

Getting systematic about management assessments

When you're acquiring a company or building a management team, assessing skilled managers effectively can lead to improved ROI. Private equity investors can do more to achieve sustained success by making the process as systematic, rigorous, and efficient as possible. Having a system in place to guide judgments about management talent can add value.

A systematic process can have different roles for different team members at different stages in the deal:

Competency Models in Management Assessment

What	Position Description → Competency Model → Quick Management Assessment → Thorough Management Assessment		
When	While crafting investment thesis — pre-deal	During due diligence	Before or just after close
Who	Deal team (ideally with specialized HR assistance)	Deal team	Assessment professional

A competency model outlines the behaviors that a firm's managers should demonstrate as leaders. Competency models are based on the critical elements of accurate job descriptions and are the foundation of most systems for assessing managers.

In this letter, I'll describe the first step: crafting the position description, which is the basis for the competency model and the assessment. In future letters, I'll outline how to create the competency model and how to use it wisely.

Developing position templates

Begin by developing a position template. You and your firm undoubtedly have had some discussion of the position. Typically, a template includes:

1. Business Context

What is the strategy and what is the business model?

2. Critical Business Imperatives

What are the priority activities necessary to realize the strategy/ objectives, and how will culture inform the execution of strategy?

- The current and future nature of the team. What type of person would best complement the existing team? How should the team evolve?
- The most important activities the company must do to realize the strategy (e.g., closing a major account, developing a major OEM partnership, completing a critical product development, or building the organization).
- The culture of the organization. What are the organization's values? Management style, communications, and approach to training and development of people?

3. The Job

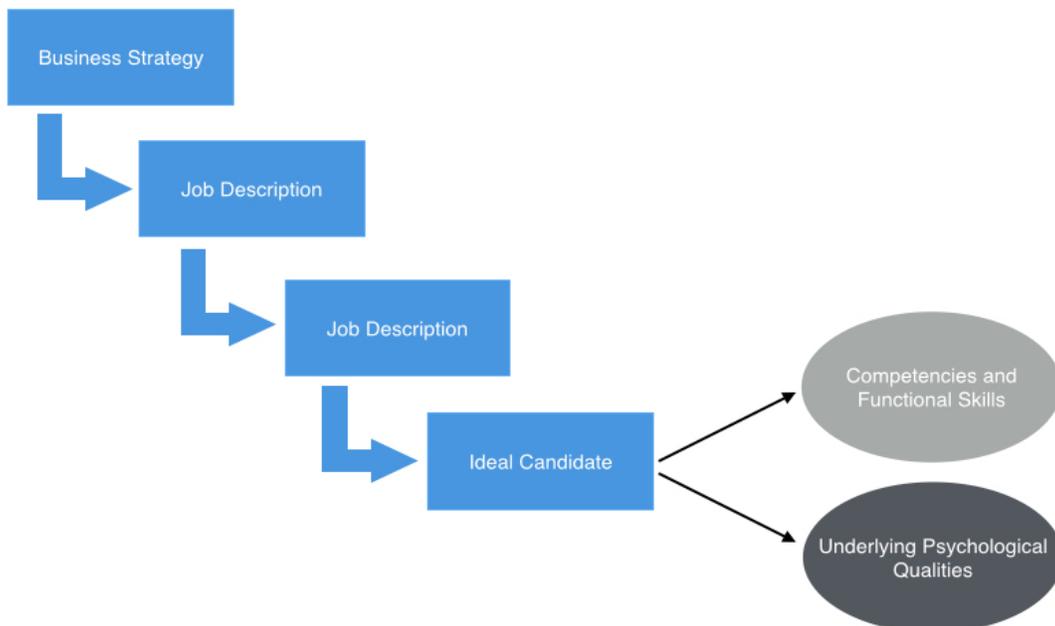
- Job title and purpose.
- Dimensions: budgets, people, materials, capital investment and key result areas.
- Nature and scope and in particular, the difficulties and challenges in doing the job well.
- Key relationships, both internal and external
- Principal accountabilities: what are the two or three key objectives and the job's expected contribution to the organization; what is most important to the organization from this position?
- Performance measures related to the critical business objectives.
- Time-span horizon of the role (how long it will take to achieve the longest task in the role).

4. The Person

What is the definition of the *ideal* candidate? Characteristics might include functional/ professional/ technical skills, work experience, career flow, prior level of performance desired, and key required competencies.

The ideal candidate definition is specific to a specific job at a specific portfolio company at a specific moment. The two or three principal accountabilities or tasks the jobholder needs to perform in order to be considered successful drive this definition. For example, what behaviors, actions, and contributions would a high-performing jobholder make in carrying out these critical tasks? Finally, what are the competencies associated with these successful behaviors, actions, and contributions?

Position Profiling Process



WHO SHOULD DEVELOP POSITION DESCRIPTIONS?

Members of the deal team most closely involved with articulating the company's strategy and overseeing its implementation should develop the position template, possibly assisted by a competent HR person and/or operating partner within the firm. If the deal team uses third party consultants to provide expertise in the market or industry that the deal team lacks, then those experts should be involved too.

WHAT ARE THE TRICKY BITS TO BE SURE TO GET RIGHT?

- **Be specific and real.** Start with the leadership challenges implied by the strategy. Focus your assessment of management capability during due diligence on what the management team needs to achieve. Link the position description tightly to what you actually need managers to do well – the critical business imperatives of the role – in order to carry out the strategy. Anticipate what might get in the way to achieving the position objectives.
- **Don't be too specific.** It's easy to get carried away with making things too specific and while there's no constant definition of what's too specific, you want to focus on the critical "what's" that must happen while not specifying the "how" in inordinate detail.
- **Don't forget culture.** Take culture into account. If you plan to change the company's corporate mindset as part of the strategy, the CEO's job description should include shaking up the organization and its bureaucracy quickly and deeply and probably taking other necessary, aggressive steps.
- **Write position descriptions that can serve as the basis for position scorecards once you own the company.** You may be planning to use financial or other performance indicators as part of determining compensation and bonuses. More specific performance measures that measure success at moving the company closer to achieving the strategy are valuable to monitor progress, and if you think about them as you write the position description you won't need to get outside help after the deal closes to put these metrics together.
- **Think through how long the person has to achieve each performance measure.** Is a key item to be achieved in three months or within a year?

WHAT HAPPENS NEXT?

After you have the position description, you can easily model the competencies for position. The competency model translates the requirements of the position into the set of skills you want to be sure the candidate has and suggests the indicators you can look for that will indicate that he/she has the skills.

In future letters, we'll look at competency models and putting them to use.

(For a sample of a position description go to: <http://pratchco.com/wp-content/uploads/2015/05/Software-CEO-Template.pdf>.)