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# How to Recruit a First Class CEO

SAVANNAH WHITE PAPER



In my view the best approach to recruiting a CEO to a venture backed company is, initially, to do all the things that would normally be necessary to attract a new investor. Think of the new CEO as being no different to a venture capitalist except that the new CEO will be investing his/her time rather than their money. Recruitment at a senior level should be just like fundraising in the sense that both should be high integrity sales processes.



- Phil Peters | Partner, Digital Industry Practice

## Strategy

The strongest candidates will be attracted to a business which has a clear strategy and a board that is united behind it. It should not be the short-term goal of the CEO to develop the strategy unless the business is in need of a "turnaround".

What kind of exit valuation is the board looking for and can this be supported with a coherent exit strategy? What comparable companies have been acquired or IPO'd and how were they valued? What are the key questions that a strong candidate should ask and on which the board and ultimately the search firm are aligned? Strong candidates will not pursue the opportunity if they do not believe in the business plan and it is vital that the search firm is sufficiently well briefed to avoid a low yield, due to lack of information, in the early stages of the search.



## Candidate profile and search plan

The candidate profile should initially focus on the "hard" criteria (e.g. has profit/loss experience for a €10m+ company) and not the "soft" criteria (e.g. is a strong leader). This is because the "hard" criteria initially drives the search strategy. Be clear on what "hard" criteria is mandatory (ideally no more than 4 or 5 points) versus what is "nice to have". Describe where the "ideal candidate" is currently working and what job he/she is doing. Give specific names, as examples, if possible. If other candidates have been met and were rejected or withdrew prior to engaging a search firm, then explain what you liked/disliked about them.

In a typical search around 100 people may be approached. 10 to 15 will meet the search consultant and the balance will reject the opportunity or be rejected as failing to meet the "hard" criteria. A shortlist of 3 to 5 should then come from this. A search plan must therefore comprise 100 "search sites" which is the number of companies on the search plan multiplied by the number of employees (past and present) of that company who would be potential candidates.

Assuming the company has a strong business plan the biggest single reason why a search is compromised is the inability of the search firm to create a sufficient number of search sites due to poor quality research. The board is well positioned to give input to the search plan. It may have market research reports it can share and it can help to develop a list of competitors or partners to add to the search plan. Getting the search plan right is the single most important aspect of a search.



## Founders & organisation structure

When a new CEO is recruited he/she usually displaces one or more of the founders. Sometimes it is inevitable that these displaced individual(s) will leave, however, a lot of thought should be put into defining the new role(s) of the displaced individual(s). This should include written job descriptions for these people and not just for the incoming CEO. A clear organisation structure needs to be presented to the candidate, including any gaps that the board envisages on appointment. This minimises the new CEO feeling that he/she is “herding cats”.

## Objectives

What are the financial goals that the CEO will be expected to deliver in the short term and long term? What are the strategic goals (e.g. international expansion, securing “early adopter” customers, building the management team etc)? What is the company’s current financial position, especially revenue history and forecast, as well as cash and cash burn? Will the company need additional funding and, if so, when will this be needed and will it come from existing or new investors.

## Interview process and selling the opportunity

Who will meet the candidates at first interview? How many interview stages will there be and who will be involved at each stage? The same process should be followed for all candidates unless there are exceptional circumstances. Typically it takes 30 to 45 days to deliver a shortlist and 60 to 120 days from the start to acceptance of offer. A lot of time can be wasted after the shortlist is delivered through indecision and inefficient management of the interview process and this may determine if the search finishes on day 60 or day 120. It is not wise to assume that a candidate will accept the position even if he/she is made a generous offer. It is therefore good practice to ensure that the interview team is fully briefed on each of the candidates’ “hot buttons” and that care is taken to ensure that these are covered and that any other concerns are uncovered. The strongest candidates have the largest number of employer choices. Hot buttons include people issues, funding, product strategy, competition and capital gains from options.



## Compensation

Try to be open minded about cash and equity compensation, however, if there are reasons why it would be difficult to exceed a given range then state the range and the reasons at the outset of the search. It is unlikely the successful candidate will accept a cut in his/her cash compensation (salary, bonus, pension, car allowance etc) unless this person is a high net worth individual who has made money from a previous venture. The argument that the candidate "should be prepared to take a salary sacrifice because the founders are paid very little and/or there is not much cash in the business" will result in severely restricting the candidate pool. However, it is reasonable to match rather than increase the successful candidate's current cash compensation as the only true motive for joining a venture backed company is, in my view, to make a life changing amount of money from options.

The data below is based on three quantitative surveys in separate years of 150 venture backed technology companies (reference 1). In addition Phil Peters has managed the candidate negotiations in over 200 different searches for venture-backed companies, which we have also used to compile the table below. Note that although the level of share options awarded varies by stage and post money valuation, this is not true of cash compensation. Cash varies by industry sector. Benefits are defined as a percentage of salary and include the cash value of pension contributions, car allowance, life assurance and private health. Bonus is typically performance related and also defined as a percentage of salary.

**Table 1. Savannah's Guidelines - Cash for New Joiners**

Source: Savannah, June 2017

<b>Software &amp; IT Services</b>	<b>Salary Range (UK£000's)</b>	<b>Salary Range (€000's)</b>	<b>Salary Range (US\$000's)</b>	<b>Bonus</b>	<b>Benefits</b>
CEO	£167 - £202	€202 - €244	\$273 - \$331	40% - 50%	10% - 15%
CTO	£151 - £184	€182 - €222	\$247 - \$301	25% - 35%	10% - 15%
CFO	£151 - £184	€182 - €222	\$247 - \$301	25% - 35%	10% - 15%
VP Sales	£136 - £167	€164 - €202	\$223 - \$273	80% - 100%	10% - 15%
CMO	£145 - £170	€175 - €205	\$237 - \$278	35% - 40%	10% - 15%
Non-Executive Chairman	£51 - £63	€62 - €76	\$83 - \$103	0%	0%
<b>Semiconductors &amp; IT Equipment</b>	<b>Salary Range</b>	<b>Salary Range</b>	<b>Salary Range</b>	<b>Bonus</b>	<b>Benefits</b>
CEO	£133 - £162	€161 - €196	\$218 - \$265	30% - 40%	10% - 15%
CTO	£121 - £156	€146 - €189	\$198 - \$255	25% - 35%	10% - 15%
CFO	£121 - £156	€146 - €189	\$198 - \$255	25% - 35%	10% - 15%
VP Sales & Marketing	£109 - £133	€132 - €160	\$178 - \$218	50% - 70%	10% - 15%
Non-Executive Chairman	£41 - £50	€50 - €60	\$67 - \$82	0%	0%
<b>Internet and Digital Media</b>	<b>Salary Range</b>	<b>Salary Range</b>	<b>Salary Range</b>	<b>Bonus</b>	<b>Benefits</b>
CEO	£160 - £193	€194 - €235	\$262 - \$316	35% - 45%	10% - 15%
CTO	£145 - £176	€175 - €213	\$237 - \$288	25% - 35%	10% - 15%
CFO	£145 - £176	€175 - €213	\$237 - \$288	25% - 35%	10% - 15%
VP Sales/CRO	£130 - £160	€157 - €193	\$213 - \$262	65% - 85%	10% - 15%
CMO	£130 - £160	€157 - €193	\$213 - \$262	35% - 40%	10% - 15%
Non-Executive Chairman	£45 - £55	€54 - €67	\$73 - \$90	0%	0%



## Table 2. Savannah's Guidelines – Options for New Joiners

Source: Savannah, June 2017

	Seed	A	B	IPO
<b>Typical Post money valuation (UK£m)</b>	<b>£10.0</b>	<b>£25.0</b>	<b>£50.0</b>	<b>£100.0</b>
<b>Typical Post money valuation (€m)</b>	<b>€12.0</b>	<b>€29.0</b>	<b>€58.0</b>	<b>€116.0</b>
<b>Typical Post money valuation (US\$m)</b>	<b>\$12.0</b>	<b>\$31.0</b>	<b>\$62.0</b>	<b>\$125.0</b>
CEO	7.9%	5.5%	3.9%	2.9%
CTO	3.0%	2.1%	1.5%	1.1%
CFO	3.0%	2.1%	1.7%	1.5%
VP Sales	4.2%	2.9%	1.7%	1.3%
CMO	3.0%	2.1%	1.5%	1.1%
Non-Executive Chairman	2.0%	1.5%	1.0%	0.5%





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