

Leadership Capital in a PE environment

Getting the best out of a plethora of diverse leadership teams.

Any PE firm will own an Armada of (very) different investments. All these companies have, independently from each other, the same overall objective: “Cross the sea and get to the promised land where the IRR is significantly higher than 8% and where the multiple curves resemble the swiss alps”. But this is often where any similarity between the portfolio companies stops. The journey to the promised land is very different for each company. Different in terms of business-model, market dynamics, growth dynamics and risk profiles. Logically that, because of these different journeys, each portfolio company has different leadership requirements.

At the same time, the portfolio companies have similar executive needs in terms of recruitment, performance management, assessment and development. How can the owner get the best out of the Leadership Capital of each businesses whilst not sub-optimizing a possible portfolio approach? Hereby, 4 observations that will help find the best approach based on my experience of working in holding companies and with PE teams.

Know the leadership team. The quality of the leadership team drives enterprise value. When you have the right top leadership in place, they will in turn make the right decisions about the leaders and people they are recruiting. It makes extremely good business sense to have a relentless focus on the top leadership team of the company. A large part of that focus comes through personal interaction. This builds trust and mutual understanding. An experienced chairman helps but it is the investment team that needs to have the confidence in the whole team beyond the CEO or CFO. As an investment team, make the effort to get to know each team member. It will put your strategy execution discussions in a different light.

Steer away from template thinking. Too often, a first logical reaction of ownership is to look for efficiency. For Leadership Capital this becomes visible in using similar leadership criteria for recruitment or performance management. Or contracting one portfolio supplier for executive recruitment and assessments. In practice, this can lead to a disregard for the specific context of the individual company. Force yourself as an owner, to look through the lens of the company and guide the leadership team without the rest of the portfolio as a benchmark. The first thing that helps is not to use a ‘one size fits all list’ of leadership criteria. For recruitment, performance debates and assessments, use leadership criteria that are relevant to the context of the company. The second thing that helps is ‘not to go global on a local team’. Use leadership suppliers that speak the same language and have the same national background as the leadership team.

Performance management is the ultimate meeting of the minds. Performance discussions create clarity between parties and visibility on the road ahead. Leadership teams who are on the clock have a natural craving for feedback. So, as an investment team, be forward in your performance dialogues and have them as frequent as it makes sense. The governance vis a vis the Chair has to be respected but the performance dialogue should be led by the investment team. At the end of the day, it is their IRR that is the end result. A good performance dialogue has 3 touch points: Chair, CEO and the total Leadership team. Visit www.intelligentboardroom.com and learn how technology can be a tremendous support in the performance dialogue.

Appoint a Leadership Capital partner. The right Capital Partner with executive seniority and HR experience, plays a crucial role in 3 directions. One, is towards the triangle of investment team, Chair and CEO. In this triangle (the core of value creation) an LC partner can, as a trusted resource with no agenda, keep the balance during difficult times. Two, the LC partner can ensure that the people interventions between GP and portfolio company are done through the lens of strategy. The LC partner takes the lead in the leadership work around executive dismissal, recruitment, assessment and development. Three, the LC Partner leads the Human Capital due diligence process for new acquisitions. With the increasing importance of the quality of the leadership team in value creation, a LC partner becomes a necessity. Note that the right LC partner candidate will ask for the majority of pay to be based on fund performance.

Keep these 4 observations in mind, when defining a leadership capital approach that is best suited for the portfolio of leadership teams.