Inside the C-Suite

Preparing for a Recovering Economy

By Edward A. Lopit

In Brief:

- **Assembling a high quality executive team is a CEO's top priority.** This is critical today and will be vital as the economy recovers and new opportunities emerge.
- **Finding high quality talent is a challenge.** The pool of skilled managers and executives is constricting at a time when the need is increasing.
- **Traditional models for building executive teams are not getting the job done**. A majority of CEOs lack the executive horsepower needed to reach their goals.
- **CEOs need to challenge the status quo.** Those who stick with outmoded strategies will be at a severe disadvantage – elevating the risk of stagnation, lost opportunities, and failure.
- **It's time to prepare for a recovering economy.** CEOs that do the best job securing needed skills and experience in this changing and highly competitive environment will reap huge benefits as the economy recovers.

The popular conception of a CEO is similar in many ways to the idealized image of a sea captain: A solitary individual standing alone, eyes steadfast on the horizon, a strong hand on the tiller guiding the way, confident, calm, and in full control even in heavy seas.

The reality is usually very different. I've worked with many CEOs and the first thing they concede is that they can't do it alone. Navigating to success requires access to a broad tool kit of skills, experience and expertise. They need a crew to share the load and bring capabilities to complement their own. In the business world, that crew is the leadership team. How a CEO constructs that team is absolutely essential to the company's health. Tending to this team is a priority for any CEO, especially during the "heavy seas" of today's challenging economy.

According to the 2008 IBM Global Human Capital Study, over 75% of respondents identified building leadership talent as their current and most significant capabilities challenge. With an improved economy on the horizon it's an even greater issue today. As organizations prepare for the promise of growth the need for high quality executive talent is only going to increase.

Despite high overall unemployment, businesses are finding management and executive roles notoriously hard to fill. This trend promises to continue. According to PricewaterhouseCoopers, 29% of executives become eligible for retirement between 2009 and 2014. As this exodus plays out, the available executive talent pool constricts.

Another growing trend is the number of executives who are shunning the full-time employment track to offer their services on a contract basis in the open market. A study by MBO partners indicates there are more than 10 million independent experts in the U.S. today. The shift from employee to independent is expected to swell in the coming years as individuals with much needed experience and skills chart this new course.

These indicators point to a situation where availability of skilled managers and executives to fill senior level corporate positions is diminishing at exactly the time it is needed most. Accessing these critically needed resources will be no easy task.

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The 2011 motion picture *Moneyball* highlighted a common lament among baseball fans (at least those who weren't fans of the New York Yankees). New York could use its astonishingly deep pockets to simply out-bid other teams for top talent. Less wealthy teams, such as the Oakland A's, struggled to keep pace in a system where the odds were stacked against them. Like many CEOs today, if Oakland was to compete they would need to break with tradition and try something new.

Enter Peter Brand, whose skill with statistics was complimented by General Manager Billy Beane's need for a way to turn the odds on the casino. Together they developed a new paradigm for assessing talent that radically challenged the traditional approach used in baseball for the past hundred years. Acquiring superstars was no longer a prerequisite. In their model they found huge upside in players traditional scouts had written off because of the unique contribution each could make within their new model.

The rest is history. Oakland assembled a playoff-caliber team that would win a record-setting twenty consecutive games with a budget one-third that of the Yankees. In doing so Oakland changed forever the way baseball teams evaluated and secured talent. What – for Oakland – had been a direction taken out of desperation, was subsequently adapted as a mainstream strategy for baseball in the 21st century.

So, what can CEOs preparing for a recovering economy learn from Billy Beane and *Moneyball* logic?

In my many conversations with CEOs, I've seen how vested they are in their leadership structure. They compete to fill open positions with high quality talent. They build programs to develop needed skills from within. Yet a majority express concerns that the teams they've assembled lack what is needed to reach the goals they envision for the company.

For these CEOs the traditional approach isn't working. Yet, there is a natural reluctance to change established ways of doing things. Often, in fact, it is only when they are directly faced with near-certain failure (similar to the situation with Oakland) that the required level of urgency to challenge the status quo will be reached.

As the economy recovers the demand for executive skills, expertise, and experience will surge. Competition for needed talent will become intense. CEOs chained to traditional organizational models risk making the same mistake as the old-school baseball purists. And, unless they are the New York Yankees of business, they will be competing from a position of weakness.

"The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic." *– Peter Drucker*

Competition for the talent that will be needed to capitalize on a recovering economy will be fierce. Success for many CEOs will be dependent upon an ability and willingness to break with tradition. New and innovative models for acquiring needed skills and experience will be required if they are to effectively compete.

For CEOs sensing the need to change the time to prepare is now. Begin by taking the following steps:

1. **Assess your current "performance readiness":**

    a. **Make certain your goals are clear –** Chart a course for where the business will be two to three years from now, given the market opportunity and objectives of owners.
    b. **Clarify what it will take to get there -** Challenge the existing formula for achieving success in your situation. Spell out the critical outcomes needed to accomplish your goals. Define the strategies needed to deliver these outcomes.
    c. **Take stock of the tools you have at your disposal -** Can your team execute your strategy? Do you have strategic thinkers who will anticipate and effectively address the challenges inherent with pursuing your mission? Do you have individuals with the business acumen necessary to adequately deal with the financial, operational and cultural aspects of running your business? Can they construct the operational and technological road maps necessary to achieve your objectives? Are they able to execute plans in a timely and high quality manner? Do they possess experience in dealing with the challenges you will face or are you betting they can "learn on the go"? Do you and members of the team possess the capacity needed to get everything done?

2. **Develop a "model" for acquiring talent that is customized to your specific needs:**

    a. **"Every Day Players" versus "Role Players".** As I've met with CEOs, there is broad consensus among the majority that their Executive Team can run the business. Taking on strategic imperatives needed to pursue their visions – such as spearheading expansion or rapid growth, driving a turnaround, or preparing the organization for infrequent events such as an acquisition – are a different matter. A CEO needs access to all the tools needed for the job at hand. Executive Teams should be supplemented with the addition of Role Players (independent experts) if needed. Consultants are great fits for addressing things the company does infrequently or not at all (such as training, special analysis and process redesign). In contrast to the consultant, interim executives can address needs the company would typically be assigning to a full-time member of the team. Their advantage lies in having unique experience and/or skills that allow them to do tasks faster and better. They can also bring capacity that doesn't currently exist within the firm as others are consumed with day to day challenges. In addition, both consultants and interim executives can bring fresh perspective and a willingness to challenge the status quo that may be lacking from Everyday Players.

b. **"Permanent" versus "Interim"**. Not all business needs are permanent and new models must reflect this reality. While the concept of lifetime employment was a worthy goal in the 20th century it is sadly outdated. An exceptionally long career at any one company has become relatively rare. It's not at all unusual these days for an executive to spend no more than two or three years in a job. Whether services are retained as an employee or independent the term and structure of the relationship must effectively align with the duration of the organizational need.

c. **"Full-time" versus "Part-time"**. Traditional models rely heavily on utilization of full-time resources. Given the expanding number of executives pursuing independent careers, new models need to incorporate best-fit strategies given both current and long-term needs. The contribution of part-time resources should not be undervalued. These resources can bring significantly greater horsepower and deliver more than a full-time resource with less skills and experience. While the up-front rate may be higher, a part-time heavy hitter can very often do it better and in less time to deliver a significantly higher ROI.

d. **"W2" versus "1099"**. New models must be able to incorporate W2 (Employee) and 1099 (Independent) contractual formats. The approach should be dictated by circumstance rather than familiarity. A comparison of the some of the key differences includes:

	W2	1099
Form	• Statutory • May also include separate employment, collective bargaining, intellectual property, non competition or other contractual forms	• Contractual
Pricing	• Components are base pay, bonus, and equity • Significant hidden costs are borne by business (benefits, payroll taxes, time off, insurance, etc.). For apples to apples comparison with 1099 pricing these must be added back in	• Structured as fee for services (fixed, hourly, or incentive based) plus expenses • Contractor assumes cost of benefits, payroll taxes, time off, insurance, etc. For apples to apples comparison with W2 these must be subtracted out
Term	• Term is "at will" - either party can break the relationship with no liability, provided there was no express contract for a definite term or collective bargaining arrangement	• Term is defined by contract and typically includes provisions defining how the arrangement can be cancelled

e. **When incorporating outside talent (employees or independents) models must be prepared to address transitional challenges**. In a comprehensive series of CEO interviews I conducted last year, common comments included, "*We have found it very* *difficult to bring in people from outside and have them fit well into our culture*." Without question, bringing in someone "from the outside" means having to deal with such factors as cultural fit, the ramp-up time to productivity, dealing with resistance to change, logistics (such as office space availability) and, of course, capital constraints. These issues will need to be addressed regardless of whether the resource is secured as an employee, consultant or interim executive. But in the same set of interviews, those who had boldly moved forward noted it was entirely worthwhile. Typical comments from these CEOs: "*Bringing in the new guys brings us fresh outlooks and new perspectives*." And, "*Hires from outside bring in new ideas and help us in areas where we don't have the expertise on staff*."

Conclusion

Successful CEOs know they can't do it alone. Profitability, growth – even *survival* in today's economy – requires the combined efforts of trusted, insightful, experienced and talented individuals they can rely on to get the job done.

As CEOs prepare to respond to the opportunities presented by a recovering economy the challenge of assembling an effective leadership team will be tougher than ever to achieve. Large numbers of talented individuals are retiring, or pursuing alternative career paths decreasing supply just as demand is increasing.

More important, the rules have changed. CEOs who cling to 20th century organizational paradigms in today's era risk being left behind as their progressive peers adopt more nimble, flexible and effective approaches to drive growth and performance. Winners in the recovering economy will be those individuals who do the best job of securing the crew they need to navigate their organization to success. The time to prepare is now.

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