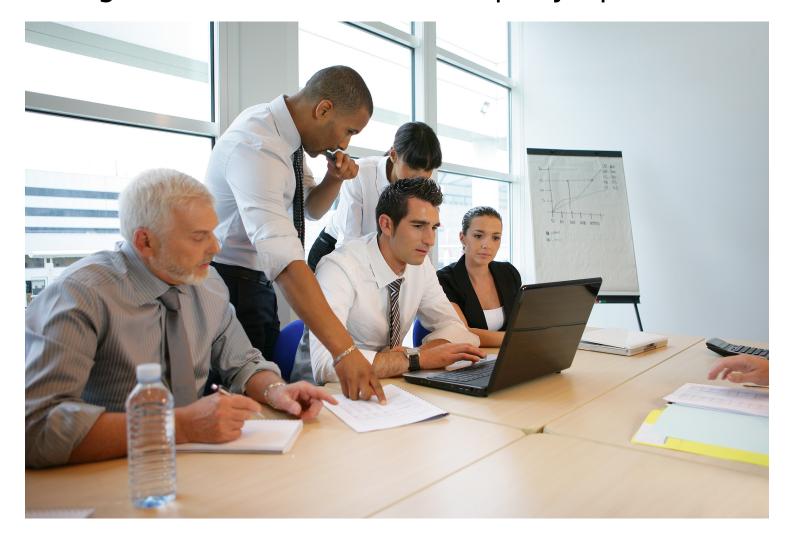


Hiring for the C-Suite in a Company Spin-Off



The phrase "the whole is greater than the sum of its parts" is being challenged with increasing fervor by some publicly-held companies. In a growing trend, many small to mid-size, publicly-held companies are breaking up/spinning off into multiple entities, supposedly allowing for greater agility, growth, and shareholder value for their individual lines of business. Larger, Fortune 200 companies have been going through this growth/divest cycle for decades.

A great example of this is the current situation with GE. The \$122 billion conglomerate is struggling with low earnings and massive layoffs, and analysts recognize that the company's individual business units may be worth more – and perform better – by themselves. GE's healthcare unit is soon to be acquired, and GE Transportation is entertaining the possibility of a spin-off. It's a solution likely to increase the value of both the parent company and the spin-off.



GE isn't alone. It's a familiar situation for many Fortune 200 companies in today's business climate, but Fortune 500 companies aren't immune, and the decision to create spin-offs is becoming more common.

The opportunity to strategically focus on specific sectors or service offerings is one of the most cited reasons behind company spin-offs. However, splitting a publicly-traded company, even one that is small in comparison to Fortune 200 corporations, is inherently a complicated process with no guarantee for improvement or longevity. Recent examples include Pentair, RR Donnelly, and ServiceMaster. Investors who keep a close eye on these activities may see as much risk as there is opportunity. While historically, spin-offs have shown to add value, the big question remains: How can a company and its future entities best position themselves for shareholder success?

The answer lies in the leadership. A public company spin-off naturally opens up a number of C-suite roles, and the decision of where to allocate existing leaders is only half of the equation. Recruiting and hiring new leaders for the C-suite in a company spin-off is one of the most challenging factors of the entire breakup. While Fortune 200 companies often have the luxury of a deep bench of people to fill open positions, smaller companies are oftentimes faced with the challenge of recruiting seasoned executives from other organizations.

The Challenges of Hiring for the C-Suite in a Company Spin-Off

Searching for and hiring a single executive presents unique challenges that are amplified by a small talent pool. Companies are faced with a candidate-driven executive market, where the demand for top talent is greater than the supply, and, at the same time, a market heavily comprised of retiring Baby Boomers. Additionally, executive-level turnover has increased with the improving economy, underscoring the importance of finding the right executive who doesn't just bring a vision but stays with a company to execute it.

Naturally, hiring for *multiple* C-suite roles simultaneously is an even bigger endeavor. Although it's an opportunity to start from scratch and build an ideal team to lead the company into the future, it is a daunting prospect at best.

According to a McKinsey survey, clarification of what is expected in a new executive position is the key to a successful transition into the role. In a company spin-off, these expectations may not be altogether clear. The spin-off isn't quite an entirely new company, but neither is it old and established. Thus, executives are tasked with creating the face of a new brand while simultaneously balancing the operational, financial, and legal ramifications of establishing the spin-off in



the marketplace. The executives also need to be cognizant of existing problems from the parent company that may transfer to the spin-off.

Considerations When Looking for Executive Team Members

There are a number of questions to consider when assembling an effective C-suite after a company spin-off.

When a business breaks up and a new entity emerges, are any of the parent company's executives able to step into a broader role at the spin-off company? If so, that will likely provide a level of continuity and stability between the businesses, allowing the new entity to get off the ground running.

Upper management leaders who were poised for an executive career prior to a split can provide a sense of history for the new entity, since they should already have a robust understanding of the business, industry, and people. Top organizations typically have some form of succession planning for the C-suite in place, so unless previous experience as a senior executive in a publicly traded company is required in a certain C-suite role, a promotion can help fill part of the gap.

If a company decides to search externally for new executive talent, it is essential to understand what specific traits and previous experiences will aid the success of a split. The McKinsey study found that executives who successfully moved into the C-suite communicated priorities, valued their teams, spent time on culture, and understood their unique leadership role. Furthermore, because a company split naturally brings up questions from employees and shareholders alike, transparency and honesty are non-negotiable traits for any C-suite position. Finally, finding an executive who has previous spin-off experience will be highly valuable.

Ultimately, the breaking up of a publicly traded company is a precarious time period for any business. Although it will enable tailored business strategies and spark opportunity for greater organic growth, hiring for the C-suite in a company spin-off often increases the risk of failure. This is particularly the case for smaller corporations that don't have the advantage of a large talent pool or beneficial partnerships. Hiring executives for spin-off companies depends upon a strategic approach to recruitment as well as onboarding. While it's not easy to locate true visionary business leaders, doing so can spur new growth, higher profits, and added security long into the future.

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