PERSPECTIVES FROM THE FRONT LINES

Jay Rosenzweig, Founding Partner of Rosenzweig & Company, Provides Insight Into How to Add Best In-Class Talent

In the following interview, Jay Rosenzweig, founding partner of Rosenzweig & Company, discusses the common mistakes companies face when attempting to beef up their executive ranks. He describes his real life experiences and uses those lessons learned to outline best practices for adding talent. He also pinpoints important skill sets needed for 21st century leadership. He then provides some critical advice to young entrepreneurs who want to build great companies in the dog-eat-dog world of start-ups and venture capital.

Mr. Rosenzweig consults to a wide range of public and private companies including large global corporations; small to medium-cap businesses; and private equity and venture capital firms in the development of world-class leadership teams and boards. He offers deep cross-functional and cross-sector experience, with a track record of having successfully recruited general managers, "C" level executives, and professional services partners for his broad client base. Mr. Rosenzweig founded his firm after many years in the search business, beginning in research, and progressing to partner-level roles both in boutique and global, public firm environments. Prior to joining the search industry, he was in the field of law, which included exposure to corporate/commercial litigation, criminal defense, and human rights work.

What are the common mistakes growing companies face when it comes to beefing up their executive ranks?

One of the paradoxes regarding start-ups is that they typically benefit from having a hard-driving, entrepreneurial leader – a person with enough ego to launch a new venture, often against real odds. When they start to succeed, this only tends to reinforce their self-image. In reality, at some point the leader of a successful, growing company typically has to accept the fact that he or she can't do everything – they need to learn to check their ego at the door and see that the ability to accept help is a strength, not a weakness.

This is not a new phenomenon. I grew up in Montreal, home of one of Canada's iconic home-grown technology companies, CAE. The company was founded in 1947 by a brilliant engineer, Ken Patrick, who saw a future in electronics. The company achieved some modest product success early on, but lacked both capital and managerial skills. In the early 1950's two young lawyers, Fraser Elliott and Heward Stikeman, became aware of the fledgling firm, thought it had promise and decided to invest. They soon realised that Patrick, while a good engineer, lacked the general management capabilities to make the firm successful. They had the good sense to raise the issue with Ken Patrick and he – albeit reluctantly – finally agreed that a new CEO was needed. As we all know, the company went on to become the world leader in flight simulation, and Mr. Elliott and Mr. Stikeman, in addition to founding a pretty successful law firm at around the same time, reaped financial rewards a thousand times greater than their initial investment.

One common mistake companies make is simply waiting too late to add needed executive talent. If a company is perceived as having crossed a point of no return, where the odds of turning things around are overwhelming, it can be impossible to find a candidate. After all, you want someone who has excellent business judgment – and that same excellent judgment may signal to the individual that he or she is looking at a lost cause.

I had the privilege of doing some search work for a great venture capital firm a number of years ago. I had placed three CEO's at the firm's companies with success. Out of the blue they called me one day with what I can only describe as a colossal challenge – they had a $10 million company on the verge of bankruptcy. The banks wouldn't lend any more money and they needed to have a new, credible CEO within a week, someone who could come up with a road map to recovery.

Oh, and by the way, because the company, a contract manufacturer, was broke, they couldn't really afford search fees. In short, they were looking for a savior, a serial entrepreneur with a track-record of turnarounds.

Obviously because I am telling this story now, it all worked out. Thanks to the type of deep, advanced research we do, we did have a candidate... and he did take the job. After a few weeks he was able to secure a second source of funding; within nine months things were turned around; and after two years the firm was successfully and profitably sold. But my advice is to not try this trick at home – it is best to find talent in anticipation of need, not in response to need.

It is also important to remember that every situation is unique. Think about Apple. The company's co-founder, Steve Jobs, was by 1985 problematic in the eyes of some on the board. So they replaced him with John Sculley, the head of PepsiCo, thinking that Sculley's marketing background was what Apple now needed. By the early 1990's this was clearly seen to have been a mistake of the first order – and Jobs, rough edges and all, was brought back.

On the other hand, at about the same time, IBM was struggling, facing catastrophic market share erosion and multi-billion dollar loses. The board let the CEO, John Akers, go – and brought in a former McKinsey partner who admitted all he knew about technology was as a customer while heading up American Express and RJR Nabisco.

My point is that there are no cookie-cutter approaches here. Each situation has to be assessed taking into account the company's culture, immediate and long-term needs and tolerance for change.

What are best practices in terms of adding talent? Who does a good job of it?

I suppose if I were to pick one company that hit a home run in terms of talent acquisition, it would have to be Ford with the hiring of Alan Mulally from Boeing. What makes this example so relevant to our topic today – forgetting for a moment that Ford is huge and over 100 years old – is that Billy Ford, who was CEO and board chair, as well as great-grandson of the founder – had the good sense and humility to realise that he could not save the company on his own. As it happened, he added just the right talent at just the right time – and saved an American icon.

Another company that seems to do a very good job of adding talent more generally – at all levels – is Google. They have created a sense of excitement that draws talented individuals to them. And they seem to have the right hiring screens in place to identify individuals who will thrive in their culture.

In terms of Canadian companies, I am reluctant to single out one or two for fear of leaving out others. But most of the banks do a good job of recruiting and developing talent, as do many of the mining and forest product companies. We are leaders in those areas for a reason.

From a recruitment perspective, what particular insight can you bring to young entrepreneurs who want to build a great company in the dog-eat-dog world of start-ups and venture capital?

First of all, there has to be an understanding and acceptance of each other's interests. Venture capitalists and private equity managers don't just care about the latest software application or most elegant widget – they naturally care about whether that app or widget can actually turn a profit. Ideally, the entrepreneur has the savvy to build his or her company organically, attracting the right talent – including especially talent that might shore up their own or the company's weaknesses. For example, you might have the greatest technology or product in the world, but if nobody knows about it, due to poor marketing, you're probably going to fail. Same is true of financial controls, regulatory compliance – all of the elements need to be covered off. Ideally your venture capital or private equity firm will be seen as a resource, not just a writer of checks. Having reputable partners can actually help build your talent pool because they give you credibility.

How can entrepreneurs best deal with venture capitalists and the specialists they parachute into companies?

As with any relationship, a critical element is communication between the venture capital firm and the entrepreneur. Much as employee appraisals, if done correctly with on-going feedback, should never surprise, the need to parachute in some help should come after on-going discussion and analysis.

It is easy to find cynicism on both sides of the entrepreneur-venture capital relationship. For some there is an almost Faustian aspect to accepting capital – a selling of the soul.

For others the relationship is more akin to the parable of the scorpion and the frog – they both need each other to cross the river, but that doesn't stop them from getting caught up in their own narrow interests.

In truth, venture capitalists and private equity when partnered properly with entrepreneurs can work economic wonders. In those cases, the parachuting in of needed talent will be less about a failure to find the talent within and more about achieving mutual success. Having the right talent at the right moment can make all the difference. But it must be done with sensitivity.

What do you think is the single most important skill an individual needs to bring to the CEO suite in addition to their technical and financial expertise?

In today's business environment, successful CEO's must have the ability to not only formulate and communicate broad strategy and objectives, but need to possess the flexibility of mind to quickly alter course as market conditions warrant. He or she needs to be a good communicator in the fullest sense of the word – which means being a good listener as well as a good speaker. CEO's are typically successful when they attract, motivate and leverage a high-performance team. The selection of that team is important – but leveraging their skills and capabilities is critical. The ability to foster open, two-way communications is a key enabler and a necessary skill.