Successful Executive Selection in Recessionary Times

By Douglas Reiter

In recessionary times, companies often take advantage of the slow-down to eliminate redundant positions in their operations, lay off under-performing workers and reorganize for a more efficient future. This practice primarily hits the rank-and-file workforce, but many Board of Directors and owners also use a recession to re-evaluate their highest-level key players to make sure they have the right talent in the right positions at the right time.

Employers who plan to replace key talent in down times often feel confident that they will be able to recruit exceptional replacements. After all, there are many more out-of-work prospects to choose from. What's more, because of the larger talent pool, hiring companies believe they can lure top talent for below-market compensation. But, in reality, nothing could be further from the truth.

Smart employers know that hiring executive-suite talent in down times is tough, and often even tougher, than hiring executives during times of economic expansion. Recessions, in fact, only intensify the usual chores of talent selection – just when companies can least afford the time and risk of making a hiring mistake.

But is a recession a good time to look for new talent at the top? How can Board of Directors and owners assure that they are replacing their current leaders with more effective ones? Here are just some of the often-unanticipated problems of hiring C-level executives during a recession:

- While there may be a massive inflow of available candidates into the marketplace, the percentage of great candidates to average candidates is probably lower than you would expect. In other words, many more potential candidates who enter the job market are average performers, not star performers. Volatile employment markets don't alter the fundamental distribution of quality candidates and mediocre candidates.
- One reason for the increase in the candidate pool is that many more individuals randomly send out resumes, thinking, "I'll just apply and see what happens." Again, the overall increase of resumes does not equate to a commensurate increase in qualified candidates.
- The best candidates for any C-level position are often the last ones out the door at their previous companies and quick to be offered new assignments. There is always a demand for the best talent, even in recessions, so competition is still keen for the most talented leaders.

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- There may be more out-of-work or eager-to-move prospects to choose from but many of them begin to act in desperation, which makes screening these candidates more difficult. One must not underestimate the amount of disruption and despair that occurs when high-level individuals lose their jobs and income. Such individuals are likely to be tempted to accept positions that are not good fits for them simply to secure immediate income to support their lifestyle.

- Whenever more candidates are seeking fewer jobs, vetting these candidates requires stricter, more systematic and process-driven activities to mitigate the likelihood of a bad hire.
- High salaries, sign-on bonuses, stock options, and many other compensation "lures" popular in the pre-recession days may not be as readily available to hiring managers in many companies, making it difficult to attract the best and the brightest to their executive suites.

MEASURE CANDIDATES MORE CAREFULLY DURING A DOWNTURN

To attract the best candidates to one's company, the hiring managers and their recruiting staff must place themselves in the candidate's shoes; they must be empathetic to what the candidates are experiencing. The 2008-2009 recession is the deepest recessionary period in at least a generation. Many current C-level executives have never experienced this type of disruption in their career. Therefore, they don't know what to expect, or how to manage their careers through it. Consider the following scenarios:

- The US Auto industry sales are down 40% and more. Most managers and executives in the US auto industry are worried about their jobs. They're worried about their 401K (which is probably down 30% plus), their kids' college educations and whether their aging parents will have enough resources to support themselves through their remaining years.
- Individuals who are in their late 50s and hold C-level positions in almost any industry are probably worried about their ability to hold onto their current positions or to land another equally lucrative assignment.
- Rough economic times can be hard on marriages and families. I recently interviewed a chief operating officer at a midsized privately held printing company. His company's business was way down and he was on his way out. He was a good, solid, capable executive. He made a few comments about his wife's reaction to his circumstance. I asked him how his marriage was. He said it was good. I left it alone. At our next meeting, he told me he and his wife were in marriage counseling.

Three types of candidates emerge in a bad economy: Unemployed (or about to be), Under-employed (but OK), and Opportunists. A company in the market to hire a C-level executive should know how to determine what type of candidates they are interviewing and what it means for their hiring decision.

1. UNEMPLOYED — OR ABOUT TO BE

When I entered the Executive Search business 32 years ago, being unemployed equated to being defective in some way. Something was wrong with you. This belief was widespread because there was a homogeneous idea about what constituted a good leader and good career path. Plus, the US economy was expanding which meant there was room for mediocre leaders as well as great ones. This is no longer the case. Today, employment is more volatile and we understand more clearly about the diverse qualities of leadership. Therefore, we accept occasional periods of unemployment as just another stepping stone in one's professional career.

Unemployed today could mean:

- Out of work, living on savings for a temporary period.
- Comfortable and voluntarily between assignments.
- Seeking self actualization while spouse works.
- Fired from last position, repositioning self for next move.
- Downsized out of position.
- Experimenting with other professional opportunities such as consulting.

I recently concluded a search for a Vice President of Raw Materials for a $1.5-billion, privately held firm. We had identified our final candidate who was; 1) unemployed; 2) had been a Chief Operating Officer (COO) of a larger public company in the same industry; 3) was seriously interested in the position, and 4) possessed a high degree of technical competence thereby qualifying him for the job. Conventional thinking might have killed his candidacy if we had weighted Number 1 and 2 higher than the other two findings. However, I decided to find out why he would consider an apparent demotion to a VP job after having served as a COO. I have found that many executives have a terrible time moving down once they have experienced a higher level of responsibility. After much discussion with him, followed by reference checks, I reached the following conclusion:

- He did not like the political aspect of the COO position, and thus did not feel his performance in that capacity was optimal.
- Through much soul-searching, he reached the conclusion he had been the happiest and most productive at the VP level.
- He had made peace with himself on the matter of completing his career in a lesser job than he had previously attained.

His candidacy, from my perspective, came down to two issues: 1) Did he have sufficient self-knowledge to know these things about himself; and 2) Was he sufficiently mature to accept it. We had him take a series of psychological tests, which I often do with final candidates. My conclusion was affirmative on both counts.

2. UNDEREMPLOYED — BUT OK

There are always directors and VP-level executives who believe passionately that they are at least as good as their bosses, or their bosses' bosses. In their hearts, they know they are C-level quality. Some of them are right. They represent fertile recruiting ground, are in demand, and know it. They know their market, have worked hard at developing and maintaining networks, have developed relationships with executive search firms, and are "in the game."

Recessions often afford these "under-employed"—and companies seeking them—real opportunities. However, acquiring talent from this group is more difficult in a bad economy than a good one:

- These prospects will be more attuned to and realistic about the risk inherent of moving positions during a recession.
- While the slower market may encourage you to offer them a less lucrative compensation-and-benefits package, that approach may actually blow the deal. These candidates need more certainty, not less.
- Your company's financials are very important to these candidates. The less stable your numbers, the more risk they feel they are taking. Risk, however, can be ameliorated through compensation if you can offer a good package.

3. OPPORTUNISTS

This is a group possessing the greatest risks and greatest rewards. In any recessionary period, opportunists move quickly to seize a better assignment. They rightly view this slow economic period as a potential game-changer for their career. They will sell hard to secure a place at the top of any list of potential C-level hires.

A candidate contacted me recently on a search that I was conducting for a VP of Manufacturing. He said; "I'm interested in the position, or one like it. I will be a CEO someday, and you need to know me." I was taken aback. Self-confidence and self-promotion are essential ingredients for a successful executive. But where does one draw the line?

Companies in a hiring mode will need to look at this group carefully; there are great candidates here but the vetting process needs to do its job to uncover the authentic ones.

In my 32-year-career of successfully recruiting and placing C-level executives, I have learned that the single biggest risk factor in moving someone from a number two position to the top job is the acquisition of power. I call this "The Great Unknown." In 1887, the British historian and moralist known as Lord Acton, in a letter to Bishop Mandell Creighton, said: "Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always bad men." Another wise Briton, William Pitt, Prime Minister from 1766 to 1778, said in a speech to the UK House of Lords in 1770, "Unlimited power is apt to corrupt minds of those who possess it." The Brits were on the right track.

Abuse of power, coupled with an out-of-control ego, constitutes the greatest risk factors in hiring C-level executives. When I was recently interviewing candidates for a CEO position for a midsized plastics company in the eastern United States, one candidate was certain that he had the inside track. He was so confident he was the right person for the job that he asked me the following question at the end of the interview: "Aren't you going to ask me what I will to do if I get the job?" I replied, "No." He then asked me, "Why not?" I responded, "It is unlikely you or anyone else really knows ahead of time how you will behave once you have the CEO position."

Opportunists probably represent the highest percentage of individuals who will be seeking C-level positions. I would postulate that the more an individual seeks power, the more likely he or she will abuse it.

There is a combination of characteristics and behaviors that can prove particularly deadly:

- A massively oversized ego.
- A lust for power.
- Not knowing what you don't know.

Good times mask weaknesses. Recessions force characteristics such as these to the surface.

TIGHTEN THE HIRING PROCESS WHEN CANDIDATE POOL INCREASES

In this current down cycle, no one would debate the factual certainty that more candidates are in the marketplace seeking employment. Therefore, there is no doubt the talent pool is deeper. But depth unfortunately has its downside; it forces hiring companies and their executive recruiters to spend more time, company resources and money to wade through the deep pool and make the right hire. The expenses of a good—or bad—hire, as measured in direct costs (recruitment fees, relocation, on-boarding, up-front outlays, etc.) as well as time and opportunity go right to the bottom line.

Proper, systematic and thorough vetting increases the likelihood of good hires at the C-level. I think of it as risk management. A massive influx of candidates means your vetting process needs to be better. Therefore, I recommend the following steps as a systemized approach to C-level recruitment in this recessionary time:

- Assemble a small group of executives and managers as your search team. Each team member commits to being at every meeting during the process. Consider the search a project and treat it as such. Select a project manager.
- Consider hiring outside assistance. Executive search firms bring skills and expertise (not to mention access to candidates) absent in most

companies. Before you hire them, check their references.

- Build a job description that the principals (search team) signs off on. Everybody needs his or her fingerprints on it. If you don't know what kind of candidates you're looking for, you won't know them when you find them.
- As a policy, do not accept functional resumes. They consume too much of your teams time deciphering who the candidate is and what the candidate has accomplished.
- Consider group interviews, followed by individual meetings with the candidates. This allows you to evaluate the candidate's mental agility and social skills. It also provides team members windows of time through which they may observe a variety of interactions between the candidate and various team members with different personalities, disciplines and perspectives.
- Ask them questions about their early life experiences. It will help you understand who they are, where they came from, and give you added perspective during the interview process. Here are some examples of questions that reveal important personality traits of leaders:

  1. Where were you born?
  2. How many brothers and sisters do you have?
  3. What did your father and mother do for a living?
  4. In what activities were you involved during school?
  5. Describe your high school experience?
  6. How did you decide what college to attend? Who paid for it?

These questions provide valuable insight into their formative years. You want to develop a picture of them as a whole person. These types of questions create opportunities for people to talk about themselves and to reveal aspects of themselves rarely discussed in interviews. The more you know the more able you are to make a good hiring decision.

- Ask each team member to develop a list of questions pertinent to their area or specific to their interest.
- Use an Industrial Psychologist to administer testing for the final candidates.

UNSOLICITED RESUMES FURTHER MUDDY THE WATERS

Down economic cycles, especially significant ones such as the current one, result in a cascade of unsolicited resumes.

Technology has altered the way resumes are marketed. My inbox is filled with unsolicited resumes every day. Hiring officials inside corporations are also inundated with resumes. This is another good reason to consider using an outside Executive Search Firm to separate the wheat from the chaff.

SUCCESSFUL NEGOTIATING STRATEGIES HELP CLOSE THE DEAL

In 2001, Sumner Redstone, CEO of Viacom that counts among its brands Paramount Pictures, BET, CMT and MTV, described his negotiating strategy. Redstone's company grew from a gaggle of drive-in movie theatres to a giant media conglomerate today. To paraphrase him, "I figure out what the guy across the table wants, and I give it to him."

To successfully conclude a negotiation with a candidate, listen to what they want, and, to the best of your ability, give it to them.

I conducted a search for a CEO for a South American Division of a US-based company. The successful candidate came from Canada. From the beginning, he indicated a desire to live in South America. In fact, it was more than a desire; it was a primary reason he was interested in the position. Midway through the final negotiations, a principal for the company decided he wanted the executive to reside in the US and travel to South America. The deal began to unravel. After about two months of internal conflict resolution, we hired him. He would move to South America. We had almost lost this excellent candidate and it was unnecessary. He had been clear from the onset what he wanted. It wasn't about money, his house, stock options or cars; it was about lifestyle.

Listen to what your prime candidates want and give it to them:

- Be aware of circumstances in their industry, region, and personal life. They will tell you what's important to them during the course of your meetings. You need to hear it.
- From the first contact, pay close attention to what they say they want. Make sure that the terms you can offer and the terms they want are not too far apart.
- Identify negotiating roadblocks early. Be realistic about what you can and cannot overcome. Put yourself in their shoes. What would you accept? How far would you go? Be reasonable and fair.
- Don't make assumptions. Everyone has his or her story and circumstances. A bad economy may or may not impact your negotiation.
- Don't confuse your own company's internal compensation structure with the current market rate for similar positions.
- Once you identify the candidate you want, be flexible and be reasonable. Close the deal.

I was negotiating the package for a COO search for a $1.5 B private company. The candidate was easy to negotiate with (a predictor of his performance on the job). He had a home in another country that was for sale. Before he signed the offer letter but after we had agreed on the terms and conditions (which did not include the disposition of his home), he learned that he could not free his cash from the sale of his home for 3-6 months due to tax laws in that country. That would require us (my client) to advance him a significant amount of money within days. It was unexpected, had not been part of the negotiation, but a reasonable request. After some discussion, we did it. Had we not, the deal would have been dead.

Candidates want the best deal they can get. Their negotiation style will tell you a lot about their behavior and character traits, and is a good predictor of what you can expect if you hire them. Your negotiation style, similarly, is an indicator to them about your values. Tough negotiations need not be contentious. Everyone may have not gotten what he or she wanted, but it's important that candidates feel they were dealt with honestly and in good faith. Here are some examples:

- At the end of a negotiation, a General Manager-level candidate demanded a particular make, model and accessory list for a car. The deal fell apart.
- A COO candidate was offered 10 percent less than the advertised compensation. It was a good thing that he really wanted the job or he would not have been willing to accept a below-market salary.
- A final offer to an incoming CEO for a financial institution included a promise of stock options, or a similar compensation vehicle. The company never made good on its promise. This reneging ended up seriously damaging the reputation of the organization in the eyes of its staff and the marketplace.

While Sumner Redstone's point on negotiation is an important one, there is another important lesson about listening during negotiations. What a person really wants, in fact, can be quite vague. As Peter F. Drucker, the great management expert said, "The most important thing in communication is hearing what isn't said."

Sometimes, candidates aren't consciously certain of their needs or have not prioritized them. An astute listener can extrapolate from a series of discussion, interview, references and testing and dramatically increase probability of closing the deal. This is another key reason to consider working with an executive search expert who is familiar with this kind of listening and negotiating.

WHEN TOP TALENT REMAINS ELUSIVE, THINK "INTERIM"

Since tough economic times generate lots of candidates, it is a great time to make use of the relatively new talent pool of interim managers and executives for projects or temporary periods of need. It can also allow you to test out an individual in the position before you make a commitment:

- The founder of a division of a large manufacturing company was retiring. He had been there for 40 years. We all knew, due to internal resistance to change, that the next manager would have a difficult time being successful. We discussed bringing in an Interim GM while we conducted the search. However, because this company had never hired an Interim Executive, they decided against the idea and continued to look for a permanent hire. The new manager they hired lasted one year. We then brought in an Interim Manager and gave him the task and time to implement several necessary but unpopular changes, giving the next new permanent manager a better starting point and more running room to be successful.

Because of the depths of this current recession, executive selection is as important as ever. Companies know that, when times are good, average leaders can achieve positive results. It's easy to look good when all the business indexes point north. The hard part is now, when times are tough.

Great executives can save businesses. Average ones, if companies are lucky, will maintain the status quo. Bad ones can do a lot of damage. With an effective vetting process, a sharp and cohesive team and due diligence, this is a good time for companies to make sure they have the right talent in the right positions at the right time. It's also a good time to take advantage of the growing talent pool to attract new talent to achieve stronger futures. That said, it takes a lot of work, but it is well worth the effort.