STANFORD BUSINESS GRADUATE SCHOOL OF

CASE: E-841
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# SEARCH FUND TEAM BUILDING SURVEY
# SELECTED OBSERVATIONS

## EXECUTIVE SUMMARY

This study examines the executive hiring and termination decisions of 40 search fund CEOs during their first two years post-acquisition. The goal is to share insights for CEOs who face critical personnel decisions in the early years of their tenure. CEOs from various industry sectors and return profiles were surveyed in April 2023 (see Exhibits 1 and 2).

Surveys were emailed to 60 CEOs; 40 responded. Of the respondents, 83 percent hired at least one senior employee during the first two years post-acquisition and 68 percent had at least one senior employee leave the company. Survey respondents were more likely to report that personnel decisions took place too late (49 percent) versus too soon (2 percent). Respondents reported that more than 90 percent of the hires and departures had a positive impact on their company; less than 1 percent had a negative impact on their company.

Networking and recruiters were the main channels by which respondents sourced new candidates. Respondents also highlighted that it was common for boards to be meaningfully involved in deciding which roles to hire for, and much less common for them to be involved in the candidate sourcing process.

Of the CEOs that provided advice on the pace of executive change post-acquisition, 64 percent recommended making quick changes and 16 percent recommended taking it slow. However, there was no clear correlation between the pace of hiring and departures and the return on investment (ROI) of the acquisition. Top quartile performance was achieved both by companies with multiple key personnel changes in the first 12 months and by companies with no major personnel changes in the first two years.

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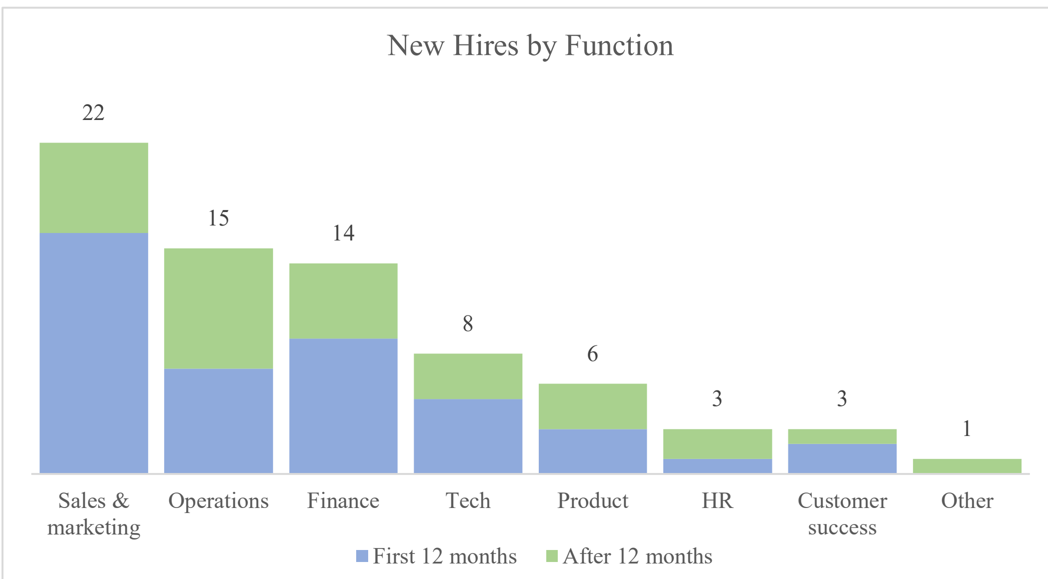
## New Hires

*Profile of new hires*

In this survey, 33 of the 40 companies reported hiring at least one senior employee during the first two years post-acquisition. New hires led several functions, the most common of which were sales and marketing (31 percent of new hires), operations (21 percent of new hires), and finance (19 percent of new hires).

During the first 12 months post-acquisition, CEOs were most likely to hire sales and marketing and finance executives. Sales hires were typically titled VP or director, some in newly created roles and others to fill existing positions. In some cases, sales executives were hired to replace a departing seller who had led sales at their company. Survey participants also highlighted the importance of hiring a strong finance executive early, particularly if the existing finance talent were limited in their skill set and unable to scale with the company.

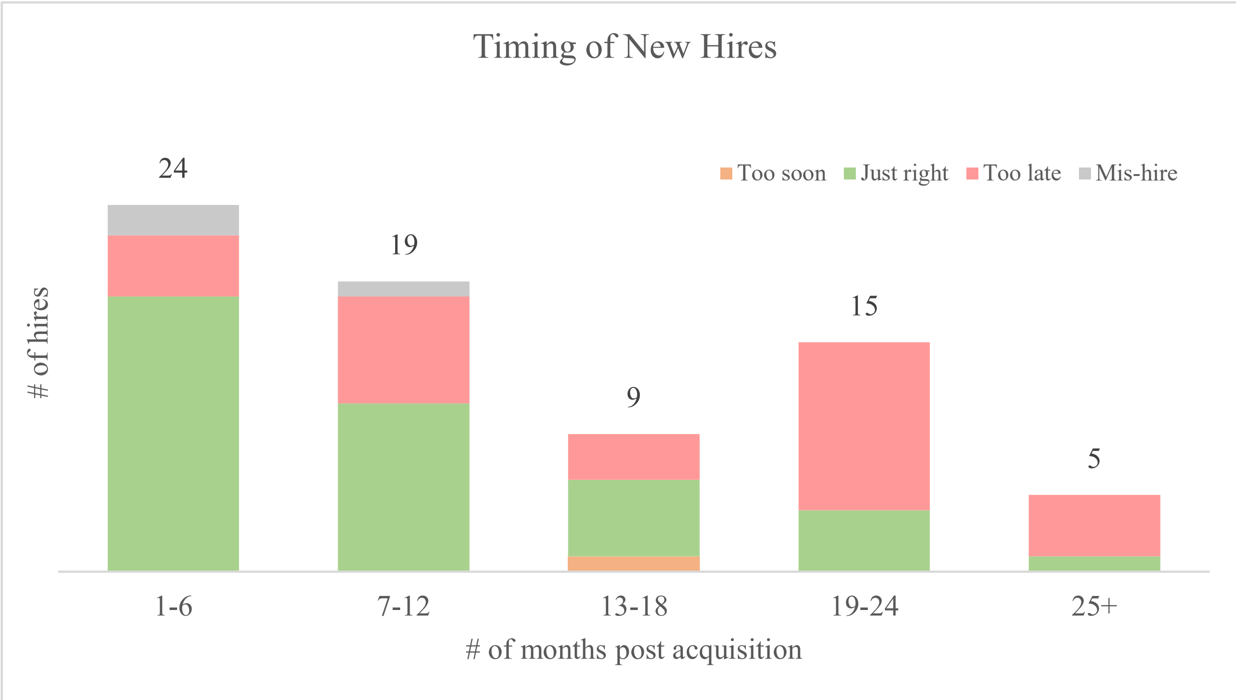
During the second 12 months post-acquisition, the most common new hires were in operational roles, including VPs of operations and COOs. Several survey participants highlighted the value of their operations hires—including one that noted "having a high-quality VP of operations fixed a lot of problems."




*Timing of new hires*

The survey revealed that 33 percent of new hires occurred during the first six months post-acquisition; 60 percent were completed within the first 12 months. Most CEOs surveyed believed they either timed new hires correctly (54 percent) or too late (40 percent). Only one CEO felt they made a new hire too soon.

For hires that occurred after the first 12 months, respondents believed 62 percent of these to be too late, suggesting that delaying key hires could have negative consequences. The reasons for delay included: (1) not realizing the positive impact that the hire could make; (2) trying to build out a specific team internally first, (3) concern about scale and cash flow; and (4) simply waiting too long to offboard a low-performing existing executive.



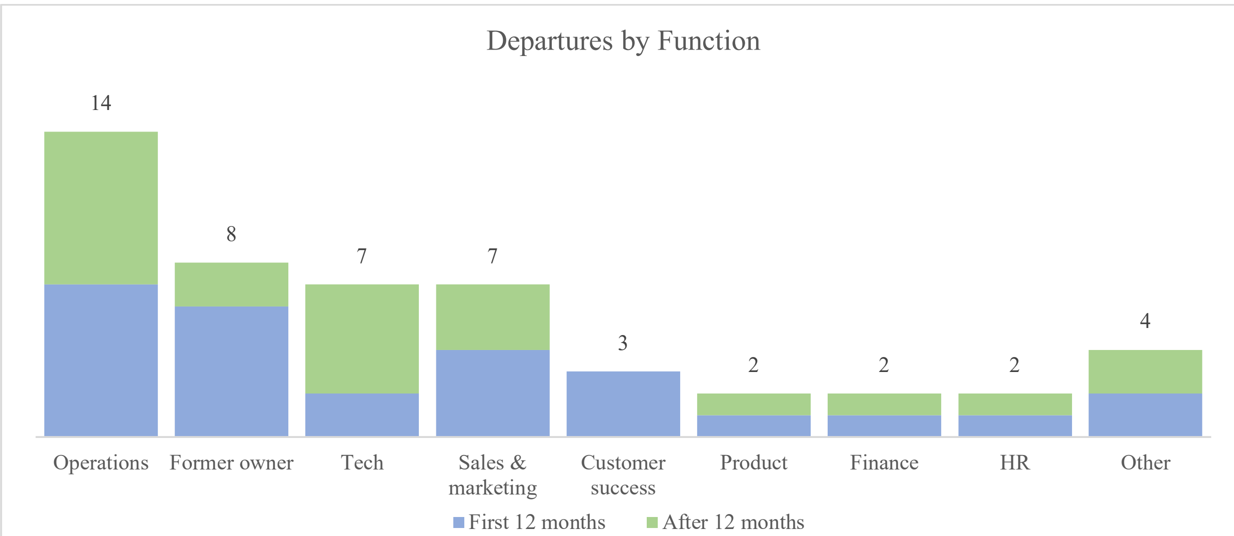

*Impact of new hires*

CEOs reported that new hires had an overwhelmingly positive impact on their company—ranking an average of 8.6 on a 10-point scale. Only one hire had a negative impact on their business. Three CEOs reported that new hires in the first 12 months should not have happened. The primary reasons for these mis-hires were poor culture fit and insufficient skill set to perform in the role.

## DEPARTURES

*Profile of departures*

Of the 40 CEOs surveyed, 27 reported that at least one senior employee departed during the first two years post-acquisition (either via termination or voluntary resignation). The most common departures were in operations (29 percent of departures), former owners (16 percent of departures), or in technology or sales and marketing roles (each accounting for 14 percent of departures). Departures in operations were typically titled director of operations or general manager. Former owners who stayed with the business post-close most often left the business within 12 months of the acquisition.

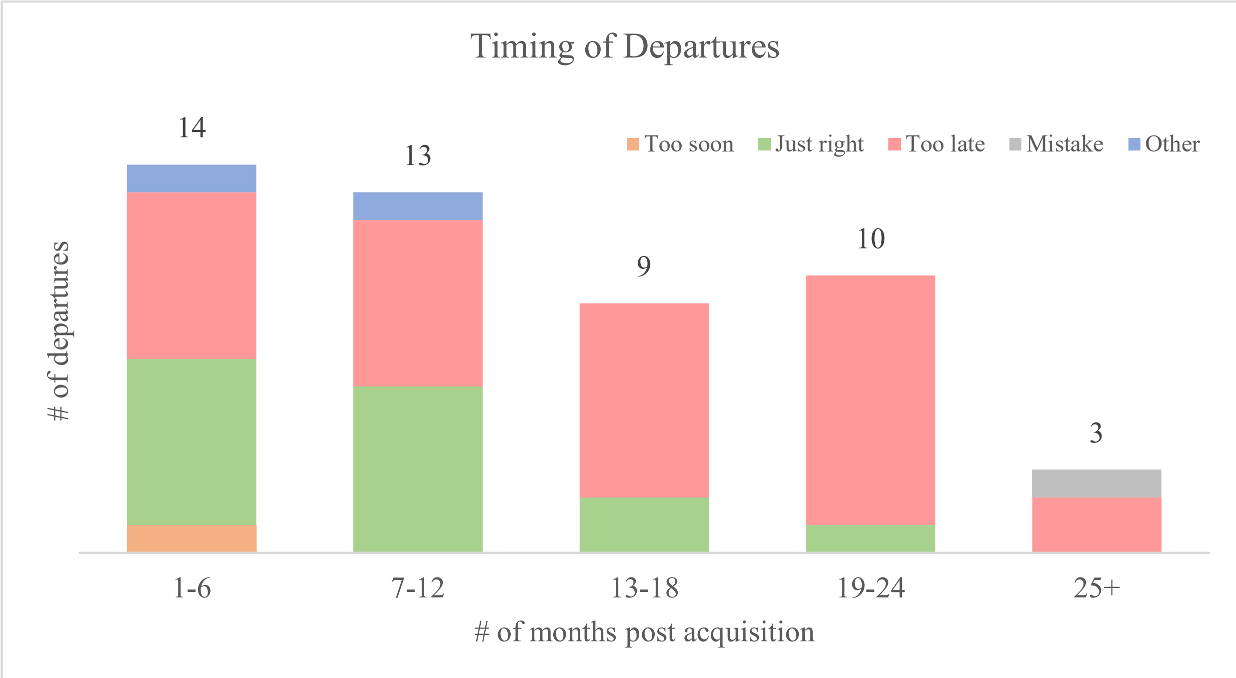



*Timing of departures*

Just over half of all executive departures reported occurred within the first 12 months post-acquisition. Similar to respondent views on new hires, executive departures were most commonly deemed to occur too late (61 percent) or just right (31 percent) than deemed too early (2 percent).

After the first year, the percentage of departures that CEOs considered to be too late increased to 82 percent. Reasons for delayed departures varied. While some respondents decided that their organization had outgrown the individual's skill set, others cited their fears about the impact on company culture or that those executives were "key employees" that might be difficult to replace. Each of these respondents, upon reflection, ultimately assessed these departures as "too late."

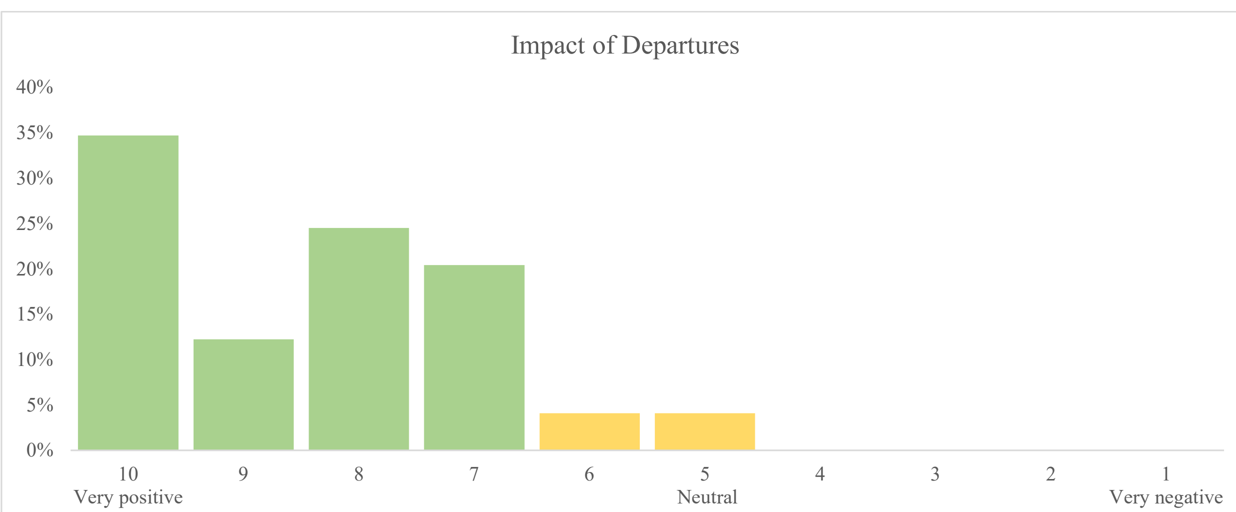
The sole respondent who reported that an executive left too soon noted their controller resigned within the first three months of acquisition, leaving the company unable to complete financials and "flying blind" until a replacement was hired.




*Impact of departures*

An overwhelming majority (92 percent) of CEOs perceived executive departures as having a positive impact on their businesses, while the remainder perceived the impact to be neutral. CEOs cited multiple reasons for executive departures: (1) performance issues, including negative influence on company culture, and (2) unforeseen events compelling departures, e.g., workplace incidents or illnesses.

For CEOs who provided neutral ratings (a ranking of 4 to 6 out of 10) for the impact of the departures, their reasons included a mismatch in timing (i.e., the departure was too late, or due to an unforeseen event), or their executive leaving to join a competitor.

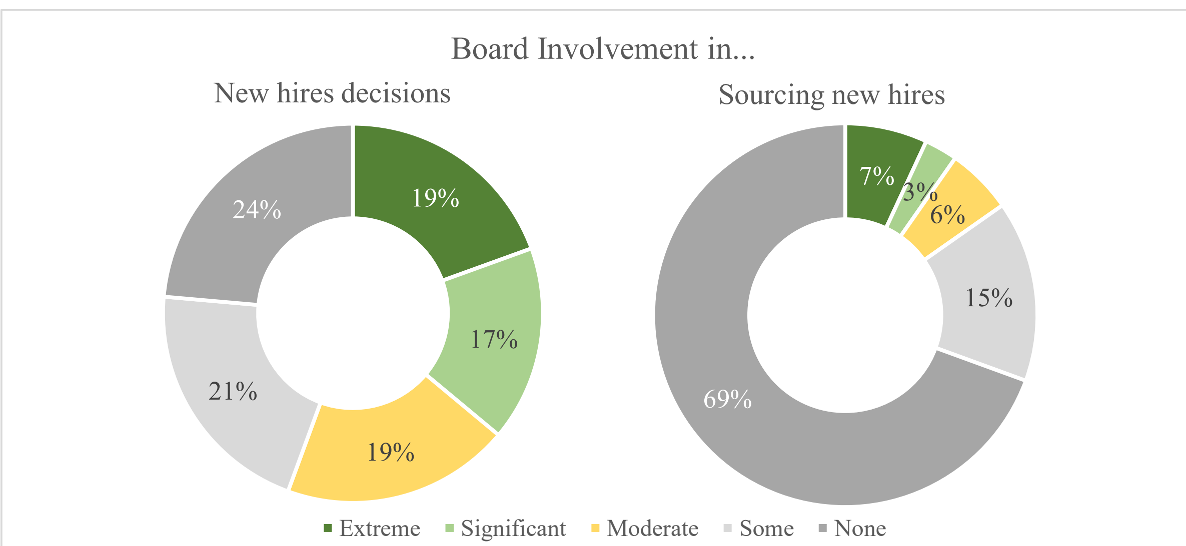


## The Hiring Process

Networking (42 percent) and recruiters (35 percent) were the most popular sources of new hires reported by the CEOs surveyed. New hires sourced through networking had a slightly more positive impact on the company, when compared to new hires sourced through recruiters.

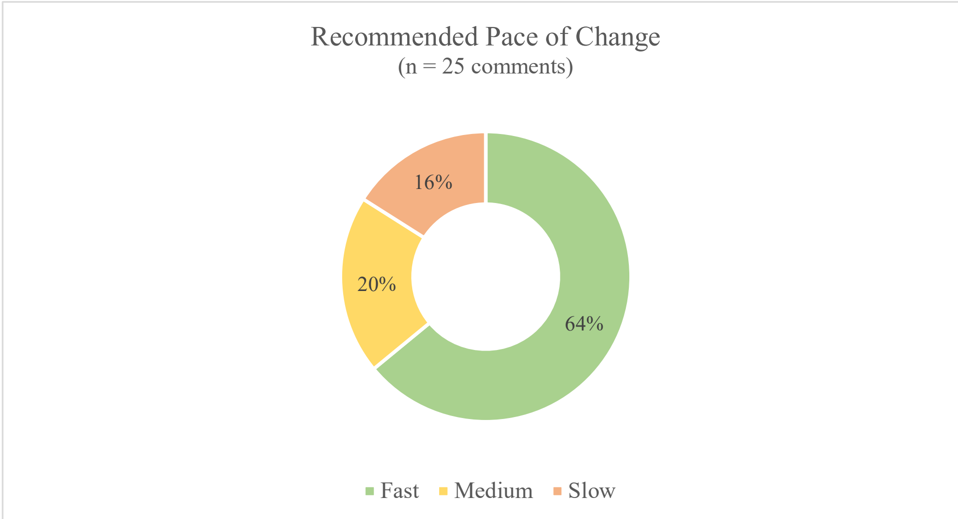
| Source of new hire | Number of new hires | Percentage of new hires | Average impact on company |
|---|---|---|---|
| Networking | 30 | 42% | 8.9 |
| Recruiter | 25 | 35% | 8.4 |
| LinkedIn | 8 | 11% | 7.9 |
| Board member/investor | 5 | 7% | 8.0 |
| MBA job posting | 2 | 3% | 9.5 |
| Indeed | 1 | 1% | 7.0 |
| Internal promotion | 1 | 1% | 10.0 |
| **Total** | **72** | **100%** | **8.6** |

According to survey respondents, boards were extremely or significantly involved in the decision to hire a key employee about one-third of the time (36 percent) but far less involved in the actual sourcing, assuming that role only about 10 percent of the time. There was no meaningful correlation between board involvement in deciding or sourcing new hires and the overall impact that the new hire had on the business.




## Lessons Learned

When asked to provide advice for new CEOs and boards, 25 CEOs recommended a certain pace of executive change. Of the CEOs that commented on the topic, 64 percent recommended moving quickly to get the right people in place (despite it being scary, overwhelming, or uncertain). But 20 percent suggested a more measured pace, with comments such as “take your time to learn the business but be decisive when you need to.” The remaining 16 percent of CEOs advocated for a slower pace of executive change—urging new CEOs to take time to hone their company culture, clarify their top values, and understand the skill set needed before acting.




Hiring lessons and advice included:

- *The leverage provided by hiring the right senior executives is tremendous—make it a focus of CEO energy and attention.*
- *Recruit for now and for the future (two to four years out).*
- *Develop effective practices for hiring such as candidate assessment tools, topgrading, industry benchmarking, and an internal performance management system.*
- *You will make mistakes, learn from them, and move forward.*

Departure lessons and advice included:

- *I was fearful of losing a key technical team member even though I knew he was not a good manager. I waited too long to let him go.*
- *The executive held us back from new thinking, taking risks and putting in new processes.*
- *The organization had outgrown this person's skill set. A high-skilled replacement unlocked a lot of value.*
- *Changing general managers was the single biggest culture driver in our business. We needed time to set our new culture before hiring.*
- *Weed the garden sooner; the business can likely handle more disruption than you think.*
- *In the first year, learn the business model and key players; don't change much.*

## CONCLUSION

For search fund CEOs, senior leadership changes are likely but not certain within the first two years after acquisition. Of the CEOs and companies surveyed, the most common early new hires were in sales and marketing and finance in the first year, and operations in the second year. Departures within the first two years were most often in operating roles or former owners.

For the CEOs surveyed, it was rare that a change took place too soon and very common that it took place too late. The impact of both new hires and departures was overwhelmingly positive.

When looking for new candidates, networking and recruiters proved to be great sources. Boards were often involved in the decision to hire key executives but not the sourcing of candidates. Importantly, there was no singularly successful approach—top performance was achieved with a variety of different executive team-building strategies.

**Exhibit 1**
**Industries of Survey Participants**

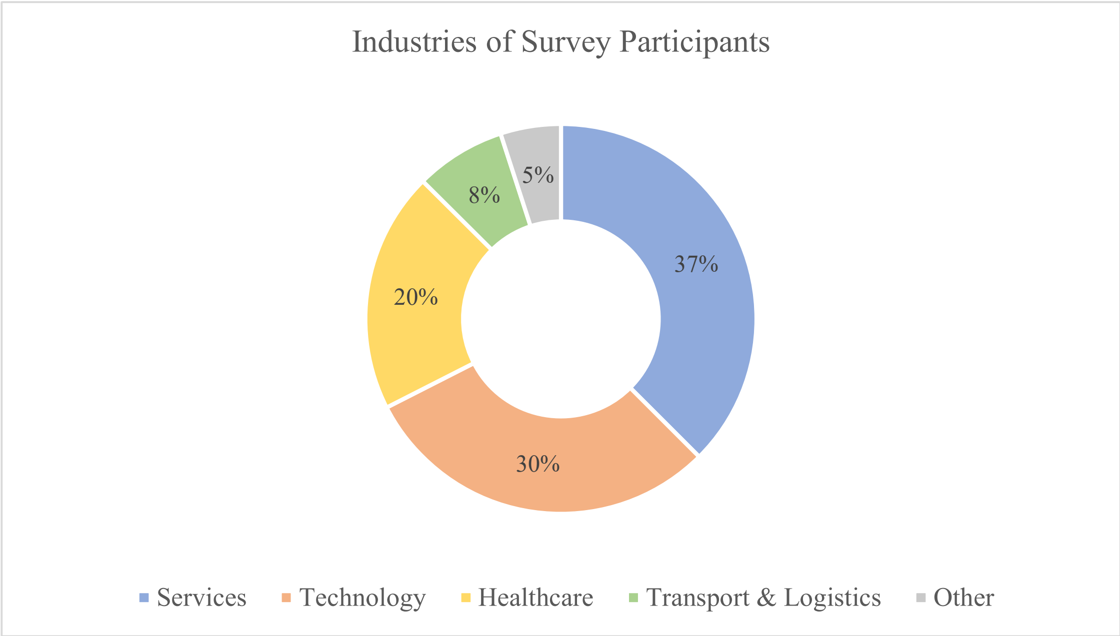



**Exhibit 2**
**Participating Companies: Return on Investment, Since Acquisition**