Blue Paper

Easing Out the Founder

Managing a Successful Founder/CEO Transition

SpencerStuart

Spencer Stuart

With a global practice comprising more than 300 consultants in over 50 offices in 25 countries, Spencer Stuart, founded in 1956, is the leading privately held executive search firm. We offer a range of human capital solutions, including senior-level executive search, board director appointments and, through our web-based recruiting practice — Spencer Stuart Talent Network — mid-level executive recruitment.

In the past year alone, we have conducted nearly 4,000 search assignments for a diverse group of clients. Clients range from large, established companies to smaller and emerging companies with excellent growth potential.

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The company had launched with tremendous excitement. The promise was clear; the vision highly focused. Now, the energy seems to be dwindling; the focus dissipating. Quiet speculation has begun circulating around the board that perhaps the founder/CEO is no longer up to the job. You've seen the telltale signs: inadequate controls, missed deadlines, key positions going unfilled. Something needs to change, and sooner rather than later. Yet the company may not be strong enough to withstand a CEO transplant. You worry that showing the founder the door could bring on disaster that much sooner.

What do you do? Replacing a CEO is always a complex process. Particularly when the CEO is the founder — the person who conceived the company, whose determination gave it life and sustained it when few others believed. How do you determine that the founder really is the one to blame for a company's failure to achieve its promise? If a relationship can indeed be established between the founder's and the company's performance, how do you initiate and execute a transition plan that leaves all the players — the company, the new CEO, the founder and the employees — able to move forward and thrive? For board members, and venture capitalists in particular, these are critical questions. This paper explores these concerns and shares Spencer Stuart's experience by providing a "best practices" approach that can help ensure a successful founder/CEO hand over.

The Problem

The list of possible causes is endless. The company has lost its way, failed to execute, missed targets, misread the market, or didn't staff correctly. For one reason or another, things have gone wrong. No one is 100 percent certain why, but the general suspicion is that the arena has expanded beyond the founder/CEO's comfort and capability zones. Employees and investors have begun to lose faith.

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If the company is to get back on track, a quick transition appears essential. But, the board and investors aren't sure how to go about it. Concerns range from destabilizing an early-stage company to getting entangled in a costly, distracting and potentially acrimonious legal dispute and public relations disaster — all while the young company is still learning how to walk.

Despite the media attention and public speculation that swirl around CEO successions, board members and the CEOs involved are reluctant to, or prohibited from, revealing the details of what went into choosing a successor. And if that individual doesn't work out, they are unlikely to acknowledge where he or she went wrong.[1]

Everyone desires a smooth, voluntary transition in which the best interests of the company are the foremost consideration. Unfortunately, by the time circumstances reach the situation characterized above, it may already be too late for the company to regain its momentum. "The point at which a founder/CEO actually volunteers to step down is almost always six months after the optimal time for replacement," says Gus Tai, general partner at Trinity Ventures. In other words, the need for a smooth founder/CEO transition must be recognized and initiated well before it becomes grossly apparent. You'll never hear a board member lament that a founder/CEO was replaced too early.

1. *Hallmarks of Effective Succession Planning,* by Randall S. Cheloha, Ph.D, principal of William M. Mercer, Inc., Viewpoint, Number 2, 1999, Copyright 1999, by Marsh & McLennan Companies, Inc., http://www.mmc.com/views/99fall.cheloha.shtml

The Early Warning Signs

Three classic scenarios characterize the moment when the investors of an early-stage company begin wondering if it's time for new blood in the C-suite. The first typically occurs at an engineering-centric company well into beta with a product launch scheduled three or four months out. The technical founder has skillfully transformed the back of an envelope into a successful alpha and beta. But with a transition looming, turning an R&D outfit into a real, product-producing company, the founder/CEO's limited skill set and commensurately narrow focus become more and more apparent. What once looked like a product that couldn't miss is now falling behind schedule. And the CEO, rather than leading a revitalizing charge, is seen retreating to the relative comfort of his or her technical expertise.

At the other end of the pre-revenue spectrum, our second scenario is the sales-and marketing-driven company. Like the spider to the fly, the founder/CEO's charismatic personality lured investors to support the venture. Enthusiastic but inexperienced friends are placed in critical operational roles. Then, as the company evolves and the founder confronts the mundane tasks and attention to detail required to transform a pitch into a viable business, the beacon that once illuminated everything and everyone begins to look more like a laser that blinded them to reality. Investors see that the founder's interests and capabilities were focused on the pitch — on the deal, but not on the details. The third scenario occurs a bit further downstream, when the venture has achieved $10-20 million in revenues. Founded by a single entrepreneur or, in many cases, a pair of entrepreneurs with complementary skills, the company appears to be stalling out. The growth curve has passed the inflection point and the founders seem unable to redirect the trajectory. Whether it's closing a big deal or bringing on staff capable of reaching the next level, the founder/CEO simply cannot deliver.

Of course, there are many other early warning signs that a company is in trouble because the founder/CEO has stayed on past his or her ability to lead and manage. Most often, the writing appears on walls company-wide. Telltale signs include:

- Financial discipline that occurs only in the face of crisis
- An inability to get the burn rate under control; financial surprises are routine
- Planning, policies and procedures that are nonexistent
- Quarterly projections that are frequently missed
- Management team handpicked from the founder's friends. Few have substantial business credentials
- Team that does not work well together. As the company grows larger, the initial team appears weaker and weaker
- Failure to create or even think about creating a strong, scalable team

Just because a company manifests some of these unfortunate traits doesn't necessarily mean the blame falls solely on the founder/CEO. In fact, in some cases it may be extremely difficult to ascertain who or what to blame. However, if the company presents the symptoms noted in the list above and the CEO shares the characteristics listed below, then it's highly likely that the founder/CEO is reaching or has passed his or her current managerial potential. These disabling characteristics include founder/CEOs who:

- Are self-made and bootstrapped their venture
- Have never had a senior role in a large company
- Are not process-oriented
- Are unable or unwilling to make difficult decisions
- Have poorly developed financial skills
- Cannot let go of their startup strategies
- Stick with flawed business models too long
- Make "Lone Ranger" decisions, usually in response to crises
- Lack broad strategic vision about transforming products into a company
- Fail to see warning signs or ask for assistance from the board or others when they do

This isn't to say that a CEO who is, for example, self-made cannot successfully guide a company through various stages of maturation. We view these traits more as corroborating evidence that can assist board members and venture capital investors in what can be a very difficult decision to make — if and when to ease out the founder. If enough of these symptoms are present, then it's highly likely the company and CEO are suffering from what we call "founderitis." Action must be taken.

Even after reaching this stage, no one doubts that the founder — the company's visionary — possessed the ambition, creativity, determination and perhaps technical or marketing genius that were significant assets when the venture was launched. But passionate entrepreneurs often lack critical financial, strategic or people skills to continue the company's progress.

Because of their reliance on charisma and personal friendships, many founders are never pressed to implement rigorous management processes. As a result, inadequate financial and other controls can lead to unpleasant surprises, such as inaccurate revenue and expense projections and missed quarterly development targets. Other founder/CEOs have a strong product vision, but ultimately lack the skill, discipline and process-orientation to transform a product or product line into a company.

Additionally, once a business moves past the seed or startup phase, informal strategies developed by the founder/CEO become inadequate. In the second or third stage of development, a material shift occurs in what is needed. Leadership must be able to externalize its focus. The CEO's duties shift to projecting maturity, credibility and business savvy that instills confidence in senior management, board members and investors. As Amy Vernetti, a partner at Technology Crossover Ventures, points out, founders "often seem overly protective of their decision-making authority. They're afraid of letting someone else raise their baby. In some cases, a founder's negative impact can outweigh the good. It's the board's job to determine that pivotal point."

It's often at this stage that technical founders in particular find it difficult to make professional presentations before analysts, venture capitalists and strategic alliance partners for whom sterling salesmanship is so important.

The symptoms of founderitis differ depending on the company's stage of development. The chart below highlights the early warning signs likely to be seen during various rounds of funding: Founderitis, left untreated, can lead even the most promising early-stage company to an early death. What then should boards do when they recognize the symptoms?

The Cure

If a founder lacks the skills required to scale and manage a large organization, he or she is an unlikely champion of future growth. In most cases, this limitation is personality based. No one doubts that it was the hard work, passion and dedication of the founder that propelled that company to the point where it was able to obtain venture funding. Yet the kind of person who sees an opportunity and pursues it with tremendous intensity is rarely the same person who is able to manage hundreds or sometimes thousands of people.[2] Many factors come into play when a startup evolves into a modern corporation. In many cases, the founder cannot effectively perform the leadership, personnel and financial functions — responsibilities that are 180 degrees from being entrepreneurial and visionary.[3] The company reaches an impasse.

The natural inclination of a board is to replace the founder. The impetus to do so often comes from the venture capitalists. "The move to begin the process to find a replacement often occurs at a board meeting after the founder reports less than expected traction against key business milestones," says Vernetti. Critical indicators could include missed sales projections or the failure to hire a VP of sales and marketing who will push the company to take on a more commercial orientation.[4]

2. *Engineers As Entrepreneurs*, Discussion Moderator: Charles H. House, executive vice president for R&D at Dialogic Corp., and president of the Association for Computing Machinery. June 4, 1998, Palo Alto, California, http://chabin.laurent.free.fr/ees.htm
3. *Engineers As Entrepreneurs*, 1998.
4. *Venture Capital-Backed Firms More Likely to Replace Founder with Outside Chief Executive*, Thomas Hellmann and Manju Puri, Stanford Business School, January 30, 2001, http://www.newswise.com/articles/2001/1/VENCAP2.STN.html

Most companies that accept venture capital funding understand the rules of the game — that the VC firm gets at least one seat on the board, a strong hand in company management and, most importantly, the right to hire and fire the CEO. Arthur Lipper, an investor who arranges financing for companies with extraordinary risk-related potential, sees replacing a founder/CEO as good for the entrepreneur, who, after all, is also an investor. "Coaches retire pitchers when they aren't performing. Why shouldn't entrepreneurs be retired [similarly]?" he asks.[5]

Margaret King, human capital partner with Lightspeed Venture Partners, adds, "When the founder/CEO begins to lose the confidence of the board, the situation very often snowballs and the board begins blaming the CEO for everything that is wrong with the company. This blaming environment has spelled doom for many high-potential early-stage companies." Following their investment, most venture capital firms "professionalize" the emerging portfolio company's management team. Removing the founder has, in fact, become a rite of passage for many venture-funded companies. A January 2001 Stanford University study revealed that founders are more likely to be replaced by an outsider as CEO if they obtain venture capital.[6] In fact, most VCs replace more than one-half of their portfolio CEOs within the first two years of the investment. Not surprisingly, many venture capital firms now have standard language in every term sheet that gives them the right to replace the founder/CEO.

Early Warning Signs Vary by Round of Funding

Seed	B-round	C-round
• Fundamental blind spots exist in marketing and finance • Management has an incomplete picture – "They don't know what they don't know" • Staffing has been handled awkwardly and ineffectively • There's no clear understanding of working capital requirements	• Too many priorities have diluted focus • Management is overwhelmed by a need for clarity • Fire-fighting consumes everyone's attention • Key gaps in the team remain unfilled • The founder/CEO reverts back to his/her own core function and style of management	• Senior team not being given enough decision-making authority and feeling micro-managed • Lack of cohesive strategy to rise above competition and emerge as category leader • Board meetings still uncovering unpleasant product/financial surprises • Cash burn not in sync with capital plan

5. *The Truth About Venture Capital*, by Paul De Ceglie, February 2000, Entrepreneur.com, http://www.entrepreneur.com/Your_Business/YB_SegArticle/0,4621,232552,00.html
6. Hellmann and Puri, 2001.

From the investors' point of view, the primary cure for "founderitis" is to recruit a seasoned executive with a proven track record — someone who knows the industry and company and understands its target markets. Investors look for someone capable of leading the venture to the next level. However, this seemingly simplistic prescription — getting the founder out and a new CEO in — is not easy. Almost certainly, the company's founder places a high value on retaining control, especially around the time of the IPO, when the benefits of being in charge are relatively high.[7] The power transfer must be sensitively managed and diplomatically finessed. It is never in the board's interest to alienate the founder or other key stakeholders. No one wants to witness an unpleasant, involuntary founder departure.

Like General Sherman, a disgruntled founder/CEO can easily leave a wake of destruction behind. If the founder becomes displeased with the handling of the transition, he or she may:

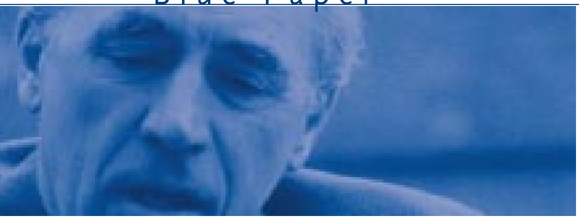
- Sabotage the search process or key deals
- Rally the troops against a new leader
- Leave with top talent in tow
- Publicly criticize the company, its board and investors, wreaking havoc for all

Engaging a highly regarded global search firm, one with extensive experience in founder/CEO transitions, can help avoid these potentially fatal pitfalls. Such a firm can assist the board as it implements a transition strategy to recapture the portfolio company's promise and get it back on track. The first step in such a strategy is to avoid impulsive action and proceed thoughtfully and with caution.

Delivering the bad news is certainly one of the most difficult aspects of a transition and must be handled with the greatest care. The board will need to identify the member closest to the founder/CEO. This is often someone looked upon as a mentor. Hearing the news from someone trusted, someone who has been an ally, helps make the message palatable. (Of course, that message should be preceded by generous portions of gratitude and acknowledgement for all that the founder has done.) A thoughtful discussion initiated by a confidant of the CEO can create an atmosphere in which the founder can then be enlisted to assist in the transition.

This non-confrontational, transparent approach does not mean the company can undertake a leisurely founder/CEO transition. Chances are it cannot. There is a large gulf between a founder agreeing to a replacement search, and actually buying in emotionally to

7. Do IPO Charters Maximize Firm Value? Antitakeover Protection in IPOs, Robert Daines and Michael Klausner, School of Law, Boalt Hall, John Olin Program in Law and Economics, Working Paper Series, Working Paper 99-14, Center for the Study of Law and Society, University of California, Berkeley,



the decision. Bill Younger, general partner with Sutter Hill Ventures, says, "The biggest risk is time — the time it takes to recruit a new CEO and team while also working with and coaching the existing team." The open, up-front approach makes it possible to have the founder/CEO and his or her team remain in place while the search is undertaken. Assuming the founder is "coachable" (and that there is someone on the board with the time and relevant experience to the task), this option creates an opportunity during which a downward spiral can be arrested and hopefully turned around, all while the search for a replacement CEO is underway.

If board members begin a CEO search without the support of the founder and management team, they will face a minefield. The challenges begin with a founder/CEO who feels slighted and does not want to pass the baton. Company culture can also be troublesome, especially when the founder's passion and charisma are what attracted most of the senior management team in the first place. Loyalists could turn against the new CEO, reducing the likelihood that a transition will succeed. In the worst case, the founder leaves with a significant chunk of the company's talent. This can devastate a company, especially an early-stage company with thin or weak ranks of management. More than one irate founder has even gone so far as to complain to the media and shareholders, spawning public relations nightmares from which recovery is nearly impossible.

Cloaking the replacement process in secrecy, though at times tempting, is not recommended. Confidential searches that take place behind the founder's back usually backfire. If — and usually when — the founder learns about the plan, anger and betrayal, followed by open hostility, may ensue. This environment will negatively impact the quality of chief executive candidates. Who would want the job under such circumstances? Equally important, the CEO search should be launched before any major overhaul of the senior management team. The imperative: never try to build a world class team around a weak founder/CEO. Some venture capitalists actually have a policy of resetting all VP titles at a funded company from VP to director. This leaves an entire layer of senior management open, with searches launching immediately for all key VP roles.

Some boards of fast-growing companies attempt to dodge the issue of removing the founder by launching a chief operating officer search. At least half of these are CEO searches in disguise. The confidential message given to the top candidates is, "Come aboard as COO, and we'll make you CEO within six months." There are many problems with this approach. First, no one is fooled, least of all the sitting CEO. Second, the vast

majority of executives that do come aboard as CEOs-in-waiting never move into the top spot because, after their initial honeymoon period ends, board members recognize that the heir apparent (hamstrung and unable to lead) isn't the CEO material they were looking for. And third, candidates who agree to go along with the CEO-in-waiting plan are almost certainly "B"-level players. Great CEO candidates only consider CEO positions.

Typically, boards begin searches by leveraging personal and professional networks. This informal approach has some validity because contact in social and business settings allows board members to become familiar with a candidate's leadership style, track record and social skills. But simply having access to one or two potential successor candidates is not enough. The board needs access to a broad set of superior CEO candidates who are available and recruitable.

An informal process cannot glean all critical information. Board members need to be in a position to make deeper, more accurate, detailed judgments about the candidates. Informal board assessments tend to be overly subjective, and networking rarely produces truly viable candidates. A top-tier executive search firm brings the depth of its networks and an objective, experienced approach to the process. The search consultant becomes closely familiar with the company: its people, culture, market and strategy. This makes it possible to identify the "right" behaviors and eliminate political and personal biases that could easily derail the process.[8]

In a founder/CEO transition, venture firms look for leadership that can "get it done," for people who have taken companies public, have venture-backed management experience and boast a high-growth history. Plus, they want a quick return on their investment.

Seasoned CEOs, on the other hand, are always interested in hearing about emerging companies poised for breakthrough success. They look for adequate funding, a clear value proposition, a proprietary technological advantage, proven customer demand, a validated high-margin economic model and competitive barriers to entry. However, the majority of startups seeking a step-up CEO lack at least one or two of these characteristics.

If an early-stage company attempts to recruit senior team members before it has a viable, competitive product and proven customers, it risks choosing from among a pool of lower quality players. Similarly, if the founder/CEO has failed to execute and the company slides into trouble or, even worse, becomes a turn-around, then the candidates willing to

8. Cheloha, 1999.

take the helm will almost surely be of a caliber less than desired. In such instances, the company will find that it can only attract "B"-players or "freshman" CEOs seeking their first chief executive role.

The biggest challenge facing most boards is getting the founder/CEO to grow and manage the company in such a way that warrants the attention and interest of "A"-player executives. The companies that achieve this are best positioned to attract a seasoned CEO. Sensitivity to timing is the key ingredient required to avoid a catch-22 situation, in which neither the company nor the candidate is ready or able to make the first move.
For example, qualified CEO candidates will express interest in an opportunity, but not come aboard without funding already in place. Similarly, investors may be interested in the company, but not with the incumbent CEO and management team remaining in place. In such circumstances, it is the board's responsibility to guide the positioning of the company so that a credible CEO search can be undertaken while adequate funding (and the prospect of more) exists. A scenario such as this highlights a board's need to always be alert to the early signals of founderitis — so that a transition can be made while the promise, potential and early-round funding are still all in place.

Once the decision has been made to go forward with a search, the steps to be taken are relatively straightforward. Our best practice model suggests the following approach:

1. **Prioritize skills and experience. Develop a CEO profile with required leadership skills and attributes ranked in order of priority.**

Many organizations, while clear about their financial and performance objectives, do not know how to define leadership or what they really want or need. In the case of a founder/CEO transition, it is especially critical that the type of leader desired be well understood up-front. Although perceptions of leadership can be as subjective as perceptions of art, it's completely inadequate for a board to say, "We'll know it when we see it," as some boards do. That approach belies the very type of vision and leadership being sought.
With the founder/CEO on the way out, some board members will look for a new CEO who embodies everything the founder was not. This is not a healthy or effective approach. Board members must go through iterative rounds of consensus-building as they home in on the company's current and future needs. As they do this, the candidate's prioritized skill sets, leadership characteristics and requisite credentials will become self-evident. After face-to-face interviews have begun, a board will typically want to revisit and refine its criteria.

A founder/CEO transition is also a time when many boards will want to reflect on strategic issues for the company itself. Key questions to consider include:

- Do we want a CEO who will recruit a new senior management team, or do we want someone who can work with the team currently in place?
- Are we trying to change the culture of this company, or do we want to preserve the existing culture?

Once the initial consensus has been reached on the broadest points, then board members will want to ask the following questions about successor candidates:[9]

- Does this individual have the ability and presence to lead the organization?
- Does the candidate have the intellectual capability to deal with the complex challenges the organization faces?
- Can he/she work collaboratively with the board?

In every CEO search, a board will want to confirm that all candidates possess the following qualities:

- Excellent understanding of strategic issues
- Ability to recruit, motivate and retain key senior executives
- Enthusiasm, energy and salesmanship at a level that will close major deals and accounts
- Experience with planning, budgeting and financial management
- Outstanding judgment of character
- Strong personal drive
- Desire to a create performance-oriented culture
- Credibility with customers, investors, employees and management

In a founder/CEO transition certain additional skills can be quite important.[10] The CEO who follows a founder must be able to:

- Quickly understand the strategic issues and establish a clear vision of a company's direction and priorities
- Act as the company's number-one salesperson
- Translate product and technology into customer benefit

9. Cheloha, 1999.
10. Source: Study Interviews conducted with VCs on Founder/CEO replacement process, August-September 2001.

Spencer Stuart recently conducted a study that focused on venture-backed leadership to find out whether certain executive skill sets correlate more highly with success than others. This study also examined which management practices, if any, directly improve a venture firm's return on investment.

Not surprisingly, we found that certain skills and attributes are highly correlated with CEO success. One key finding is that top CEOs generally possess both significant experience and relatively high levels of emotional intelligence. Successful CEOs bring entrepreneurial and fundraising skills as prerequisites, as well as outstanding leadership and management skills.

2. Enlist support. Be certain to gain the support of the founder.

To achieve a smooth transition, it is critical to gain the support of the founder, members of the management team and the company's employees — ideally in that order. To diffuse hostility, open and sensitive, yet diplomatic communication and consensus-building are vital for achieving this, particularly with the founder. Some steps to take:

- Select a board member highly trusted by the founder to highlight the founder's tremendous strengths and contributions to date
- Emphasize the company's needs for a different kind of leadership
- Make it clear that strong internal teaming is needed to achieve the company's next milestone and keep it growing

Getting support from the founder/CEO on the need for new blood — while not an absolute prerequisite — is enormously beneficial. The transition will be less disruptive and senior management will be more likely to accept the new CEO and stay put. Many venture capitalists hold that the relationship between the founder and the new CEO is the critical success factor. "The ideal scenario is to recruit a professional CEO with the intelligence, confidence and interpersonal skills to work alongside a founder — minimizing the negative and extracting the positive," says Amy Vernetti. If a founder rallies the troops around the incoming CEO and maintains a strong working relationship with him — as Yahoo! founder Jerry Yang did for former Yahoo! CEO Tim Koogle — it bodes well for future success.

However, achieving peaceful and productive founder/new CEO coexistence is easier said than done. Founders are notoriously protective of what they've created, and many find it difficult to relinquish control. Disgruntled founders often work actively during the search process to build support inside the company to oppose his or her replacement. This needs to be monitored extra closely. Boards should watch for warning signs, proceed with caution and use the utmost in diplomacy.

3. Give the founder a new role.

Once a commitment is made to replace the CEO, it is vital to establish a clear-cut role for the founder. That role will of course depend on the founder/CEO's core strengths. A technical founder may be a natural chief technology officer. A sales and marketing star can be utilized effectively in going after large strategy deals as head of business development. A highly intellectual founder, someone long on vision but short on management skills, could make an ideal head of strategy. Another option is to ask the founder to serve as chairman, and use his or her reputation to the company's benefit without having to fulfill an operating role.

In some situations, the founder/CEO's title should be replaced before commencing the search effort. That way an open position is ostensibly being filled, rather than one that is occupied under cloudy conditions. This will help the potential CEO candidates visualize themselves in the job, because filling an open position is far more comfortable and attractive than actively dislodging someone else. If this is not possible, then placing the word "acting" in front of the incumbent's title may serve the same purpose and prevent any confusion about whether the CEO's chair is vacant or not.

4. Make the search priority-one.

Whether a bricks-and-mortar executive or Net maven is being sought, board members need to make the CEO search a top priority. This means getting involved. Assuming the board chooses to engage an executive search firm, the following rules of thumb apply:

- Select a top-tier firm that has worked extensively with fast-growing early-stage companies in the throes of replacing a founder
- Ensure that the search firm has global reach and access to top industry players
- Select a search consultant with a business and communication style consistent with that of the board
- Partner with a firm that possesses target industry expertise

The board should always select one member to lead the search. This member must make time for interviews, travel to meet candidates, calibrate and refine the search requirements and maintain clear and constant communication with the search consultant and other board members. Undertaking these steps will enable the board to act decisively when the right candidate is found.

5. Choose a closer.

Reaching consensus, selecting the finalist and closing the deal with that individual may not be easy. Since most prime candidates require some eleventh hour persuasion, it's important to prepare a contingency plan. Know which board member has the most industry clout or name recognition that will help excite a candidate about the opportunity. Identify your best "closer" — someone who can convince a dream candidate to accept the position. And once the best candidate has been identified, have your closer on alert, ready to seal the deal.

6. Monitor the transition period. And stay close to the new CEO.

A transition that has been handled smoothly can greatly reduce the stress for everyone involved: the new CEO, the outgoing founder, employees and investors. More importantly, a smooth hand over will improve the new executive's likelihood of success, a factor can that can influence the company's performance for years to come. The founder's support is a critical factor in this transition.

Both the incoming and outgoing executives should assume responsibility for open communication, with board members being sure to lubricate the relationship. Additionally, it can be very helpful to have the founder publicly endorse the new CEO before the media as well as internal corporate audiences. Egos must be set aside. Both executives have a duty — and should have the desire and incentive — to regain momentum and improve company performance. Everyone will want to know how the new CEO will be different from the founder. The best practice is simple: Communicate the new CEO's style, strengths and relevant experience to all stakeholders. Tell them why he or she was chosen, and do so with passion and conviction.[11]

During the transition, it is important that the new CEO's learning process includes real mentoring. The board must encourage two-way, honest communication between the founder and the incoming CEO on all relevant business issues. Founders need to be flexible and, most importantly, they need to be prepared to let go.[12] Indeed, most look for ways to extend their roles in the company beyond the transition period. It's also crucial for the board to make it crystal clear that the new CEO has its full support and that all decision-making authority has passed from the founder to the new CEO.

Still, a founder/CEO transition can be terribly upsetting and distracting for senior management. It's vital that the departing founder make it clear to the staff that he or she backs the new CEO. If the original senior management team is sufficiently mature and professional — as well as committed to the enterprise — they will not depart over a founder's replacement. It also goes without saying that board members should make every effort to have the

11. *Making A Clean Handoff,* by Ram Charan, advisor to many of the world's largest companies, and Geoffrey Colvin, Editorial Director, Fortune Magazine, September 2001 Issue.

12. *From the Real World: Leadership Transition,* Ownership Transition Advisor, November 27, 2000, Publishers: Mark C. Zweig, Frederick D. White, Editor: Colvin Matheson, ZweigWhite, http://www.zweigwhite.com/home/vot/ota112700.htm

founder emerge from the transition process with positive feelings toward the board. During the transition the board has one additional task to take on: helping the new CEO deal with "surprises." These are virtually unavoidable. Boards "selling" an opportunity to a candidate will cast the company in as favorable terms as possible. In doing so, they inevitably accentuate the positive, while glossing over an unpleasant flipside that may include a less than stellar balance sheet, the imminent departure of key senior team members or significant delays in product development. New CEOs and boards should anticipate surprises like these — and prepare in advance to tackle such challenges with professionalism, maturity and conviction.

Conclusion

Replacing a founder/CEO is never an entirely risk-free process. Overseeing a smooth hand over requires good faith and responsible, dedicated efforts on the part of the founder, the new CEO and the board.

Guiding an early-stage company to sustainable success requires an executive with a wide range of talents and skills. Most founders possess some but not all of these abilities. When a change in leadership becomes necessary, deploying our six best practices will help avoid most pitfalls that await any founder/CEO transition and significantly enhance the odds of a successful handoff. When the stakes are high and the potential rewards immense, why gamble on anything less than using experienced counsel and tested methodology to achieve optimal leadership results?

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Frequently quoted in the *Wall Street Journal*, *Business Week* and *Fortune*, Scott Gordon brings an industry leading perspective and entrepreneurial spirit to Spencer Stuart that has helped him recruit star performers for clients such as AOL, Yahoo!, Handspring, Cisco Systems and Microsoft. As leader of the Internet Specialty Practice and key member of the Technology Practice, Scott is a vital resource for finding leaders for software, infrastructure, e-commerce, media, telecom, and consumer electronics companies. In addition to his work with larger companies, Scott focuses on helping fast-growth, venture-backed companies recruit seasoned and capable CEOs.

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