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## THE ROLE OF THE PRIVATE EQUITY CHAIRMAN

**Part 4.**

### What does a Chairman look for in a Private Equity backer?

**A series of short reports on the role of the PE Chairman encompassing the views of 240 experienced Chairmen and 30 Private Equity investors.**

# WHAT DOES A CHAIRMAN LOOK FOR IN A PRIVATE EQUITY BACKER?

In a series of reports, Directorbank explores the role of the PE Chairman – the draw, the required skill set, the opportunities and the challenges, particularly concerning the relationship with the CEO, the wider management team and the backers.

For this report, we asked **240** PE-experienced Chairmen what they look for in a PE backer. Their responses fell into several categories:

- **Engagement**
- **Shared alignment**
- **Knowledge & understanding**
- **Flexibility in approach**
- **Decisiveness**
- **Respect for the long-term interests of the business**
- **Financial support**
- **A value-add network**

## 1. ENGAGEMENT

The most important quality sought in a private equity investor, as cited by **64%** of respondents, was the ability to engage with the business and provide consistent support for its Management Team throughout the investment cycle, particularly during the tough times.

The investor should have a desire to really get under the skin of the business to truly understand its history, culture and challenges. They should also willingly connect with management to grasp the individual strengths, motivations and ambitions around the boardroom table.

Our surveyed Chairmen favoured investors who look beyond the numbers and offer constructive advice, external insight and healthy challenge to help the Management Team solve problems and maintain focus.

However, many of these Chairmen warned that the level of involvement has to be balanced. Investors must have confidence in the Management Team, giving them the freedom to implement the agreed strategy without undue interference, unless performance strays away from the plan. Having a good dose of ‘patience’ was cited by several respondents.

*“A genuine understanding of the business and empathy with the Management Team’s challenges.”*

*“A firm that understands the business, its position and strategy, and more than anything, its people.”*

*“An appreciation of the qualities of the Management Team, gained after proper enquiry.”*

*“Private equity should be relatively hands-off, only stepping in if the business is failing to deliver on plan.”*

*“Someone who does not strangle a business with unrealistic controls and restrictions, but who works constructively with the board and the company to deliver results.”*

*“A track record of being constructively critical and challenging, but very supportive of the management team.”*

*“Emotional intelligence is an important quality in a PE backer. Investors who can intuitively read between the lines and apply common sense and empathy to situations leads to a more effective working relationship.”*

*“There must be the right chemistry.”*

## 2. SHARED ALIGNMENT

42% of respondents cited alignment on vision and objectives as vital to a strong and productive relationship. This called for a well defined strategy and a clear, realistic plan for development and exit, as well as a mutual understanding of timeframes.

Essential to this was open and honest communication with the Management Team, with no hidden agendas and upfront clarity on expectations and PE's level of involvement.

*"Straight talking, clear and realistic about what they expect to achieve."*

*"A realistic view of achievable returns over the required timescale."*

*"Agreeing clear, consistent expectations upfront. Then having confidence in the Board to take the right action to achieve the long-term goals without undue interference."*

## 3. KNOWLEDGE & UNDERSTANDING

Over 30% of the Chairmen surveyed said that they look for relevant knowledge and skill sets in a PE-backer.

Sector credentials, specifically an understanding of the invested business sector and wider market insight is valuable in augmenting the capability of the management team.

*"To ensure they understand the market place into which they are about to invest and the market dynamics which affect it."*

*"A strong understanding of the business environment and the challenges faced."*

*"A good understanding of sector, and a previous track record"*

*"Understanding of the market drivers behind the business."*

*"Investors who allow Management to manage the day-to-day, but bring their knowledge of wider business issues to the table when appropriate, as a means of support."*

*"A strong track record of successfully growing businesses, and achieving successful exits."*

Other qualities mentioned by a smaller number of respondents were as follows:

## 4. FLEXIBILITY IN APPROACH

An investor should be open to new ideas with an understanding that plans must evolve in accordance with changes to the competitive landscape.

*"Ability and willingness to support the investment through to the appropriate exit, even if there is a drift from the original plan."*

*"A house which is prepared to be flexible and tolerate the inevitable bumpy road on the way to a good exit."*

*"Flexibility in approach, whilst remaining focused on maximising value."*

*"Is willing to see the business through head winds".*

## 5. DECISIVENESS

A PE backer should have the ability and knowledge to get to the crux of an issue quickly, with a willingness to make prompt decisions as and when required.

*“A preparedness to back the Executive team fully, but be decisive when things are headed the wrong way.”*

*“Support, intervention as required - but not by right - clear focus, and effective meetings determined by decisions required and not prolonged debate.”*

## 6. RESPECT FOR LONG TERM INTERESTS

An investor should respect the future interests of a company and not focus too narrowly on short term strategy and results.

*“A backer that remembers that the interest of the company is not solely financial return in the short term. PE backers are only custodians of the business, and must pass it on in better shape than they found it.”*

*“A longer term vision than 2 to 3 years with a basic appreciation of the business apart from pure financial engineering.”*

*“Investment by numbers, or dot-to-dot investing, characterises some houses – this is not a long term route to success.”*

## 7. FINANCIAL SUPPORT

The PE backer should have the ability to provide further rounds of finance to support growth initiatives if the business case is right.

*“The ability to inject further capital on achievement of stated milestones or objectives.”*

## 8. A STRONG TRACK RECORD AND A VALUE-ADD NETWORK

The preferred investor should bring access to potential new clients and have good relationships with valuable contacts that could help accelerate the growth and development of the business.

*“Contacts for partnerships or access to potential new clients.”*

*“The PE-backer should facilitate a broader Chairman and CEO community, enabling learning and idea sharing between portfolio companies.”*

*“Added value is important – money alone may not be enough.”*

### ABOUT DIRECTORBANK ...

We are a specialist executive search firm that introduces entrepreneurial board-level directors to the private equity industry across the investment cycle. We also conduct board and senior level search assignments for privately-owned and AIM listed businesses.

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