How to get what you want (and how to move - fast - when you don't)

Not everyone is equally good at all parts of the "private equity person" role – some investors are better at sourcing deals, buying companies, or raising money than at being director or leading the Board. To be great at guiding portfolio companies, you need to know when and how to work with a CEO who will not always (or maybe ever) be pleased with the Board. Getting each party to do their part in achieving the aims of the investors – a job they must do together – benefits from planning, skills, and knowledge.

Do the planning

- **Agree on the desirable Board culture** – how do we want the Board to function, and how can we fail to achieve that? Managers should know that a culture of engagement and direct, robust debate is the norm for private equity boards. Be explicit about the purpose of Board oversight and questions. Also, articulate the scope of Board input – on which matters does it DECIDE and on which matters does it ADVISE?

- **Identify the deliverables from the CEO to the Board**. The CEO is responsible for executing initiatives for that year that emerge from the investment thesis (e.g., defend core product line while also driving the success of newly launched products – add new distribution while also improving velocity in existing accounts, roll out new products successfully, complete transition to new co-manufacturing facility, gross margin improvement, grow a particular channel). The CEO needs to provide the Board critical information about problems and new opportunities – and how he is addressing them. He should identify where he could use outside assistance (e.g., restructuring/cost cutting, hiring senior management) – and how he is seeking it and what role he would like the Board to play.

- **Identify the deliverables from the Board to the CEO** (e.g., clear guidelines on what is expected, performance review, introductions, perspectives and guidance on strategic, operational, and financial management issues).

- **Design guidelines for interactions.** What will Board meetings look like (agenda, decision-making rules)? What conversations between the CEO and Board members outside of formal Board meetings are expected? What other ways can or will Board members see what is happening in the business or market (e.g., talking with employees, talking with customers, talking with distributors, talking with customers' customers)?

- **Clarify ahead of time the process of identifying when performance is at issue**. Clarity of process is important. You need a plan to address problems that arise at the Board level, just as you have a plan in place if a factory burns down. You'll handle problems much better if you've been clear ahead of time about how you are going to work together and about how you'll handle the kinds of problems that could crop up.

  A Lead Director working for a private equity firm that has a majority interest can say to a CEO, "This is the process that works for me. I set the agenda in Board meetings. I serve as a liaison between the CEO and the Board. I coach and advise until something becomes a problem – but then the timeline for intervention is short. Sometimes this means terminating a CEO before he's ready to leave office but rarely do I allow the relationship to deteriorate into a dysfunctional one."

Your planning for managing a CEO should include from the start a backup leadership plan (or succession plan). If the CEO falters, you want to be able to move swiftly to replace him – without destabilizing the company more than is necessary.

- **Clarify skills** – When a Board member offers a perspective or a directive on a business issue, CEOs may feel that an industry novice is trying to tell him how to do their job. It's advisable to spend some time at the beginning having each party describe their perceptions of their own strengths and the strengths of the others. Generally, the CEO brings operating knowledge and valuable relationships with key employees and customers. Private equity directors bring insight from other settings and the ability to see the business from the outside.

  Having a discussion about roles, process, and skills creates a more efficient investment. It is worth clarifying for managers what dealing with a board when a private equity firm has control means. Even if you're recruiting a CEO, it may "go without saying" but it's still worthwhile saying. "This is what we bring to the party, this is what we do to make it work, and if you want a Board that won't challenge you, then don't do a deal with us. You as CEO aren't in charge to the degree you were in the past. You may have opinions and we want to know what they are but it's our call if we disagree."

  Only one side of the Board member-CEO interaction needs to be "mature" to make the process work – so make sure that the Lead Director is mature. A CEO who is mature and self-aware can live with Board members who aren't perfect, and Board members who are mature and self-aware and other aware can live with an immature CEO. The problem is when nobody is self-aware and mature. It's easiest if Lead Directors grow themselves, as opposed to fixing the CEOs.

Build the skills

- Talk to a master of being a lead director. What does he do that helps him get the most out of CEOs and minimizes the risks?

- Learn from others' experiences – talk to people at your firm about successes and failures in monitoring investments.

- Get some coaching (e.g., how to deliver tough messages without making the management team defensive).

Get the information

- **Assess senior management**. Does the company have the right CEO to execute on the strategic plan? Insight into the management team before doing the deal is important. Learning by trial and error or after the house is on fire is expensive. Wouldn't you like to know before the person lights the match and take the matches away from him? What are the CEO's development needs? What interaction style would work best with him?

  Assessments can help resolve any concerns you have. One firm entered alongside an entrepreneur, deviating from its usual practice of being in control. They wanted to structure the transaction so that an unprofitable brand could be divested efficiently and were sensitive to the entrepreneur's attachment to it. They used the assessment to understand the nature of the attachment and how they could build the best possible working relationship with him and to bring about the sale of the unprofitable brand.

Also consider sharing the findings of the CEO's assessment with the CEO – doing so conveys respect, builds trust, and sends the message that you expect management to be fully committed to the future success of the business. The firm above had the assessor give the CEO developmental feedback and coach him.

- **Assess yourself** – and share the findings with the CEO. What are your development needs? What is your interaction style? Share what you know in a way that can help your relationship work better. An investor who knows that sometimes he is too challenging could say to a CEO, "There's something I'm working on and it's a hyper-challenging style, so if you're hearing hyper-challenging from me, let me know. I want to have a conversation about it. I'll consider what you say, and decide if your concern in valid. But in any case, I welcome hearing it."

What you can do

Working well with your CEO partner is vital to creating operational value, a major key to PE success in today's environment. Consciously thinking about and discussing how you are going to work as a Board member with your CEO will make your success larger and much more likely.

Think about the boards you're on. How many of these conversations have you had and would it be good to have one? Think about what, if anything, you contribute to the challenges on your most difficult board.