How to attract (and hire and keep) a capable portfolio company CEO

Sometimes private equity firms have trouble landing the CEO of their dreams. The firm identifies him or her (or thinks it has) but then the candidate chooses not to pursue the opportunity or even turns down the offer. While some of the blame may fairly belong to a search firm, much of the blame may belong to the private equity firm. You may not be doing everything you can to be attractive to the best CEOs. And even if you haven't had a problem, you might have some room for improvements that could help you, your CEOs and your investors.

Great CEO candidates typically want:

- An attractive and clear value proposition for taking the job,
- A Board they can work with and benefit maximally from,
- The tools they need to be successful, and
- The plausible expectation that the experience as a whole will be enjoyable (or at least tolerable) and not "the toughest job they never loved."

To capture such a candidate, think about how your firm looks to him/her and shore up your own weak links. Specifically:

- Be clear on the value proposition to the candidate – what does the candidate get for what?
- Provide good support (on the board, off the board, in the compensation arrangements, via the value creation plan)
- Provide a good culture between the Board, your firm, and the CEO
- Understand and compensate for the CEO's weaknesses.

BE CLEAR ON THE VALUE PROPOSITION TO THE CANDIDATE

What does the candidate get for what performance? Lay out the cap table, pricing incentives up front, so that the candidate can make informed decisions ("You have this percentage, let's look at what that can be"). Such disclosure early on prevents a potential disconnect down the line over what one actually has to do to get paid what one's been promised.

PROVIDE GOOD SUPPORT

On the board

Smart CEO candidates know that a strong Board is a key factor for success. Make sure your Boards are strong.

Give the Board the right role

The main aim of the Board is to ensure the company's prosperity, which it does by examining the objectives and the progress of the company in achieving what it has set out to do. But in addition, the Board is the main link between the investors (e.g., the PE firm) and the company's operations. And it can also be a source of contacts, connections and help for the company and its CEO.

Have the right people on the board

Capable CEO candidates want a heavy-hitting ally on the Board. That can be an experienced PE person in your firm who can make things happen at the PE firm, an operator who has been engaged with your firm for a long time or an operator with a towering reputation from his/her work elsewhere. Each of these

people brings something different but they also bring something that is the same: the ability to convince the Board of something the Board is skittish about.

Have an experienced operator on the Board if you can (from the same industry sector if possible). That person should be able to add substantial value. They often can provide industry experience (e.g., "Here's how Ford makes decisions, here's how GM makes decisions") or deep operating knowledge in multiple fields (e.g., a Larry Bossidy).

Be sure the Board is set up to work as well as possible
Be sure the Board has a set of rules/practices that it will use to enhance its functionality (and minimize its dysfunction).

Figure out Board processes and dynamics, information flow, and timeliness of Board packs. What will Board meetings look like (agenda, decision-making rules)? What conversations are expected between the CEO and Board members outside of formal Board meetings? How else 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)? What is the quality of Board packs and how long before a Board meeting will they to be distributed so that all members can be well prepared and can enable meetings to focus on strategy? Capable CEOs don't want Board meetings to digress into discussions of operational minutiae that distract from broader issues of policy.

Establish the role of the Chairman. It is helpful if the Chairman is open to figuring out how best to work with the CEO. He or she can establish a productive collaboration by discussing and developing with the CEO a plan that describes the best ways for the CEO, the Chairman and the Board to work together.

Ask Board members to be open to the CEO if the CEO approaches them about how to make the Board or the relationship with Board members more effective.

Off the board

The Board doesn't have to be the only source of outside input and support for the CEO. Through your firm, provide additional sources of help and support such as consulting (e.g., KKR Capstone, Bain Capital, Cerberus Operations and Advisory Company, Vista Equity) or HR support across portfolio companies.

Consider leveraging the all/many of the firms in your portfolio by organizing access to training and idea-sharing for portfolio company CEOs; this peer exchange is attractive to many candidates and CEOs.

An outside operators' council is another option attractive. Some firms give their CEOs access to an industry roundtable of operating executives who are not on the Board of the portfolio company.

In the agreement on the value creation plan

Have clear outlines of how any EBITDA will be used. If there is extra, then will some of it be plowed back in the business or will it all be taken by the PE firm as dividends or leverage reduction? The value creation plan – base case or upside extension – needs to provide opportunities for career growth and financial gain for members of the organization below the CEO. Many of these opportunities may be conventional; others, such as "performance credit units" that are designed to mirror the behavior of stock options (in other companies where stock options are actually available) may require board involvement to set up. Provide the CEO a mechanism that enables him or her to powerfully induce and reward performance of team members who don't own stock in the company.

Have a process to understand (with the CEO) the potential upside and downside scenarios. Do some planning on how company would respond to "known unknowns" and "known risks" so that when they occur (or as time passes) the CEO can respond as he/she discussed with the board. Have a procedure in place for what to do when unknown/unexpected/undiscussed developments occur – how should the CEO interact with the Board? On what issues does the Board want to be CONSULTED, on what issues does it want to ADVISE? On what issues does it want to DECIDE? On what issues does it just want to be INFORMED?

PROVIDE A GOOD CULTURE

Ensure good interactions with the Board. This can begin with giving clear explanations of what will be expected (especially for a CEO who is new to private equity, e.g., a founder taking an investment) – Board interaction can be much more in-depth or intrusive in private equity than in other settings. A smart CEO candidate will ask for evidence that your PE firm can work well with its portfolio CEOs; aim to be able to provide good references from three previous CEOs who have led one of your portfolio companies, who can speak to the quality of working relationships with the private equity firm.

Ensure good interactions with the private equity firm providing the lion's share of equity. This means, directors at the private equity firm should hold and be prepared for weekly calls and monthly meetings and should welcome calls and contacts from the CEO. The CEOs might want contact more than just at the Board meetings. It's even possible that the board members might want more contact beyond the board meetings. The nature and frequency of contact can be established by joint agreement or by felt need, and it needs to be negotiated and renegotiated as things change. The board and the CEO need to find together the right interaction that gives them each what they need.

UNDERSTAND AND COMPENSATE FOR THE CEO'S WEAKNESSES

No one is perfect for a job on all dimensions. If you truly understand what the job requires and the strengths and weaknesses that the CEO has (and the CEO can acknowledge those weaknesses) then the Board and investors (and CEO) can figure out ways to compensate for those weaknesses, for example, getting a strong #2, finding Board members who can supplement industry contacts that CEO may not have.

A firm that is clear on its value proposition for the CEO, provides good support to facilitate the CEO's success (including a good culture and ways to compensate for any CEO weaknesses) will find itself very attractive to very attractive candidates. Very profitable matches (for all) can be made.