»EXECUTIVE WISDOM

the hunt for talent

IT'S A DIFFERENT GAME FOR DIFFERENT SIZED COMPANIES

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Firms can afford to attract and retain talent based on the perceived risk and return at each stage of company growth. These stages are repeated and are recognizable, and an appreciation for them will improve your ability as a CEO to act properly at each stage and get the best talent given your situation.

At the root of this dynamic is the individual assessment of risk and return by the high-quality talent sought by the CEO. Less well-funded start-ups will have to pay for the perceived higher risk taken by the early employees in many forms, such as base, bonus and equity. People are smart and do make personally optimizing choices, balancing risk and return. Later stage and well-funded firms have an advantage that allows them to pay less equity in recognition for their perceived lower risk.

• *Early Stage: Bootstrap Start-Up.* The typical bootstrapped start-up has a core team of one, two or more founders and shareholders that each brings his or her own talents to the table, generally from functional backgrounds. Some of them may have run larger operations, but typically, they have specific expertise within a larger firm and do not have exposure to the growth and high change rate environment. In the early stages of company growth, their skills are at a premium to do whatever is required to execute the business plan.

This broad-ranging set of demands on the start-up talent puts value on people with a wide skill set, which are available due to the lure of higher equity compensation and the return if the firm does well. Many times, start-ups are able to afford talent above the level of the market with the same level of direct pay as more established firms. The same job in a larger company would not have an equal level of equity as start-up and this allows for the higher initial talent level required to be successful.

As the start-up grows, the jobs of the team change from execution to management of a small group of other people, possibly a skill they have from earlier in their career. Performance gaps begin to show at this point, as some members of the early team are not able to make the change from player to manager. This can also affect the CEO, who normally holds a functional role and the CEO role in the early days and must change thinking and actions as they take on the role of full-time CEO. Specifically, the CEO must move some of his or her work down into the other members of the team so he or she can take on the longer-range issues now facing the business, causing more stress and complexity for the organization. If this does not happen, a gap opens with the lack of a forward-looking leader in the business. This leads to slower growth over time.

Performance issues within the executive team are the CEO's domain and must be resolved quickly or they will stunt the growth of the business. Friendships and history together both stand in the way of cool-headed analysis and action. Teams open this constraint through performance improvement, job splitting, talent shifting and changing talent or their growth will slow and ultimately stop. It can help to go through the performance of the top team with an external resource, such as a trusted board member, coach or CEO peer group.

In replacing some of the original team, the CEO will have access to a higher level of talent based on the progress the firm has made along the strategic vision, which reduces the risk for new candidates when looking at the risk-return balance of joining. This talent upgrade can set the stage for the next level of growth.

• *Early Stage: Well-Funded Start-Up.* It is easier to attract talent if the business is well-funded. The balance struck with this access to capital is the possible dilution to the early employees. A strong cash position early in the life of a firm is a luxury in the area of recruiting because the CEO is able to reach into talent pools inaccessible without the lower risk and higher pay this cash can provide.

Will a firm with $100 million or $1 million in the bank be able to attract better talent? The normal profile of an executive team for a highly funded start-up would be a set of serial start-up executives, perhaps a group that has done so successfully as a team in the past. Each would have great skills in his or her area and a broad business understanding. While bootstrapped start-ups will exchange time for money (taking longer, but with a cheaper solution), the seasoned team does not have this patience and will exchange money for time – intelligently burning cash faster to get to scale quickly. Because they have done it before, the confidence to make these smart investments frames their decision-making.

• *Middle Growth Stage.* This stage starts at a head-count between 200 and 300, which shifts the nature of the firm and the communication that worked at lower scale. This causes more division of labor and specialization, as well as increases the scale and scope of the leadership's jobs. Unfortunately, human capacity to perform grows at a different and finite rate in each person, and a rapidly growing firm has the ability to outstrip the existing capacity and the growth ability of all but the best talent. Even if someone is a decent manager of 10 people, they may not be able to manage 50.

Spending on organizational and personal development can push the horizon of competency into the future. However, if strong growth continues, almost anyone will become incompetent eventually. The same ideas work – shift talent, split jobs or replace people. The only answer for the CEO to slow this process is to hire above the needed competency for every job as early as possible. This is very true for the senior executive team where finding the right talent is more important than the direct pay needed to bring them into the firm. Overpaying for the right people is cheap.

While we have brushed against the issue of the CEO, it is the most significant issue in the organization if the current top leader has reached his or her level of competency. Seeing this situation is difficult and sometimes the CEO needs help to identify and change actions. Ultimately, CEOs need to make a decision about what they desire – going forward within an organization where their performance paces the growth of the firm or bringing in a professional CEO and shifting where they spend their time. Stepping aside is difficult for any leader, but particularly when sitting in the CEO seat of a successful company.

Trade-offs of money for time and risk for reward underlie CEOs' ability to attract top-flight talent needed to execute their business plan and achieve great results. Understanding the stages of access to human capital and the options available to maximize your team is critical to your CEO success.

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