

HIRING AN EFFECTIVE CHIEF EXECUTIVE TO RUN A START-UP COMPANY

Presented by:

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The ideal venture capital investment opportunity occurs when a great business idea is discovered by people who know what to do with it. However, for both the founding team and venture capitalists, the leadership of a strong chief executive is essential for success in the marketplace.

Some venture capitalist investors will fund a company that lacks a CEO, but only if the founding team has an agreed-upon plan for hiring this critical executive. What are the minimum requirements for a CEO? And how do you identify the best candidate? This paper is intended to provide some insight.

Key Capabilities

Assuming that a candidate has the correct functional experience, the following areas are essential for CEO candidates:

I. Industry Experience – The individual hired to be CEO of a start-up company must have experience in the same industry your company is pursuing. One who has worked in the industry will understand customer needs and how to influence their purchasing decisions. He or she will understand the strategic positioning of competitors and know

their strengths and weaknesses. He or she will be able to identify the most effective selling and distribution channels. In addition, a CEO with industry experience will know others in the industry who may be candidates for future management positions, and will have contacts that may be valuable when establishing corporate partnerships.

II. Marketing Orientation – The CEOs which venture capitalists prefer to back know how to select the best products for development and which market segments to pursue. They know how to develop a defensible long-term business strategy. They usually come from an engineering or marketing background, and they understand that successful products are designed to economically satisfy customers' needs.

III. Exceptional People Skills – An effective CEO must be able to recruit a high-powered management team. After hiring the best available, he or she must lead, manage and motivate the entire organization. CEO candidates must therefore have a track record that enables you to assess their potential as leaders. Keep in mind: venture capitalists don't like to back individuals who haven't run a company, a division or at least a department – the risk of failure is too great.

IV. Ability to Identify and Solve Problems – All CEOs are continually bombarded with problems: product bugs,

sales that are below forecast, manufacturing glitches, cash shortfalls, budget allocation decisions, distribution channels, etc. A good CEO is able to identify the key problems needing attention and work with the management team to select and implement optimum solutions.

V. High Energy Level and a Sense of Urgency – Venture capitalists love to invest in highly motivated individuals who get many things done simultaneously. A start-up company must move quickly to stay ahead of the competition. An energetic CEO will establish a fast tempo for the company.

Identifying a Good CEO

I. Define the Job – You can't really begin looking for a chief executive officer until you know what you want – you must have a template to match. The first step is to define the job. Highlight the specific skills that are required for your CEO position, using the preceding five points as a guideline.

It is also important to identify business objectives to be met by the CEO over the next six months and the next three years. Start-up companies have a high rate of change – many people are hired; products are developed and introduced to the market; and manufacturing is begun. During the first months, a high percentage of the problems occur in

product development. Then the emphasis usually shifts to marketing and sales, and next, manufacturing becomes more important. The person you hire must have skills that will enable him or her to direct the company's transition from a start-up to a mature organization.

II. Solicit and Screen Resumés – Try to identify at least five suitable candidates from your own network of business contacts and, if needed, an executive search firm. Search their resumés for clues indicating that these individuals have the necessary job skills, the proper functional experience (marketing, engineering, operations, finance) and the needed industry background.

A key decision is whether a candidate comes from a big company or small company. Many venture capitalists prefer CEOs who've worked for both types. Large companies often train people. Small companies may prepare them for the ever-evolving nature of a start-up. In addition, small companies provide experience working with limited resources; executives who have worked in this environment know they can't build a large staff or spend lavishly.

Importantly, candidates who've worked for successful companies usually have had experiences that enable them to create a mental model of how the start-up should look in five years. This helps them position the company for success.

III. Interview Those Who Meet the Specifications – Before a chief executive candidate arrives for an interview, it is helpful to prepare a list of questions about his or her specific background. An individual's past performance is the only good predictor of future performance, so ask questions that give information about a candidate's past behavior. Good questions for eliciting such information begin with interrogatives such as what, how, when, why, who and where, or

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With a good CEO,
a company flies;
with an average
CEO, it languishes;
with a poor CEO,
it usually disappears.

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imperatives such as "Give examples..." or "Tell me about..."

Avoid questions that begin with would, should, will and do, because these queries will elicit hypothetical answers. The candidate will try to second-guess what you want to hear.

At least three people should interview each candidate and write summaries of the interviews. The use of multiple interviewers will help overcome biases, and the written records will help later, when you evaluate each candidate.

IV. Check References – After the interviews, you probably will have narrowed the field to one or two finalists. Before making a job offer, it is imperative that

you check references. These should include former employers, peers and people who have worked for your candidate. In addition to verifying facts and impressions, reference checks enable you to gather information about your candidate's strengths and weaknesses as judged by people who've seen him or her perform.

Call references given to you by the candidates. Also try to get additional names from those you call. You may find that these new references are critical to ascertaining whether you truly have a CEO prospect who can satisfy your long-term business needs.

V. Hire the Best, Only if He or She is Good Enough – After all candidates have been interviewed, compare the evaluations made by each interviewer. It often helps to have the selection committee rate each candidate on all skills. Summary notes made during the interviews will help the interviewers recall specific examples of each individual's past performance.

Hiring a good chief executive officer requires much effort. Take your time. Be sure of your choice. This is undoubtedly the most important decision any company will make.

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De Novo Ventures is a lead venture capital investor focusing on the early stage financings (the seed, start-up and first round) of medical companies in the western U.S., particularly in California.

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