



LEADING BY EXAMPLE

Darryl Cooke of **Hill Dickinson** argues that not enough focus is given to leadership in private equity, and explains the benefits of a value-added board.

Debt has been a relatively cheap capital structure that focuses the minds of management on generating cash. But at a time when debt is scarce and private equity is reviewing the use of leverage in its investments, it is also worth taking stock of the whole private equity model in order to learn lessons from those underperforming businesses in the portfolio, and to ensure that over the long term, private equity clearly outperforms the public markets.

Clearly, the private equity model is predicated on investing in the right industry and paying the right price. Much clearer focus should be concentrated upon the effectiveness of boards, and the harnessing of executive and non-executive talent, to outperform the other players in their chosen marketplace.

If there is a fundamental problem with the leader, then the company's problems won't be resolved by playing with issues at the periphery. Furthermore, if a company is underperforming, then you often need look no further than the leader. So it is sometimes surprising to observe how much accounting, commercial, legal and other due diligence goes into a potential investment as opposed to management due diligence.

What is also surprising is the lack of support given to CEOs to mentor, coach and improve their performance - a small improvement is likely to have a magnified effect on the business. This is often left to the chairman, but many private equity chairmen take on too many commitments and thus cannot give enough time to a demanding role, or can't make the transition from an executive role to a non-executive, left-of-centre position. At the same time, in many portfolio companies there is a distance between management team and private equity non-executives, when what is really needed is for the executive

to get intimately involved.

The following pointers should help to improve the board:

- **The most successful** businesses and the best-laid plans can become impotent without the right people to implement them. No one would argue the effect the right manager can have on a football team. When considering the CEO, compromises should not be made. Private equity firms need leaders with the drive and ability to make their investments succeed, and no amount of due diligence is too much in establishing this. A CEO needs to be a proven team-builder who understands the importance of building value quickly and has the ability to work with experts and supporters around him.

The private equity house must also build a support team around the CEO that will improve performance - otherwise known as the board. Never put in place a chairman that isn't going to roll his sleeves up and work with the CEO - or one that a CEO isn't prepared to work with. The same applies to private equity executives.

- **The legal transaction** has closed, and the commercial, strategic, accounting and legal due diligence has been completed. As a result, the management and the investor have a clear understanding of the organisation's capabilities and potential. The aim must therefore be to develop a blueprint that will lead to the delivery of the vision.

This is a strategic operating plan that will set out in detail how an organisation will fulfil its initiatives, and so achieve its full potential in the agreed timescale. Its overall goal will be to increase value by accelerating operational performance. Up to a week should be set aside offsite. It should not be left to the chairman to facilitate - an expert should be brought in.

A lot of work will have gone

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in prior to this time by both the investors and the CEO in reading and understanding the due diligence report, and spending more time with the advisers to focus on and draw out key points, but what should come out of the session is clarity - an overarching goal that is broken down into five or six must-win battles. Just as important is a communication plan that will ensure the whole of the workforce is behind the leadership.

- **Many leaders have** instinctive qualities, and may have experience that will have finely honed those qualities. But all leaders can improve, and many leadership qualities are simply traits or skills that can be learnt in the way that any other skill can be learnt. It is therefore important to put a development programme around the CEO comprised of training, mentoring, reading and a 360-degree appraisal system. Improved and accelerated performance is both a team and an individual effort.

- **Immediately abolish the** monthly board reporting system that is written into investment documentation. These are a waste of time. Replace them with quarterly two- to three-day retreats when the board, including the non-executives (and experts, should you need them - it's about pulling the best team together) roll up their sleeves, assess and monitor the progress made against the blueprint, getting down to as much detail as is needed, adjusting the road map if necessary and developing another communication plan.

This focus on a value-added board delivering a value-added process generates efficiency, reduces politics and bureaucracy, and accelerates performance. ●

DARRYL COOKE is head of private equity at **Hill Dickinson**.