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WHEN SHOULD YOU HIRE AN INTERIM EXECUTIVE?

By Bennett E. McClellan with Sumeet Goel

OVERVIEW

Getting good help represents a Board-level headache. Reading the financial press, it may seem that CXOs come and go with the frequency of jetliners at O'Hare International. While executive churn does not merit that comparison, C-suite turnover is commonplace, with a new wave of executive musical chairs ensuing after the 2008 recession.

Many reasons can lead to job vacancies. Someone gets a better position. Someone gets caught with his or her hands in the wrong places. Someone decides to found his or her own company. Someone was hired to do one job, but the company's needs changed. Someone goes to sleep - or worse - on the job.

As a result, boards and private equity owners may find themselves scrambling to fill key management positions. The question they face is how to bridge the interim period most effectively.

- Do you just leave the position open until you find a suitable outside candidate to fill it?
- Do you name an insider as the interim executive or distribute responsibilities around the existing management team?
- Do you elevate an insider to the CXO position in lieu of seeking an outside candidate?
- Or do you get an Interim Executive (IE) to fill the gap?

In this article, *InSights* talks with Sumeet Goel, founder of HighPoint Associates (HPA), to explore the question of how best to use IEs to address short-term C-level needs. Goel has placed dozens of HPA senior professionals in interim positions. He sees such placements not as an alternative to executive search, but as a way to make such searches more effective.

RENT-AN-EXEC OR INVITE-A-WRECK?

Goel comments, "Whenever someone calls me about an Interim Executive, it's never a matter of stasis. There is already a problem." He estimates that 90% of the IE inquiries he receives originate from board members or from the private equity owners of a company. The other 10% come from CEOs or other executives. Typically, the overseers articulate the need for interim help before management reaches that conclusion. Senior executives may not want to confront high-level personnel issues.

Rather than respond to such inquiries by offering up resumes, Goel tries to understand the need. "I ask them, what happened? Why did the last person leave? Have they gone or are they going? Is this an emergency or just a crisis? Have you started a search or are you still thinking about it?" Goel insists that it is crucial to understand the causes of the vacancy before considering likely IE candidates.

Sometimes people are looking to kick the tires to test whether an IE might work in their situation. They may be trying to expand their talent pool or they may be setting the stage to replace a non-performing executive. Sometimes the inquirer does not know where they stand in the process of removing an incumbent, determining the need for different talent, or recruiting a permanent executive for an existing vacancy.

Goel says, "Until I know where they are in the process, it's hard to determine if an Interim Executive will help them or get them into a bigger mess."

WHEN SHOULD COMPANIES HIRE INTERIM EXECUTIVES?

Goel suggests that there are a number of situations where it makes sense for companies to engage IEs. He describes five specific situations.

The first situation is one where there is an **immediate, unanticipated need**. An executive leaves their post or is pushed from their position. The company needs

someone to keep things going. Most people who have hired senior executives realize that it takes six months to a year to find a great candidate. In the meantime, they need the company to stay focused on serving customers and delivering results. An IE can help a company stay focused on the task at hand.

The second situation is when there is an **undetermined need**. The company has grown rapidly. They may not have had a certain kind of executive previously, but now they need one. Or they think they need one, but are not sure. For example, through their growth stage the company relied on a CIO to handle all technology matters. The company has achieved a scale where they see the need for a CIO to focus on infrastructure and a CTO to support business expansion. Do they really need a CTO? An IE can help test the need and flesh out the job spec.

The third situation is when there is a **change of direction**: up, down or sideways. This situation happens often during economic turmoil. The company expected rapid growth. They hired sales and marketing-oriented executives. The growth did not materialize. Now they need operations and efficiency-oriented executives. An IE can help start the change process.

The fourth situation is when a **short-term resource need** emerges that cannot be handled by insiders. Such IE roles typically involve corporate development, project management, or strategic direction. Management may not know what they need, but they know they have an immediate demand for some additional executive skills. An IE can provide that high-level or unique skill set for three to six months.

The fifth situation is when the **IE might turn into the permanent hire**. One might consider this a "lease with option to buy" arrangement. It is on-the-job vetting. The IE takes on the assignment specifically with the understanding that if she or he does the job, then the posting can become permanent.

ARE INTERIM EXECUTIVES JUST PLACEHOLDERS OR CAN THEY DO SOME GOOD?

Goel suggests that companies should not hire Interim Executives simply as placeholders. Rather, IEs should be held responsible for a defined, short-term set of deliverables.

He says, "The good thing about Interim Executives is that they have been there, done that, in the role. They may not have worked in that industry, but they have worked as a CFO, CIO, or as a COO. They know the role. And for many of them, they've done it more than once. They are comfortable going in on an interim basis in order to get things done." Accordingly, companies should expect IEs to deliver results.

WHAT DELIVERABLES SHOULD YOU EXPECT WHEN YOU HIRE AN IE?

Goel says that the first thing to expect from an IE is proof of domain competence. IEs should not have an agenda with respect to title, benefits, or office location. Instead, competent IEs dig into the foundational issues at a granular level.

Assume a company needs an interim CFO. Goel says, "The IE's questions should be around, what accounting software do you use? What kind of consolidation are you doing? How often? Are all your plants and divisions using the same systems or are they on different systems? What HR reporting do you do? Is the finance staff located centrally or with the business units?"

While such questions may seem too nitty-gritty, Goel comments, "The Interim Executive has a different set of questions. They have developed a battery of probes that allow them to get into the role quickly and to show them where they need to go first."

Goel suggests that when someone approaches the IE role in this manner, it does not matter if the company is making dishes or diodes. The IE will arrive on the job knowing 80% of what they need to know to get started. The first week on the job is not about solving all the

problems. The first week is about getting problem-solving rolling. Goel asserts, "Competent IEs don't waste time on the learning curve."

1) Put Out Fires

Companies should expect IEs to put out fires. Many of these short-term needs are identified as part of the IE vetting process.

Goel comments, "In answering the foundational questions, you also tease out the things that need to be done in the first ninety days. The reason you are engaging an Interim Executive is because there is a need for change. What's causing the waters to roil? What needs to change? What can't you address short-term?"

That kind of discussion does not necessarily generate a road map. It does tend to identify the three or four key issues the IE must address. The IE is only going to be in the role three to six months. What has to happen in that time? These are the fires.

2) Find Whatever Is Starting Fires

Companies should expect IEs to look beyond the fires to what might be causing them. An IE brings both experience and objectivity to the interim role. As an outsider, they do not have the burden of needing to justify "the way we do things around here." Once an IE gets the immediate situation under control, s/he should ask a lot of "why?" questions. When the answers don't make sense, the IE needs to bring those issues forward. There is not a lot of value in having someone who can put out fires when you have a house full of fire-starters.

3) Get Basic Things Fixed

Companies should expect IEs to initiate projects that help the company move past firefighting. These are the things that typically must be done regardless of who is selected for the post. Depending on the nature of the project, it might make sense for the IE to launch these initiatives so things are moving when the permanent hire arrives.

Alternatively, the IE might decide to hold off on launching the project given the time involved and the nature of the choices. In those cases, the IE can fully explore the need and generate a set of options for the permanent hire. What can be done in three months? What will take longer? What resources will be required?

4) Set Up Strategic Conversations

Since IEs are typically seasoned executives or consultants, companies should expect them to look across functions to help frame the longer-term strategic conversation. Solutions to strategic issues are somewhat personality-dependent. This is particularly true when decisions involve C-level decision makers. Accordingly, it may not be appropriate for the IE to make, or even advocate for, certain kinds of decisions. But an IE can at least say, "These decisions need to be made. You need to decide about this because..."

5) Calm The Team

Companies should expect the IE to stabilize the support team. Typically when an executive leaves, the cadre of people working for that executive gets nervous. Further, having an IE arrive at a company also creates ripples. Unless the IE has actually been brought in to clean house, the IE needs to calm the team down. The company needs a realistic view of the skills and capabilities of the remaining staff. There is still a job to be done. The IE can refocus the team on that job.

6) Retain The Stars

The IE can also perform a job related to calming the team by spotting and helping to retain the stars. Typically permanent executives hire their own key people. Some of those people may leave when the executive leaves, but some may want to stay. The IE needs to find high performers quickly, identify them to the management group, and make best efforts to retain them as resources for the company.

7) Hand Over The Reins

Finally, companies should expect IEs to wrap up their work in an orderly manner. IEs need to prepare a hand-off package for the permanent hire. They need to state what they have done and what they have left undone. They need to brief the incoming executive or management team on the initiatives underway, why they were undertaken, who their sponsors are, and when they are expected to be complete.

Goel comments, "The to-be-exec going through the interview process gets a lot more excited about the job when there's an Interim Executive in place."

Really?

Goel continues, "Let's say a CTO is interviewing for the job. She's interviewing with the CEO, she's interviewing with the CFO, she's interviewing with the corporate general counsel. None of those people knows anything about the actual job. They know what they need. They do not know what that person does. Then she starts talking with the interim CTO. You see this sudden change in the direction of the questions. It moves from 'What do you need to know to hire me?' to, 'What should I be concerned about in this company and what's being done to address those issues?' The tone of the conversation moves from negotiation to collaboration."

The to-be-executive sees the Interim Executive as an objective, non-threatening source of vital information. The IE's job is clear and their tenure limited. The to-be-executive's job is still being defined and their situation is fraught with unknowns. The IE has no political agenda. Since an IE is hired to deal with turmoil, they can provide the incoming executive with precise, actionable information.

Goel says, "It's amazing how excited C-level candidates get, and how much easier it is to hire a highly talented, permanent employee once they realize they are talking with a peer who can give them an honest, objective inside view of the challenges."

CAUTION: DON'T LET YOUR IE DO THIS!

Companies should expect certain deliverables from an IE. They should also expect an IE to avoid taking certain actions. What actions should an IE avoid?

Goel says, "The first thing Interim Executives need to avoid is becoming too comfortable in the role." IE assignments are generally designed as short-term jobs. But sometimes the assignments go longer. Goel explains, "An IE has their most impact in the first three to six months. After that, their efficacy as an outsider, as an agent of change, diminishes rapidly. They become a member of management, a member of the board." IEs lose efficacy when people start seeing them as "one of us."

A related caution is that IEs should not get too close to members of the existing management team. The IEs must maintain their distance to act effectively in the role of trusted outsider. The IE should not form golfing relationships with the permanent employees. When IEs get too close to the permanent management team, there is a danger that the IE will lose his or her objectivity. Goel comments, "When you start thinking like management, bad habits start creeping in."

An IE should not assume that because they perform in the role, they actually have the job. Goel relates the story of one executive who was hired in the role of Interim COO. "That assignment got extended to the point where the 'Interim' was no longer in his title. He acted like he was the COO. The company treated him like he was the COO. But the company still had a search on for a permanent COO. When that person was hired, the Interim Exec said, 'What do you mean? I'm the COO.' And the company said, 'No. You're not.' He got hurt."

An IE should never lose sight of the fact that s/he's a guest in the house. They need to deliver on their charter, but avoid assuming that assignment gives them license to do more. The IE is not entitled to make decisions if they do not have the title.

Goel comments, "We had an assignment where the IE was trying to do more than the company wanted. This

was a family-owned business. The Interim's evaluation was right, but he misjudged his authority - not his ability - but his authority. The IE needs to remember that when you are trying to re-direct the activities of people who have broken bread with the CEO for the last 20 years, you are not family. You are a guest."

Goel summarizes, "The reason an IE is brought into a company is because they favor no side. They only have one job to do. Their job is to change things. If the company had wanted more of the same, they would have kept the person they had. The IE needs to do the job they were hired to do. When that's done, they need to leave."

HOW CAN INTERIM EXECUTIVES SMOOTH THE PATH FOR THE PERMANENT HIRE?

An Interim Executive can deliver good value for money in the short term. How do they pass on that value without interfering with the permanent hire's prerogatives? Goel suggests the following guidelines for handing back responsibility:

- Be clear from the beginning about length of assignment. "This is an interim role. It has a fixed term. It has a high cost. The objective is to get change going, not maintain a course. I'm happy to have served as a bridge. The time has come to go."
- Deliver the standard situation briefing. "I have no pride of ownership. You may want to continue or unwind these things. Here's what I found. Here's what I did. Here's why I did it. And here's where the projects are today."
- Have the behind-closed-doors conversation about staff. "Let me tell you about the team you are inheriting. Who are the stars, who are the bread and butter workers, and who would be better off employed somewhere else. I've worked with these people for the last six months. You are going to meet them for the first time today. Here's some information you may find useful for deciding how they can play on your team."

- Lay out your part of the strategic road map. “Here are the larger issues I see. Here’s what’s going on across the company. Here’s what we have been doing to address those issues. Here’s what else I think needs to be done and here’s why.”
- Set the boundaries. “You want to have a clear hand off of responsibility. Some incoming executives want the clean break. ‘Got it. Thank you. Good-bye.’ Other executives want an extended contact period. ‘So maybe we can set up a weekly lunch?’ There needs to be a clear break to maintain clear responsibility. The IE may offer to be available for a week for further questions. After that, they’re not available.”

A TALE OF TWO COMPANIES

In closing the discussion, Goel relates the stories of two companies that used Interim Executives to create lasting results.

The first company was a lower mid-market, private equity-owned software company. The PE partner called to ask for someone who might step into a CEO role. The current CEO had laid out some very ambitious growth plans. The owners had bought into the plans. The CEO had not been able to deliver the planned results and he was going to go elsewhere.

The owners said they did not know all of the ins and outs of the business, or what the business was really capable of delivering. They could not just start firing people and go on a search. They wanted to bring someone in as an interim Chief of Staff. The person would need to really know the transaction side of the e-commerce space, be able to ride along with the CEO for a month, and come up with a proposal on how he or she might turn the company around.

Goel says, “We dropped an IE in there. He spent a few weeks working, met with the board, and he says ‘I see what your problems are. I’ve done this before. Here’s what I would suggest.’ It was more of a Chief-of-Staff slash consulting assignment.”

The PE partner loved what was proposed. Goel continues, “The partner asked our IE, ‘Do you want to do it? Do you want to be the interim CEO?’ He jumped in as interim CEO, executed on the plan he had laid out, and turned the company around. The PE firm started the search for a full-time CEO. About four months into it, the partner came back and said, ‘Do you want to be permanent CEO?’ They canceled the search. The company has done well. Our guy is happy as CEO. It’s been a win-win all around.”

Goel recaps, “The assignment allowed for a smooth CEO transition. The board got to know our IE. Our IE got to see if he could turn the company around, and got to know if the board would support him.”

Goel relates the second story. “There was a large health-care company. It was having a lot of problems on the technology infrastructure side. They asked one of our consultants who had been an interim CIO multiple times, to do a quick diagnostic.

“Thirty days later, he came back and said, ‘Here’s what’s fallen off. Here’s what you have to do differently. And your current CIO is unlikely to be able to do this.’ These are never surprises to the CEO. The CIO has been hoping that we would point the finger at the vendors, but the finger needs to be pointed at him. The CIO needed to go.

“The CEO said ‘I agree. And by the way, while we are looking for his replacement, will you serve as interim CIO?’”

Goel says, “Our consultant jumped on board. He got all the things fixed that were broken and a bunch of other infrastructure issues solved and resolved. He got rid of all the ‘golf course’ deals that the former CIO had struck with outside vendors. Within six months the company had found a new CIO. The permanent hire was able to quickly transition in and it worked extremely well.”

Goel notes, “Again, that transition was exactly as we discussed it. The CIO had his own team he intended to bring in. And the interim CIO was able to say to him, ‘I know you are going to want your own right-hand person, but you have a really exceptional one here. By the way, everybody’s looking for new jobs. I’ve not

made any promises, but I told them I'm going to put my best foot forward on their behalf because they are really good and you would do yourself a favor by cultivating them."

Both of these examples illustrate the principles Goel suggests should govern a successful Interim Executive assignment. In the end, he wants clients to love what their Interim Executives do, but maintain the distance needed to enable them to fulfill their purposes and then let them go.

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SUMEET GOEL is the founder of HighPoint Associates. Prior to founding HPA in 2001, he was Vice President of Strategy & Business Development for Digital Media Campus, an early stage venture firm for the media & entertainment industries. Before that, he served dozens of clients across industry and functional sectors as an Engagement Manager with McKinsey & Company, both in their New York and Los Angeles offices. Sumeet holds an MBA from Harvard Business School and a BS from the Wharton School of Business.

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