

MAY 2018

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

John Doyle

EXECUTIVE VICE PRESIDENT



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.

Related Articles

[The Challenge of Hiring Executive Leaders in a Candidate-Driven Market](#)

[Key Factors in Effective Succession Planning](#)

[The Evolving Traits of a Visionary Business Leader](#)