it already.

Here is where the risk/reward component comes in. What base salary will it take? Do you have to match the \$465,000 base salary? No! No! No! Do you have to put a base salary target range in place? Yes, with flexibility. The base salary will need to be at a level where the new CEO will be able to meet all of his/her financial obligations. Here is where it can get tricky. The potential CEO wants you to provide every iota of information on the company from conception to where the company is at today. He or she will want to review all financial statements, tax returns and other private and privileged information. You may need to bare your company soul, but this needs to be mutual. Without this open disclosure, things will not move forward. If the potential CEO balks, run for the hills as it will never work. If the potential CEO states that he wants to be "kept whole", it is the wrong person as she is more than likely with a Stage 3 or Stage 4 company and that financial equation will only work to go to a similar-sized or larger company.

Putting Together the Right Offer

Putting together the right offer is more complicated than most founders ever think but surprisingly this process only requires only one key component – honest communication!

What are the key components to the right offer?

This may be less complicated than you think as there are just a few keys to the right offer:

- Base salary
- Bonus with clearly defined performance goals, objectives, timeline and measurement methodology
- Benefits (health, life, and disability insurance)
- Association memberships (Clearly defined criteria on what organizations the company feels the CEO needs to participate in)
- Allowable expenses – business travel (no Motel 6 or Red Roof Inn, but no Ritz Carlton or Four Seasons, either)
- Car allowance or mileage

(Now, the hook)

Working collaboratively, you inform the “new potential CEO” that together you will design the desired program on rewarding the executive management team going forward. (Remember he/she has been here before and knows what does and doesn't work.) Bringing this individual on as the new CEO and a board member, how will he/she play the pivotal role going forward in laying out the executive compensation strategy? Only he/she can fully understand what drives the individual with the track record desired and what it will take to add these key executives to the team. It is the shared risk/reward component along with the empowerment and autonomy to do the job.

Now you know the key for attracting a CEO for your 1st or 2nd stage company. This similar methodology will work with any senior executive who will be a direct report to the CEO.

Again, key leadership individuals desire to be a part of a great team. They are incredibly bright people with a passion and zeal coupled with the energy, drive and commitment to succeed. Attracting this talent is paramount to any organization's success.