

Rules of the Game Changing for Private Venture Executive Search

Gain competitive edge with new rules for venture-backed executive recruiting

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Private Venture Executive Recruiting Must Evolve to Meet New Challenges

The rules of venture-backed executive recruiting have changed dramatically over the past few years as the demand for executives to lead venture-backed technology companies has outstripped the supply of candidates. The reason? More companies are being funded than there are companies exiting. And, the executives who are rolling out of successful exits are less inclined to jump back into another venture-backed company.

So, the conventional wisdom of focusing recruiting efforts on “easy decision” candidates—those proven executives rolling out of successful exits—no longer works like it may have in the past. And venture investors and CEOs who admonish executive recruiters to focus on “easy decision” candidates are at a competitive disadvantage.

The situation today is analogous to what we experienced in the late 1990's. During the dot com boom, the number of companies being funded far outpaced the number of “easy decision” candidates. To succeed, we had to recruit smart, aggressively driven sales and marketing executives from larger technology companies to lead the growing number of startups. At the time, we relied mostly on instinct to help our clients assess the ability of executives from larger companies to successfully transition to the startup world and its unique demands.

To paraphrase baseball's legendary Yogi Berra, the recruiting situation today for venture-backed firms looks like “déjà vu all over again.” Except that now executive search firms have had the opportunity to hone their judgment skills over many more years. Also, new technology tools – tools that weren't available just a few years ago – can now assist executive recruiters and their clients in conducting more successful searches. This whitepaper explains why and how the rules of executive recruiting have changed and how private venture backed company investors and CEOs can meet the challenges of today's searches for executive talent.

Conventional Wisdom Made Sense—For a While

The conventional wisdom of targeting candidates with extensive early stage experience for executive positions once made sense. That's why it became conventional wisdom. Recruiting an executive with prior experience in the trenches of a successful startup mitigates risks and increases the odds of future success with an early-stage company. Venture capital firms intuitively understand this, and executive recruiters react accordingly. But, this has resulted in a high stakes chase for what turns out to be a shrinking pool of top executive candidates—a desperate war for talent.

Summative's research suggests why this has occurred. As illustrated in Figures 1, newly funded companies far exceed those exiting the market in recent years.

Number of Deals - All Industries

	2008	2009	2010	2011	Total
Exits	357	286	517	511	1671
Funded (all stages)	2365	1843	2317	2444	8969
					-7298

Number of Deals - Software

	2008	2009	2010	2011	Total
Exits	130	100	147	161	538
Funded (all stages)	1038	756	953	1022	3769
					-3231

Source: NVCA

Figure 1 – Funded deals far exceed exits in the software/technology sector

In addition, the average timeline to exit for venture-backed firms has increased while exit prices have decreased. Many serial venture operating executives who were once highly motivated to roll the dice for an equity pay-off promise are now growing venture weary and increasingly risk averse. They seek the career stability and higher compensation plans that larger companies offer, thus further shrinking the candidate pool for private venture technology companies.

Timeline to exit has dramatically increased over 10 years

	2001	2011
Median Company Age at Acquisition	3.9 years	7.8 years
Median Company Age at IPO	6 years	10 years

Source: NVCA

While, average deal size for companies exiting via acquisition decreased

\$282 million in 1999 and 2000



\$145 million in 2010 and 2011

Figure 2 – The timeline to exit for venture capital investments has increased while deal size for exit via acquisition has decreased.

In effect, we are in the midst of a perfect storm when it comes to recruiting top talent to lead venture-backed technology companies. More companies are being funded than exiting, and proven private venture operating executives aren't rolling back into venture-backed companies like they once were. As a result, the executive search turns into a game of musical chairs. With fewer players circling more empty chairs, the recruiting process becomes a lengthy and frustrating exercise that yields less than optimal results. It's no wonder that many investors and venture CEOs today feel frustrated in their search for experienced executives to run their companies.

Beyond the Typical Talent Chase: New Guidelines for Private Venture Executive Recruiting

As the founder of Summative Executive Search, I've spent more than 15 years as an executive recruiter in the private venture technology community. From what I have observed, far too many investors and clients still look at executive recruiting with eyes fixed on the rearview mirror—and most search firms have not changed their approach to the new realities of recruiting. This is confirmed by a recent National Venture Capital Association (NVCA) study on best practices for finding a new generation of venture-backed leadership. It states, "Despite the sea change in the venture capital landscape over the past decade, firms haven't significantly changed their approach to evaluating senior-level talent."

Bottom line: A conventional recruiting approach of presenting the typical set of candidates with primarily successful early stage experience to clients is no longer sufficient. Based on our experience, we've identified a few key guidelines that investors and clients can use to achieve better search results.

Open the Funnel to a Larger Pool of Top Candidates

First and foremost, recruiters need to reach a larger pool of candidates. That means executive recruiters have to get more aggressive in creating outbound *and* inbound marketing campaigns targeting to specific candidate pools and engaging messaging.

All retained executive search firms do old school outbound candidate lead generation: emails, LinkedIn InMails, and phone calls into their network and a subset of their in-house database. The better search firms use researchers, who are private venture knowledge experts, to augment their existing network and database with a new candidate pool, cross calibrating candidate suspects using a variety of information sources including LinkedIn, ZoomInfo, Crunchbase, Hoovers, TechPulse, and others. The best search firms, after investing the time to really get to know their client's business and market opportunity, create unique, compelling messaging to engage the best of all candidates. Inbound candidate lead generation capitalizes on the latest social media tools to further expand the pool of candidates. We've seen LinkedIn generate hundreds of candidate suspect leads, executives searching and ready to consider a career move. But, increasing the volume of candidates isn't enough. Investors and CEOs must once again open the candidate profile, like they did in the dot com bubble, to include smart, up and coming executives that may lack early stage experience, but have achieved success at larger enterprises. We saw it work in the late 1990s. We're seeing it again now. The key is to properly assess such candidates.

Executives with early stage experience who may not have been part of a high profile exit should always be included in the candidate profile. While investors may simultaneously invest in 10 companies and achieve success with three or four profitable exits, operating executives must invest themselves in one technology venture at a time. Just because intelligent and talented early-stage executives haven't been part of a great exit in their initial company experiences doesn't mean they won't be successful in the next one—provided that these individuals have learned from their experiences and that the reason for the less than optimal exit was beyond the executive's sphere of influence. Assessing not only the candidate, but also the real drivers behind the executive's previous unsuccessful ventures is essential.

Quickly Assess Candidates at Each Search Stage

Once you've opened the candidate funnel, you must have the bandwidth and experience to go beyond the traditional interviews and back-door reference checks to quickly assess and identify, at every stage of the search, those candidates with the most promise. Some companies, for example, think they can simply post a notice on LinkedIn to find a suitable pool of candidates. But, they quickly become overwhelmed without the resources or insight and experience to sort through responses once they start rolling in.

Startups and early stage venture backed technology companies simply don't have the HR department of larger organizations to help them identify and recruit executive talent. Relying on the instincts and expert judgment of a smart recruiter to help manage candidate assessment is an obvious solution. But, after opening up the funnel, it's also important for recruiters to leverage new techniques and technologies that facilitate faster and more accurate assessment of candidates at every stage of the search process.

For example, the quality of inbound candidate leads generated via LinkedIn is greatly enhanced when combined with a hosted recruiting management system that prompts each candidate to respond to a handful of questions specific to the executive candidate profile. Our experience validates that even the most senior, successful executives respond favorably to this approach, assuming the job description in LinkedIn is well written and includes messaging appealing to them. Now a recruiter, with instincts gained from extensive experience managing executive searches for private venture technology companies, can quickly assess a much larger pool of inbound candidates.

Once candidates progress beyond the initial client interviews, objective and sophisticated assessment tools that measure their thinking and behavioral styles can be incorporated into the recruiting process. Assessment tools that were once available only to larger companies with big HR departments and budgets are now in the cloud and reasonably priced, making them far more accessible to private venture technology companies. But, assessment tools use benchmarks based on big company executives. Comparing private venture technology executive candidates to big company executives adds marginal value, at best.

Benchmarking executive candidates against real world private venture technology executives, however, adds incredible insight previously unavailable to investors and CEOs. Summative has had some of venture's most successful executives complete [Profiles International's ProfileXT](#) to create benchmarks for each functional role. Now investors and CEOs can see how a candidate's thinking and behavioral styles, particularly candidates who are not "easy decision" candidates, compare to some of venture's most successful operating executives – CEOs, VPs Sales, VPs Marketing, and CFOs – who have led hugely successful, fast-growing technology companies. ProfileXT also provides interviewing suggestions to maximize the impact of the interviews that follow.

Making Sure You Conduct a Competitive Search

Competing successfully for executive talent has never been more challenging for venture-backed technology firms. Understanding the forces that drive how executive recruiting has changed in the past several years is a first step. Adopting the guidelines for executive recruitment described in this whitepaper will help investors, clients and candidates set their expectations for how to work more effectively with their executive search firms.

At Summative Executive Search we have a proven methodology for helping our clients open the funnel much wider to attract top candidates. We manage the search process transparently, effectively and efficiently for everyone involved while leveraging new techniques and technologies to quickly and accurately assess candidates. Most important, we make sure that each resulting match delivers an optimum fit for both client and candidate, satisfying everyone's wants and needs. By focusing exclusively on searches for venture-backed technology companies, Summative offers investors, clients and candidates a unique resource for meeting the challenges of recruiting in today's environment and achieving success.