The Deal

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The Right Stuff

With the credit crunch and market jitters looming over Wall Street, private equity firms are under increasing pressure to make smart business decisions that post ample returns for investors.

What can further impede PE firms' success is being burdened with a costly CEO/executive transition.

C-suite turnover in the PE industry is common — and costly. **Shields Meneley Partners LLC** estimates that one in three C-suite executives in private equity is replaced each year. Between locating, interviewing and assessing a quality replacement candidate, the average C-level transition can take up to a year to complete. With investment models and divestiture timetables often tight, delaying the process to hire a new senior executive can be a costly undertaking that hinders investment strategy and results.

While there is an ample pool of accomplished executives interested in joining the industry, whether they truly have the right stuff to succeed in private equity is not always easy to determine. Research shows that while more than 90% of C-suite executives have expressed interest in pursuing job opportunities in private equity, less than 20% actually have the skill set and leadership qualities to make the grade.

So how does a PE firm avoid making the wrong choice in selecting a leader? PE firms should consider the following:

• **Is the executive comfortable taking risks?** Most C-suite executives have not been large shareholders or even majority stakeholders in their previous companies. In the buyout world, the senior executive must be comfortable investing his own money and also be able to take the heat as well as weather market downturns. This is particularly important for an executive joining a smaller company in the lower or middle market which is undoubtedly more vulnerable to an economic downturn.

• **Does the executive have a hands-on management style?** Many CEOs are accustomed to a hierarchical management structure and delegating to a large team to make things happen. Given the flat structure of most PE firms, evaluating executives' ability to roll up their sleeves is essential, particularly when it comes to running a portfolio company, as PE firms want and need their executives to be closely involved in all day-to-day operations.

• **Is the executive a clear, quick thinker?** While evaluating a candidate's overall intelligence is something that transcends all industries, the ideal buyout executive has keen mental agility. Given that most PE portfolio executives have very little bench strength to work with, they need to leverage their own intelligence to solve problems quickly and execute strategies with precision. In their search for the best and the brightest executives, some PE firms even evaluate SAT or IQ scores as an indicator of the executives' overall intelligence.

• **Does the executive have strong people skills?** Ideal portfolio company executives are social and dynamic extroverts who are extremely networked within their industry. Well-developed people skills are an important asset for developing a team and driving growth — two primary responsibilities. It's also important to recognize arrogance vs. confidence and gauge an executive's ability to communicate effectively in a way that brings energy and passion to the table and contributes to overall employee and customer retention.

• **What is the executive truly passionate about?** While an executive might have an accomplished résumé and be highly competent, is he truly passionate about achieving aggressive goals? Gauging an executive's motivations can be one of the most difficult things to decipher, especially as the financial stakes become higher and time lines tighter. Given the symbiotic nature of portfolio companies and PE firms, the portfolio company executive should also be passionate about entering into a true partnership, with the financial growth of the organization being a primary objective. This, combined with an executive finding the fast pace of private equity professionally and personally fulfilling, will ensure that you have the right leader for the job — one that will help you navigate the opportunities and challenges that lie ahead.

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