<u>So You Want To Hire a CEO</u>

A guide for the founder about the Do's and Don'ts

From a founder who has been there

By

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January 2012

Version 2.2

Introduction

In the beginning God created the heavens and the earth. Now the earth was formless and empty, darkness was over the surface of the deep, and the Spirit of God was hovering over the waters.

And God said, “Let there be light,” and there was light. God saw that the light was good, and he separated the light from the darkness. God called the light “day,” and the darkness he called “night.” And there was evening, and there was morning—the first day.

Sounds familiar? Well, it should be, that is how the book of Genesis begins. And that is also how most start-ups begin; with one creator, one thought, one spark which brings form to something that was formless and empty.

I begin there, as that is the beginning and the end of how to go about selecting a CEO to help you run your company. The genesis of companies is with “One Mind” and as they grow it turns into a collective of minds. To make a transition of the “One Mind” takes great care and know-how and there is no text book about it…yet.

This paper discusses the main do’s and don’ts on how to think through and what to think about, when a founder decides to hire a CEO to help run a company. It speaks to a situation of a single founder who is looking for help, yet, the learning apply to a group of founders/co-founders (albeit, some of the decisions are then more complex by design.) This paper also focuses on venture-backed technology companies that have specific demands and expectation to a liquidity event in a reasonable timeframe.

What To Consider?

Consideration 1 – Why do you think you want a CEO?

When founders start their companies, unbeknownst to them, they are doing MANY things at the same time. For example, beyond being “a founder”, they lead the creative spark, driving force as well as product vision. After all, most founders are the first users of their products and services - and their best critiques. Founders usually divide into two types: pure visionaries and technical. A visionary founder may have a very clear vision on how and why a product should work – yet cannot on their own build a prototype. Alternatively, technical founders are proficient in their field and can build the product or service. Nonetheless, both types may lack business acumen and other professional skills to run and scale a start-up.

In most cases, founders are “hinted” by their boards that they need to add a CEO to help run the company and grow it faster. In some cases, after hinting and nudging – founders are told they need to add a CEO. And yes, in other cases, when the board has tried (even if you think they did not) and exhausted all other methods – founders may get ousted in the process if they don't realize that they are the reason their company is not achieving its goals, or allow for faster growth.

There are two additional cases, less common: the founder who realizes on their own that getting help is the best way to maximize the venture for everyone involved, and the founder who also happen to be a great CEO.

So why do YOU think you want a CEO is more important than why your board think so, or anyone else for that matter. Why? Unless YOU think it is a good/better choice than the status quo – no CEO will measure up to the task, not even… YOU.

A founder should seek counsel from many around him or her about this critical decision. It could be mentors, board members, spouse, management team, other founders and/or CEOs. Ultimately though, the decision must be by the founder if they want help, or truly think they need help. However, be ready to hear from some in your inner-circle that "someone else can do a better job than you…"

Hearing this advice will do one of two things to the founder's psyche: undermines them and their ability to lead, or help strengthen their resolve to find help – there is no in between.

The only exception is when the board thinks the founder has what it takes to be the CEO and their advice revolves around the question: "why do you want to bring a professional CEO?" This may sway the founder to keep the chief executive position in addition to being the founder.

Do: ask yourself why? why? why? Until you get to the bottom of the reasons you think you want a CEO. If you are a founder that got hints, still ask yourself why, and try to see the positive in what is conveyed to you – otherwise, you will only feel undermined and that leads to negative energies, thoughts and outcomes.

Don't: ask your board to get a CEO, just to see what they say… This is a mistake, and sooner or later your true intentions will be made known. When you get to the realization that "getting help" with growing your "baby" is a good thing – approach your board on your own. Chances are that they will test to see if you really mean what you say. If so - they will take you up on your suggestion.

Again, there are few and far between cases that a founder is also a great CEO, as their skills and talents are simply different. Founders like new challenges to solve and are not necessarily good with process building and scaling. CEOs, may not come up with the next innovation, yet, they can take the raw materials the founder created and make it commercially available on a large scale. Think about any good Hollywood relationship between an actor (the talent) and their agent (the business). You don't expect the talent to do a great job at negotiating contracts, nor for the agent to be on stage for the next performance. Realizing these differences, respecting them and seeing their complementary force-multiplier is why you should consider adding a CEO. Let the founder focus on the "what" and the CEO focus on the "how".

Consideration 2 – How do you know when you are “ready”?

After all the trials and tribulations about this critical decision, how do you know when are you “ready” to hire a CEO? If you are a parent, there is a good parallel to draw on… when did you let someone “else” babysit your child? What must have happened before you let “that” happen?

Now, I am not talking about letting your parents, brother, sister and other very close family look-after your child for thirty minutes while you run an errand… I am talking about someone “new”, not in the family, that you did not know all your life…

If you think the decision to hire a CEO is different – think again.

Many founders, especially first-time founders, tie their entire being into their venture. They live it, breathe it and see their reflection in it. It is almost hard to tell where the founder ends and the venture begin. For example, any investor who does not like the pitch or decides not to invest becomes an immediate “nay sayer” and must be corrected – sounds familiar?

Founders are also people on a mission. They are true entrepreneurs who have visions. “Vision is the art of seeing things invisible to others”, as Jonathan Swift once said – and most people are not founders. This is why bringing someone “else” to watch over your “baby” is so hard, feels so unintuitive, so “wrong”…

If everybody would be a founder, have that special spark it takes to “take the plunge”, jump off the cliff without knowing if the parachute will open – selecting a CEO and being ready would be much easier.

If everyone would have the experience of the sleepless nights, the discussions over the kitchen table, the day you quit your day job without knowing when the next paycheck will come and other “fun” things founders do – there would be a good reference for the feelings a founder goes through.

You are ready, when you realize that most CEOs are NOT ex-founders… most CEOs come to the game as professional hired guns… most CEOs are driven by a good financial outcome for the shareholders (yourself included) in order to get their next job… most CEOs are here to help you and your company even if it means in some cases … <drum roll> …removing you from the equation.

Are you ready now?

Now, a great CEO is interested in building a business and should have a great deal of passion and engagement in the vision. They should feel a similar ownership for the vision, over time. CEOs are not mercenaries or “hired guns” only.

If you are not considering all the options, and only considering the “rosy” options – you are probably not ready.

I for one was using Tiger Woods as a reference point. In the case of Tiger Woods, his dad Earl, had a critical decision to make. Should he coach his son prodigy solely, or look for the best trainer money can buy?

As you can see, there is no clear cut “right answer” to this question, and a little bit of both may be the answer. However, never have two coaches at the same time. Either Earl trains him primarily, or a trainer, but never both. There is only one CEO at any given point to the organization, and that comes with pros and cons. In your critical decision there is also no clear-cut “right answer”.

Do: take your time with getting mentally ready for the decision – this can’t be rushed into. It is a process; much like grieving and it takes time and has its ups and downs.

Don’t: try to over rationalize why you are “doing this.” If you find yourself second-guessing yourself then you are probably not ready and failure to realize it will only cause a spiraling down chain of events.

Consideration 3 – What is your board’s role and responsibility in this decision?

The board’s role, first and foremost, as custodians of the company – must be to maintain its “going concern” as well as maximize shareholders’ value, including yours. In a perfect world, your personal agenda is aligned with the company and the BOD and all is well on the western front. However, should a founder become the very obstacle to the company’s success – it is the DUTY of the board to resolve the issue, and use any reasonable measures.

In the example below, the founder wants to be replaced. So, if you were a board member, and would be tasked with selecting a new “best CEO” for the company – who would you pick?

For example, I will use Jack Welch, the ex-CEO of General Electric. Regardless of your personal opinions of Mr. Welch, for the sake of this example, let’s assume he is the “best CEO” money can buy and he is a perfect fit for your industry.

If the founder is willing and excited to work with him - would you pick him if you were a board member?

You would. Period. Nothing else to add. No more calls, we have a winner. It is as simple as that.

Now, as a board member you may not be able to afford Mr. Welch, or he is not a fit, or not “gettable”, or not interested and so on – but the fact remains that there IS someone else other than the founder, who can run the company, and most likely run it better than the founder.

The board as a group needs to support the founder in whatever outcome. If the decision is to give the founder a chance to run the company, they need to fully support the founder in the endeavor. Alternatively, should a decision be made, unanimously, to begin a CEO search, the board’s role is still to support the founder to cope with the unavoidable roller-coaster ride that ensues (even if Mr. Welch is hired and the founder is super happy about it!)

Lastly, the board’s role is to determine, as hard as it may be, if the founder is “on board” with the decision and monitor for the health of the company as a transition begins. If the founder likes one candidate and the board likes another – a meeting of the minds must be achieved. Both sides need to focus on “what’s best for the company” in their decision.

Do: share your inner most thoughts and feelings with your board - they will come out sooner or later. This is not something to brush off as negligible, as it is one of the most important and critical decisions of your venture. You want to share your thoughts and feelings when you are cool, calm and collected – as you may risk saying things in an unfavorable manner. No one thinks this is easy, know that.

Don't: think that others know exactly what you are going through or how it feels – fact of the matter is that few people found companies (relatively speaking) and fewer still have to go through this gut-wrenching decision.

Consideration 4 – What is your management team's role and responsibility in this decision?

Unlike a divorce, where the founder and CEO will go their separate ways, and the management team will be left with one leader – a CEO will work with the founder and the management team together. This means that the management team should provide at a minimum input to the founder and the board about the CEO candidates, as at the end of the day – it is going to be their new leader, boss, and champion. You want people to feel they are partaking in the decision, even if they don't end up making the decision. In an election, you don't know that the candidate you voted for will win – but you do know that your vote matters.

This makes the input tricky, as now there is a new vector in the equation… The board may want a professional CEO for reason X, and the founder want it for reason Y, and management could be a new voice, which has reason Z…

Do: share with the management team your pros and cons about bringing a professional CEO to help run the company. Hiding your true feelings will only cause the rumor-mill to grow, in a negative way. To those who tell you "I joined the company because you are the leader…" or "I thought that I will report to you…" – you need to be direct and share your convictions. Even if folks do not like the change, they will sense if you really mean it or not. This is why you can/should only go to find a professional CEO when you really feel it.

Don't: allow second-guessing after you and the board have made a decision to move forward with a search. Change is never easy, and with all due respect, the management team can't change a decision that you and the board agreed to. There is always a chance that some members of the management team will not like the new sheriff in town, and then again, they may not like how you run the company either.

Consideration 5 – Who should you hire to search for a CEO?

If you were seriously ill, and needed the best doctor to heal you – how far would you go? What would you do? Who would you let help with the quest?

This is one of those “important” things in life, and using anything but the best tools is ill-advised.

The very decision to bring a “professional” CEO, stemmed from realizing that while anyone can run a company with five employees… when it gets to scaling it and making a world-class powerhouse – you need more than luck, a wing and a prayer. So, with that in mind, seek “professional” headhunters for the job. If you find yourself saying “a friend of my cousin knows someone who can find us a good CEO, and they will do it for free…” – you are not on the right track.

Finding a great CEO, is like finding a great spouse. The importance of success needs to be reflected in the effort and extent you would go to find this person.

Your board may already know a few reputable search firms that specialize in CEO placements, and their venture firms may also have recommendations.

Do: take your time in selecting the search firms, and don’t rush to start of the search. You want to feel comfortable with the firm as well as with the recruiter who runs the process. Having good rapport with the recruiter is critical in how the search process will unfold. A good rule of thumb is to imagine being on the fence on the hiring decision and feeling that you would seek, listen and respect the recruiter’s advice. You ultimately want a recruiter who understands your opportunity and can sell it effectively to great candidates.

Don’t: hire the first candidate you meet, before you had a chance to meet others (even if you are hot and heavy on that first one!) Seeing other candidates will give you perspective on “what’s available” and how personality, style, values, “chemistry” and other factors differ. Unless you can compare and contrast at least three candidates – you are not ready to make a decision.

Considerations 6 – How long should the search go on?

Until you find the right candidate.

A good rule of thumb is no less than 60 days and no longer than 180 days to find the right candidate. If after 180 days you and the board are still not happy with any candidates – try a break from the process, and return to the market when better/different candidates become available.

You can’t rush perfection, and you want to get as perfect as possible with this decision - but not at the risk of indecision. Some searches have a phenomena where the first candidate is “it”, yet it takes six more months to review many others to realize it… this is akin to kissing many frogs to find the prince.

Other searches are tiresome and it feels like no candidate will ever fit the bill. Be patient, and allow yourself to focus on growing the company in the meantime and create “space” for the process to unfold.

The other phenomena is when you think you found the candidate, and as you begin going down the final due diligence… another great candidate emerges and throws the process upside-down. There are only two outcomes to this scenario, and your job is to look for “signs” for which outcome it is…

The first outcome is that this new “dark horse” candidate, is actually your champion and they have come just in time for you to change course. The second outcome, is that this candidate it not what you want entirely, and only “appears” to be a great candidate.

Why would that happen? As you and the board begin “closing in” on a candidate, you are usually mentally fatigued from the process, and you want to “be done with it” and “check the box.” In your mind you are already envisioning a press release with the CEO’s name in it... Yet, a byproduct of this mental fatigue is second-guessing and asking “did we find the right person?”, “did we wait long enough to let all eligible candidates to come through the funnel?” – that is why the second candidate is causing this dilemma.

Funny thing is, that the second candidate does NOT come a week after you announced the CEO (as then the “decision” would we made for you) – the candidate appears EXACTLY between making the selection and having enough time to switch course. As they say C’est la vie.

Do: take your time to fully interview the second candidate that arrives “right after” you made your offer to the first candidate, and before both CEO and the board accept it. You can learn a lot from another week, another interview, another dinner with your second candidate.

Don’t: skimp on the fee – you get what you pay for. The really great search firms do not work on contingency when it comes to CEO searches. If you are thinking about saving money, consider delaying the search. After all, if your company cannot afford a good search firm, chances are that no great CEO will be attracted to it either. You should get references from your board and network about great candidates before a search even begins – as those do have a chance to work well – having come from a source that knows you and the company. Yet, again, insist on interviewing at least three candidates.

Consideration 7 – How to interview a CEO? How do you know you found the right candidate?

Being a great CEO entails many different skills, and interviewing for those skills is a skill in and of itself. Not only the CEO needs to get to know the market (assuming its new for them), they need to learn the culture of the company, the financing history, business model, competition, analysts, internal power struggles, how to motivate and bring morale to higher levels and on and on and on…

You hopefully see now how your job as a founder is so much easier, relatively speaking. You know the history, people and competitors, “warts” of your product or service and every little legacy issue. You live it, you care about it (like your own baby) and you do not need to “learn” it.

When you interview a CEO candidate, you ought to first explore their ability to learn new things, and being fast on their feet. Many of the CEO’s previous life lessons will translate to your company (yes, even if you think you are unique in every way possible.) However, some lessons will not translate, may not be relevant, or may simply be outdated for what your vision of the company is.

Thus, interviewing for skills that relate to ability to draw parallels of what is relevant and what may not be is important. Also, part of the interview process should include checking references from previous CEO engagements, and it is helpful to speak to peers, employees and board members who worked with the candidate before. It is not "good enough" if your board members think the candidate is good, or worked with him ten years ago, or heard through the grapevine "good things". You will be spending countless hours with this person, and your company's future is going to be largely affected by their ability to execute. You should make sure they are the right candidate. This is one job you cannot delegate to anyone else, the buck stops with you.

Do: ask all the pointy questions up front, and not a day after you hire the candidate. While you want to do a good sales job to the candidate and present their company as "flawless" – you should know better and realize that a good CEO have seen the movie before. They know that early-stage companies go through numerous tries before they get it "right". Being upfront about what are the real issues, and what needs to get done to catapult the company is the only way to go.

Don't: forget to call all the references you get, as well as some you might find out about through back-channels. While most references you get from a candidate will be positive in nature, some of the questions you should ask will give you more color about how they interact and execute. There are always nuggets to glean in this process, which may help you later to get along better and understand how the CEO operates. Any reference on successes over ten years ago should be discounted as the candidate as most people, gets better with more "play time".

Consideration 8 – How to maximize your chances to make it work, and avoid the common pitfalls?

Most founder and CEO relationships fail, and a non-scientific statistic would be 9 out of 10 times it does not work. Why? How come two educated adults who want to work together and know what is at stake – fail so many times?

In the heat of battle (the CEO hiring process), when everything seems to move at super-fast pace, some basic questions and exchanges simply do not happen, or do not happen to the extent they should. To maximize the chances to make it work, the founder and the CEO must set ample time to discuss their "expectations". Call it the Expectations Talk…

In the Expectations Talk, the most important topic should be… <drumroll> … Values. Yes, values of individuals reflect on the values of the company and its governance. By governance, I do not only mean corporate governance – but rather day to day governance, or how the company runs. For example, the duo should be 100% aligned on how to hire and fire talent. If the CEO likes a long and safe process, while the founder prefers to mostly shoot from the hip based on gut feelings – there will be trouble in heaven. If the CEO thinks that white shirts and tie are the way to go, while the founder is a tie-dye kind of guy – watch out. If the CEO wants employees to work core hours of 9-5 while the founder instilled a "come and work as you please" culture – you are looking for trouble. This list is far from complete, yet, should give you the essence of what HAS to be discussed as far as expectations and values prior to making a decision to hire.

For example, do you begin your journey with a position of trust must be earned? Or that you have trust until you lose it? The trust value conflict is one that often occurs.

If you stumble upon a few critical misalignments in your expectations talk – you cannot brush them off. They will resurface when the CEO starts, and if you have a sense that you may not like it before – you will not like it after, and there will be friction that is not going to help either of you.

You both need to agree on:

- Values
- What you each do alone
- What you do together
- What you do alone and need to report to each other after
- What you must discuss and align on before you do

Do: let the CEO know during the interview what bothers you, what you don't care about and what is a "Red Line" when you discuss your values and expectations. Avoiding this tough part of the process is ill-advised. Unless you have this straight talk – nothing will spare both you from the ugly aftermath. If the CEO knows what bothers you and what are the boundaries, it can help them navigate better and decide if they should partner-up with you to begin with, or how to best co-exist after they join.

Don't: assume the CEO knows your values and thoughts – much like you don't know theirs. Choosing a CEO is very similar to choosing investors and choosing a spouse – they are meant to be your partner for good and bad and for a long time.

You can try to practice with these vows:

"I, (founder/CEO), take you (founder/CEO), to be my (partner), to have and to hold from this day forward, for better or for worse, for richer, for poorer, in sickness and in health, to respect and to cherish; from this day forward until (liquidation event/exit) do us part."

Consideration 9 – What usually goes wrong? Why 9 out of 10 Founder/CEO matches do not succeed?

Remember kindergarten? Remember that kid who would not share his dump truck with you? Well, you might have been this kid yourself…

Sharing things you care about, is not easy. Not for a kindergartner, and not for an adult. What you share has a direct correlation to how hard it is to share… If you have seen the movie Indecent Proposal, you can see that there are things that are harder to share than others – suffice it to say.

In the book Power Is The Great Motivator, based on a classic 1976 HBR article, we learn that:"…the desire for power--that is, a manager's desire to have an impact, to be strong and influential--is more important than the need to get things done or the wish to be liked."

If sharing a dump truck is hard, and sharing the responsibility for success or failure is harder – then sharing power is one of the hardest. And therein lies the rub… when a CEO takes the reins at the company, regardless of how it is communicated or the spin – there is sharing of power with the founder. That alone probably accounts for most of the reasons why power-struggles emerge and why falling-outs ensue.

All you need to add to is some differences in values, three acts that may seem hostile, two jokes that went wrong and one annoying habit and a pinch of stress and you have a recipe for disaster.

Do: plan on having a serious discussion about sharing of duties, responsibilities, information and power. You must go through scenarios and discuss how each of you is accustomed to being involved. For example, hiring or firing of employees – and set the rules of the game in advance. A good rule of thumb is to provide constant feedback to each other, at least once a week, so the topics stay fresh and no items linger, begin to bottle-up or fester.

If you think this is like marriage counseling – you are on the right track.

Don't: let the sharing of power discourage you from moving forward with hiring a CEO. While it is one of the hardest things to go through and experience – it can also provide the very support you seek. When setting the responsibilities the correct way, and allowing two forces of nature in the company to advance – you get an amplification effect. Alternatively, if the two forces of nature are colliding, and interfering with each other's paths – you get a cancellation effect. Thus, it is important to provide a meaningful role for the founder so their value to the organization still keeps them relevant.

Consideration 10 – What should the founder's role be after the new CEO begins? How do you message that to the employees, management, customers and the market?

If you and the new CEO have taken the time to share your expectations – you ought to have made some artificial boundaries for you already. For example, a technical founder may assume the Chief Product Officer role to keep the spark, innovation and roadmap of the product. The founder ought to keep providing the approval for the product direction – as being its first user and holding the vision. The CEO assumes responsibility over the entire company and over all employees and the founder must respect that. As the founder wears many hats, it is difficult for employees to always discern which hat the founder is wearing when they make a statement…

For example, a founder may make the comment "I think our bookings should be counted a different way…" An employee in finance assumed that you are an officer of the company, you know what you are talking about, and that you MUST HAVE discussed it with the CEO – ergo, this change should be made ASAP…

When the CEO sees a new report with a new booking definition – they will raise the question "why?" The answer the CEO gets is… you guessed it! You can see how this can lead to a drama at high noon.

Founder and CEO must adopt this metaphor to be successful – they ought to be dancing like two hedgehogs… very gently and slowly (so they don't prick each other). To maximize success, it is best to have all employees, including the founder/s report to the CEO.

To employees, the message should be crisp and simple: the founder is staying in the company, keeping an active/operational role, might be the "face of the company" for PR, report to the CEO as a member of e-staff and will be a driving force for the company. At the same time, any company has one, and only one leader at any given point and that job is filled by the CEO.

The market will follow the lead of the messaging that comes from the company – good news or bad, the market always knows if a company is on the up and up, or not.

Do: make sure that the new role you take is satisfactory and allows you to shine and add tremendous value to the company. Done right, a founder can dedicate more of their time to the product then when they had to also run the company. If the founder is technical and is a respected authority in their industry – they ought to remain the face of the company or a figure head to keep the vision and direction in public. Remember to "make room" for the CEO and not overstep your role "in front of the children."

Don't: expect to run half of the company if now there are two "top dogs"… that is not how it works and probably not the best way to divide and conquer. You must realize your strengths, and what role/s can you serve for the company to maximize your value. Also, what you do for the company when the CEO joins may not be what you will be asked to do after six months, when the new strategy and plans are drawn. Expect to contribute, add value and support the CEO knowing that the exact role and responsibility may shift on you, over time.

Consideration 11 – How long should you give the CEO before you even consider the hire a mistake?

That depends.

Usually, any new employee in the company needs to go through 90 days to get fully oriented. The first 90 days for the CEO will let them assess the situation on the ground. Afterwards, they will declare their new strategy and plans to employees, management and the board.

If the strategy and plans drawn by the CEO are not hitting the mark, regardless of any issues with the founder, they may not get the support of the management and board. If any issues surfaced in this time period between the founder and CEO, they should be mostly resolved by now if both parties are behaving like partners and make concessions.

If after six months, tensions rise, the management team is divided, morale is down, sales are down and people begin leaving the office at 5pm pronto – you should read this as a big red flag.

Fact of the matter is, that after 90 days, you can already begin to see if the company's main KPIs are tracking generally up or down and you have a sense of what's to come. Some of these KPIs are sales, morale, sense of unity and direction, camaraderie, how late people stay after 5pm etc.

However, it is too early to neither tell nor make a good data-driven decision.

Do: allow for time to take its course, and be positive no matter what – the alternative is not going to help you. Consider talking to your support group, mentors and other peers on what you experience to gain their perspective.

Don't: chat about your CEO issues with the management team. If you experience a rough patch – it will most likely backfire and there is no turning back. To management, you must remain chipper, positive and adopt an attitude of "this too shall pass, and give the CEO a chance."

Consideration 12 – When, why and who gets to decide if the hiring decision was bad, and if the new CEO must go?

As to when, it should not be before six months from the day of hire, per Consideration 11. Clearly, most signs will be apparent to you, the management team and the board during this time.

In some extreme cases, CEOs and founders do not last even the first ninety days, also referred to the "Honeymoon Period." Yet, the key thing to consider is that if the issues/rifts are salvageable, then you must get on a plan to correct it, and assign a board member or two to moderate the process.

Changing CEOs is not for the faint of heart, and should be the option of last resort.

However, if the issues/rifts are cutting down to the fabric of who the two individuals are (usually it stems from their values not being aligned) – then there is no process, plan, amount of time or will to fix it. This also means that the hiring process was done either in heist or out of lack of options and clearly skipped some steps pertaining to the matching of the two individuals as partners.

The board must recognize this <u>as soon as possible</u> and be on a corrective plan to either patch the rifts or begin a transition process. If the board adopts a "wait and see" attitude there is a real risk of losing the company as a result. Why? Because people do not leave companies - they leave bosses they don't respect. As the rifts linger - the company is divided into cliques and camps. This drains the energy, creative force and morale of everyone. Soon, talent begins an exodus that can cost the company dearly. Yet the reason you can lose the company altogether is that by the time you begin fixing the problem, you are left with a team that may not be hopeful, may feel "abandoned" by their management and board. In their minds they are asking "why did you let this linger?" By then, much of the critical talent has been long gone. At that point, even if you bring Mr. Jack Welch to run the company, he has few cards to play with, and the competitors will use it against you and the market will not hold out. This is the case of doing “too little too late.”

Ultimately, it is a board’s decision to hire and fire the CEO based on performance. Most founders are on the boards of their companies, yet cannot and should not make this decision alone. If and when there is no other alternative and the board needs to “bite the bullet” – they must act swiftly and deliberately in the transition and provide mental support for those who are still onboard – employees, management and the founder.

When a CEO/founder relationship does not work out, you will be surprised that board members will tell you that “they could see this from a mile…” or “they knew this was not going to work, but were hoping things will improve…” The lesson here is that after the fact, ALL board members ALWAYS say that they should have acted SOONER. They should have not waited nor developed a “hope strategy.” By waiting, you delay the inevitable, and you only lose more time, money, talent and angst.

The rule of thumb here is, if it works, it works, it works and if it doesn’t, it doesn’t it doesn’t. If after six months you do not see harmony, creativity, laughter, people staying after hours, sense of unity, camaraderie and sales traction… chances are you have not paired up the right CEO with the founder.

Do: make every reasonable effort to make it work, as the switching of the guards is not an easy process and it whip-saws the organization. Try to provide feedback on good things and bad on a weekly basis to avoid issues festering. Your job as a founder is to make sure the baby gets to crawl, walk and run – and you are as responsible for the success as the CEO.

Don’t: wait and adopt a “hope strategy” or be in “wait and see” mode after you realized that this is not going to work. If enough time has passed, and all efforts have been made to rectify the issues – begin to discuss your transition options. Fear in the boardroom and management can take over the decision making process. It is usually led by thoughts about “how will competitors use this against us”, “what will the industry analysts write?” and so on. If you are a going concern company, and you will be in business in the future, no one will remember nor care about it later. Does anyone still care about the CEO drama at Apple from in 1985? Does anyone still care about the CEO drama at [fill in the blank] from years ago?

Companies move on, as a bump in the road is not the end of the road.

In Conclusion

Hiring a CEO is both a challenge and an opportunity and should be executed only when the conditions are right. A founder should consider hiring a professional CEO when they feel that more “fire power” is needed at the top, in order to grow the company.

Taking advice from your inner-circle and being true to yourself are key parts of making this decision. It should not be done in haste, nor be executed in a rush – as only fools rush in.

While letting go and sharing of power are extremely hard to do – the benefits and rewards for a smooth executions are worthwhile. In nature, when two radio signals are transmitted at the same time, there are only two options: they either amplify each other’s signal, or they cancel each other’s signal. The same goes with the founder and the CEO – they must find a way to “make room” for each other and divide and conquer such that the net result is amplification.

About the Author

Mr. Eisen is the founder of The 41st Parameter. He has spent the last fifteen years in the information technology industry, and is respected for his business knowledge and leadership. His background includes an in-depth application of innovative solutions for preventing business to consumer e-commerce fraud.

Mr. Eisen has an extensive background in developing system infrastructure and implemented solutions, and he is highly regarded in the information and payment technologies industry as a noted leader and technology innovator. Based on this reputation Mr. Eisen is often quoted by industry insiders, and receives numerous invitations to appear as a keynote speaker for industry events and conferences.