

Systematically get the evidence you need

The last two months, we've looked at an approach to assessing portfolio company managers efficiently during due diligence. To evaluate portfolio company managers, you need evidence that demonstrates they have or lack the necessary competencies. The interview and reference checks are the main tools available during due diligence to see if the managers have the skills you've defined in your competency framework. During due diligence, it's important to learn both what an executive has accomplished and how. To do so, you must evaluate the personal characteristics, skills, knowledge, experience and attitudes used to achieve results and consider these factors against the criteria you identified for successful performance.

COMPETENCY FRAMEWORK UNDERPINS INTERVIEW GUIDE

A competency framework provides guidelines and interview prompts to help you collect evidence. A deal team can use a framework to identify the most important competencies for the role, define those competencies operationally, develop questions to ask in an interview and know how to evaluate the answers. Good questions will provide evidence of behaviors that indicate the competence. You'll validate what you hear by drilling down with questions about the time the behavior was displayed such as: what was your role, what were you thinking, what did you say and do, what was the outcome.

The deal team can craft an interview guide that defines each competency, provides both positive and negative examples of behavioral indicators for each competency, and offers questions designed to elicit evidence of the candidate's historic demonstration of the competency.

What are you looking for in the interview?

Before you conduct an interview, establish the areas you will probe. For example, competencies required of a CEO might include a subset of the following high-level competencies:

Judgment	Influence	Management	Personality
<ul style="list-style-type: none">• Applied strategic vision	<ul style="list-style-type: none">• Personal impact	<ul style="list-style-type: none">• Strategic leadership	<ul style="list-style-type: none">• Business achievement drive
<ul style="list-style-type: none">• Intuitive decision making	<ul style="list-style-type: none">• Organizational influencing	<ul style="list-style-type: none">• Management team building	<ul style="list-style-type: none">• Active coping/ stress tolerance
<ul style="list-style-type: none">• Pattern recognition	<ul style="list-style-type: none">• Networking	<ul style="list-style-type: none">• Business effectiveness orientation	<ul style="list-style-type: none">• Sensitivity/ empathy
<ul style="list-style-type: none">• Openness to change	<ul style="list-style-type: none">• Conflict resolution	<ul style="list-style-type: none">• Product and process knowledge	<ul style="list-style-type: none">• Authority/ responsibility

Your value creation plan dictates the performance criteria for each management role. For instance, if negotiating skills are vital, ask the candidate to recount a time he or she applied these skills either successfully or unsuccessfully. Probing areas of poor performance and lack of success is important to understand how the candidate copes with setbacks and defeats, and whether he or she learns from failures and grows through adversity.

Probing for Strategic Leadership competency

Portfolio company CEOs almost always need to be competent at Strategic Leadership, which can be operationally defined as:

- Defines the enterprise's basic long term goals and objectives and acts and allocates the resources to carry out these goals.
- Identifies conflicts among goals and considers tradeoffs and the time horizons in making decisions
- Identifies how specific decisions will lead to specific outcomes
- Leads by example and motivates others to follow.

As investors you know how to ask questions related to strategic leadership. You might consider adding questions like:

- What do you want important subordinates as well as outsiders to understand in your business? How do you bring about that understanding?
- What are your staff's main worries? What have you done about them?
- When you have to tackle a complex problem for the first time how do you approach it? Walk me through a specific example.
- Describe a situation when you solved a problem or clarified an issue that others could not.

Positive and negative behavioral indicators help you evaluate the degree to which the manager you have interviewed is capable in this area:

Signs of LOW Strategic Leadership Competency	Signs of HIGH Strategic Leadership Competency
<ul style="list-style-type: none"> • Physically located far from staff; has no wish to get closer. Never leaves desk. Won't go into field to meet customers, scope competition, or understand colleagues' concerns. 	<ul style="list-style-type: none"> • Allocates serious, continuing time to field visits. Mixes with colleagues at all levels. Seeks information on their problems; shows concern. Has a finger on the pulse of the organization.
<ul style="list-style-type: none"> • Focuses on short-term goals; does not consider the future or what the organization is seeking to become. 	<ul style="list-style-type: none"> • Considers the pattern of goals, purposes, or objectives and the major policies and plans for achieving them.
<ul style="list-style-type: none"> • Reactive, moves only when prodded. Often does not want to know information. Fails to consider risks. 	<ul style="list-style-type: none"> • Proactive; attacks problems strategically with well-defined goals. Plans long-term, step-by-step advance ahead of the competition.
<ul style="list-style-type: none"> • Conveys lack of confidence in others' abilities and ethics. 	<ul style="list-style-type: none"> • Conveys confidence in others' ability to meet high standards and do their best.
<ul style="list-style-type: none"> • Does not build understanding in organization of how and why a course of action or approach is useful. 	<ul style="list-style-type: none"> • Provides resources and support to ensure that goals are achieved. Provides constructive, timely, and specific feedback.
<ul style="list-style-type: none"> • Inconsistent application of rules and procedures. 	<ul style="list-style-type: none"> • Holds others accountable in a fair, firm, and consistent way.
<ul style="list-style-type: none"> • Coerces rather than inspires. 	<ul style="list-style-type: none"> • Leads by example.

When the interview is over

After the interview, compare your notes to the interview guide, indicate positive and negative indicators demonstrated by the candidate, identify specific supporting comments, and rate the candidate.

Also note your overall impressions of the candidate, both as a person and as an executive. Can you see yourself working with this person? Can you imagine this person working well with key investors, founders, and other important subordinates? The answers to these questions will go a long way to determining whether the person will be a successful addition to your executive team or not.

WHAT HAPPENS AFTER YOU BUY/ HIRE?

You can use the performance criteria you've established and what you've learned in the interview to guide how you build and support a new investment's management team and the resources and support you provide to it. Next month we'll look at ways to monitor the management team and measure performance against the value creation drivers for the deal.