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Collecting Data for Decisions about Individual/Corporate Transitions: A Nine Factor Model

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Psychologist managers help clients obtain valid information so that they can make free choices. Choices about corporate and individual transitions are one of those critical decision areas where psychologists can add unique value by helping clients to arrive at decisions using a structured approach to decision making. Corporate and individual transition decisions include mergers, acquisitions, alliances, and new employment. In this article the author describes one structured framework for collecting valid information using nine business factors. Specific questions to ask and specific websites to visit are provided. Limitations of the framework are discussed.

Professional "transitions" refers to a category of decisions that involve aligning professional or corporate reputation with a new corporate entity. Examples of questions raised include:

- Should the company be acquired?
- Should the company form a strategic alliance?
- Should I join this company Board?
- Should I take a job with another company?
- Should we acquire this company?

When clients deal with such transition questions, our job as psychologist managers is to provide them with valid information so that free, informed choices can be made. Part of our value is helping to frame questions they need to ask themselves and others. Another value we bring is steering clients to useful sources of information that could help them make informed decisions.

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The purpose of the author in this article is to provide practicing psychologists with a 9 factor framework to help evaluate the worthiness of a particular professional transition. The 9 factors are the nature of corporate control systems, CEO personality, base for success, compensation system, legal structures, profit picture, consultant stability, law suit patterns, and vendor payment history.

1. CORPORATE CONTROL SYSTEMS

Like all of us, chief executive officers are human and can make errors of judgment that could become illegal or get too close to a legal gray area. A proper institutional checks & balances system to guard against out of control CEO decisions is an important first factor to consider. The place to focus attention is on the audit committee of the board of directors. A question one might ask others is, "Tell me about the people on the audit committee?"

Public companies are required to have independent board members on audit committees. But there is a loophole in the definition of "independent." One can meet the standards of business independence by having audit committee members with no business ties to the company. But it says nothing about social ties, such as neighbors, people who went to college with the CEO, fellow country club members, etc. Private companies can have audit committee members who are family members or employees.

Ideally you would want to hear words like "strong" to describe the committee. It would help if a retired partner of a well known CPA firm was on that committee. Another question to ask is, "Tell me about what board meetings are like?" I am always concerned when the response is, "Everybody gets along." Getting along is a great idea for couples on an ocean cruise. It is not necessarily an ideal culture for a board of directors. I prefer to hear phrases like "spirited debate."

One important component of a corporate control system is the general counsel. Ask, "Tell me about the general counsel?" Be wary if you hear words like "well liked." That is not the general counsel's job. You hope to hear words like "respected" and "integrity."

If you ask, "Describe the chief financial officer," you don't want to hear the phrase "nice person." You do want to hear words like "tough" "fair" "strategic."

2. CEO PERSONALITY

As psychologists, our first focus might be on personality but I have made it #2. A poor institutional system of checks and balances should be considered an amber light even if the CEO seems to have a wonderful personality.

Within the constellation of the "Big Five," I tend to look for signs of neuroticism. How can one use web based tools to identify potential trends toward emotional instability and poor impulse control? Try searching the name of the potential boss or the CEO on news.google.com. Are there stories in the press that might raise concern? If it is a public company, check out the CEO name by googling "investing businessweek (name of CEO)." This should provide a basic resume. Click on the picture of people to see the person's network of board members. Know any people in common you could contact? Is the person on Linkedin.com? Do you know people who might know the CEO?

If it is private company, consider purchasing a D&B credit report at www.dnb.com. Does the CEO have a history of sudden business reversals? How long is the average tenure? Short tenure with sudden business changes, even from bad to good, might not necessarily be good signs. There are ways to create short term shareholder value yet leave long term investors in the lurch.

"Accessories" is a term often used to describe nonessential wearing apparel. What are the accessories the CEO "wears" to present him/herself to others? For example, does the CEO's office look more like a den at home than a business office? Are the photos around the office mostly of the CEO with famous personalities? Does the CEO have the most prominent parking spot near the front door? These might be indicative but not conclusive signs of neuroticism. It suggests more reference checking need be done rather than conclusions be drawn.

3. BASE FOR SUCCESS

If a service company, who is the chief rainmaker and what percent of the total business does this person control? If a manufacturing company, what percent of the total business do the two most important customers account for? In a constantly changing business environment, a successful company with a narrow base for success cannot maintain this position for long.

It is a good sign if a company admits its base for success is narrow and is trying to broaden the product line, distribution system, or customer base. If a company's base for success is narrow but it thinks it is in great shape, that is a bad sign.

4. COMPENSATION SYSTEM

Ask questions about how the CEO is paid. "How" the CEO is paid is more important than "how much" the CEO is paid. "How" the CEO is paid sends a signal

from the board regarding what is important. That signal moves down the corporate chain of command to influence corporate culture at all levels.

Pay particular attention to the elements that go into the bonus system and the stock option program. Does the bonus system create a dangerous short-term focus

This relationship between current ratio and vendor payment should be reviewed by someone with an understanding of the company's business sector. There are strong industry norms that can temper conclusions drawn.

DISCUSSION AND LIMITATIONS

The nine factor professional transitions framework described in this article can also be used by psychologists in independent practice to evaluate how close they want to get to a potential institutional client opportunity. Risks for independent psychologists are less about reputation and but more about not getting paid or wasting valuable time with clients who do not want to change.

These nine factors were designed with a United States focus. The factors may or may not be appropriate outside the United States. The web tools presented will most likely not be appropriate outside the United States. Further research might focus on factors and web-based tools appropriate for other countries.

FOREWARNED IS FOREARMED

Much of our work as psychologist managers involves assisting clients in making personal and corporate transitions. These transitions might involve alliances, acquisitions, mergers, or new employment. Our value to clients is to steer them to a structure for obtaining valid information so they can make free and informed decisions. President Ronald Reagan often quoted a Russian proverb that makes sense for anyone thinking about such transitions: "Trust, but verify."