Market Trends and Challenges in Recruiting for CEO & CIO Positions
July 24, 2017

Mary Hobson, Executive Vice President
EFL Associates
720-200-7005
mhobson@eflassociates.com

Do You Need To Conduct a Search

Fiduciary Duty Considerations:
- Act in the best interest of members
- Do you have a succession plan? Has that plan groomed a designated candidate who is ready to take the position?
- If yes, are you comfortable that the successor is ready? If yes, promote him/her.
- If you have doubts, conduct a search. If the designee emerges as the best candidate, his/her credibility will be enhanced.
Do You Need a Search Firm

Considerations:

- Do you have internal resources to support the search? The search process is time consuming.
- Will you rely on advertising/posting? If not, who will conduct outreach to potential candidates?
- A search firm also provides independent evaluation and recommendation about candidates.

Search Process
Determine the Process from the Board’s Perspective – Options:

- Select a Search Committee
- Board acts as committee of the whole

Considerations:

- Search Committee is a smaller group; it will make scheduling easier, facilitate discussion, save time of other board members, and help to ensure confidentiality.
- Representation on the committee should be broad enough to include various board perspectives – generally 4-7 members is ideal.
- Determine delegation of authority to the committee. At a minimum, the committee needs to keep the full board informed of progress on a regular basis, within parameters of open meetings/open records laws. All Board members can be invited to attend committee meetings, if desired.

Update the Strategic Plan and Business Plan:

- Where and what should your organization be in the next 3-5 years
- What are the 3 or 4 major organizational goals to be accomplished in that time frame
Update Position Description, Challenges and Opportunities:

- These items should derive from the strategic and business plans, and conversations with board and staff.
- Search firm should have conversations with board members, either as a group, or individually to ascertain thoughts.
- Search firm should talk with the incumbent and senior staff reporting to the incumbent to get “feet on the ground” perspective.
- Board may consider using survey throughout the organization to get broader thoughts. This provides insight from more “feet on the ground” and provides inclusion to employees.

Strategy and Tactics:

- Search firm works with search committee to determine appropriate venues for advertising/posting, and best types of organizations for direct outreach
- Search firm conducts outreach to potential candidates and sources
- Search firm interviews and evaluates candidates to determine best-qualified to present to you
- Search Committee selects and interviews a group of candidates; narrows the field to small number of finalists.
- Search firm performs professional reference and background investigations on finalists.
- Full Board interviews the finalists and makes the selection.
- Search firm assists in negotiations and making the deal happen.
- Timing for this portion of the search is generally 4-6 months.
Internal Candidates:

- Treat internal candidates like external candidates, i.e., they need to go through all the same steps, including interview with the search firm.
- Whether the search committee interviews internal candidates depends on the candidates’ qualifications and the general philosophy adopted. Obviously if an internal candidate is well-qualified and compares well with external candidates, the internal candidate should be interviewed.

If the internal candidate is not well-qualified, or is “on the bubble,” there are two views:

- internal candidates deserve the consideration of an interview regardless
- interviewing them gives them false hope

Challenges in CEO and CIO Search
Your plan’s funding situation
- May create uncertainty about the organization’s future and political challenges

Public sector “fishbowl” environment
- Can constrain management’s ability to fully explore options with the board
- Some individuals just do not function well in this environment, or don’t want to deal with it

Politics/political considerations
- Your plan is probably highly visible politically so external forces may impact decision-making more than other organizations
- Also requires the CEO and possibly the CIO to spend more time externally and to have strong skills in dealing with politicians and the media
- For the CEO, relationships with stakeholder groups are also critical

For the CIO, all of the above detract from what investment managers most like/want to do – manage money
- This can be mitigated by hiring a CEO who will deflect as much of the external politics as possible.

Location
- Be realistic – is your location a desirable place from a climate or cultural standpoint – set aside your own biases, if possible
- Consider factors like state and local taxes, cost of living, and opportunities for a trailing spouse
- Substantive content knowledge (or ability to learn this quickly)
  - Don’t underestimate the need to understand how a public pension organization works, and its central issues
  - This is critical to credibility with all stakeholders, especially for the CEO
  - This includes understanding the use of technology in the organization, and high level management of that function
  - Developing internal risk controls and cyber security for the organization are also a hot buttons today

- Finding organizational leadership experience in an organization of appropriate size and organizational complexity
- Identifying diversity candidates
  - Financial services industry is still largely white male dominated
  - Requires extra effort to attract diverse candidates
  - Board may need to be willing to look at “up and comers” rather than established candidates

- Finding the right fit from a culture perspective
  - Reinforces the importance of speaking with others in the organization

- Dealing with candidate issues
  - Trailing spouse, children in high school, aging parents, timing of incentive payments, giving up equity/stock options, relocation expenses
Compensation:
- More of an issue when recruiting individuals from the private sector
- For CIO searches, generally the lack of incentive is the biggest problem
- For private sector individuals, compensating for deferred bonuses and stock options can be an issue
- A reasonable relocation package is also important

How do these Challenges Affect the Search?
- Ideally, most boards look for a "direct" fit, i.e., someone from another public pension organization. Challenges with this approach:
  - There are not enough public pension CEOs and CIOs (and Asst./Deputy CEOs and CIOs) from organizations with enough size and complexity to develop a robust pool.
  - Individual considerations such as stage in career, vesting in current organization’s pension benefits, and family considerations further limit the pool.

Trends:
- Look at private sector financial organizations
  - For the CEO - banks, insurance companies, mutual funds, defined contribution plan managers
  - For the CIO - the same types of organizations, plus private asset management firms
- Many individuals in the private sector have reached a point in their careers where money is no longer their primary motivator
- Many individuals today have a desire to "give back" while being challenged intellectually and receiving reasonable compensation