

DIRECTORBANK.

THE ROLE OF THE PRIVATE EQUITY CHAIRMAN.

Part 3.

What **attracts** a
Chairman to
Private Equity?



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 ATTRACTS A CHAIRMAN TO PRIVATE EQUITY?

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 Chairman what interests them about working with Private Equity. The findings are summarised below.

- **Clarity of purpose**
- **High level of engagement**
- **Decisive, results driven culture**
- **Bright and entrepreneurially-minded people**
- **Opportunity for wealth creation**

CLARITY OF PURPOSE

Private equity is about boosting the value of a company over a defined period of time and, if successful, creating significant wealth upon exit. To maximise this goal, the PE team, Chairman and wider Management Team are typically well aligned on vision, objectives and strategy. This often leads to simpler, better defined goals that are keenly referenced and measured.

67% of Chairman surveyed cited this clarity of purpose as one of the key benefits of working with private equity, with **15%** of these respondents expressing a preference for PE over PLC where regular reporting, legislation governance and other risk type issues can detract from strategy and execution.

“Without the pressures of frequent public reporting and other Plc issues, PE firms are fully focused on growth. Expectations are clearer and there is a well-defined, realistic and carefully tracked plan for development and exit.”

“Clarity of purpose, freedom from bureaucracy and clear lines of accountability focused unambiguously on creating shareholder value.”

“Working towards an ultimate exit focuses the strategy to achieve an agreed level of growth and profitability in an agreed timescale”.

“The single minded pursuit of profitable business growth without the clutter of corporate politics.”

HIGH LEVEL OF ENGAGEMENT

56% of respondents highlighted the deeper level of engagement so often found in a portfolio businesses as a major attraction of working with private equity.

In contrast to the diverse and sometimes remote investor bases found in the listed sector, the proprietorial nature of the PE board drives a deeper level of engagement with fewer, more involved stakeholders.

Bonded by a shared commitment to achieving success in a pre-defined time frame, the Chairman usually benefits from a closer, more productive relationship with both the CEO and the wider senior team. Many respondents said they felt more empowered in such businesses and were able to really put their skills and experience to efficient use in helping to drive change.

“The opportunity to be the constructive buffer between the financial and entrepreneurial world.”

“Working with the CEO and executive team, providing leadership and mentoring and passing on the benefit of my considerable experience.”

“The highly concentrated investor base results in a very strong relationship and contact level between the Chairman and the investors. This gives the Chairmen a very positive role - supporting management and helping the investors. A Plc Board has to step back more and be less committed as it has to play the role of representing the interests of a large group of relatively remote investors.”

“The opportunity to use my skills and experience to assist in creating a medium term value-enhanced exit for all stakeholders, including me.”

“Being involved in constructing disruptive businesses against often ambiguous odds to create successful and sustainable companies.”

“Spending time building the business with the team as opposed to dealing with various shareholders, brokers and nomads.”

DECISIVE, RESULTS-DRIVEN CULTURE

Given that a Private Equity house is involved with a portfolio business for a relatively short period of time, there is an unrelenting focus on bottom line results. This creates a fast paced, dynamic and highly targeted culture which **55%** of the surveyed Chairmen found exciting and rewarding.

Particularly noted by respondents was the action oriented mind-set in such businesses as well as the increased ability to take risks and push creative barriers in the quest for continuous improvement and innovation.

“In comparison to public companies, the Chairman is able to drive quick change based on effective discussion without the need for tortuous debate.”

“The speed at which decisions can be implemented and their direct effect on the success of the business.”

“PE-backed businesses are fast moving, focused and often lucrative.”

“I enjoy the cut and thrust of creating value in PE-backed businesses and the challenge of meeting demanding targets.”

“PE is hungry for results and expects things to move fast!”

“There is the desire to maintain pace, in any situation”

BRIGHT AND ENTREPRENEURIAL-MINDED PEOPLE

More than **41%** of the Chairmen surveyed specifically stated that they enjoy working with the type of individual that private equity attracts, namely bright, energetic entrepreneurs who provide intellectual challenge, stimulation and high levels of expertise.

“PE attracts top class business entrepreneurs with a willingness to take calculated risks and a track record of building successful businesses.

“Out of the public limelight it’s good fun and lucrative. I enjoy working with bright motivated people.”

“Their (PE) thinking and questioning is often very different because they do not have an in-depth knowledge of the business and market so they ask tough questions that often prove very interesting. Their drive and determination is invigorating as they do not have to worry about the niceties or time pressures you face in the business.”

“Being able to help strong management teams deliver outstanding results and higher levels of professionalism in conjunction with dynamic and driven individuals from PE.”

“PE provides a vast resource of new ideas and an excellent sounding board.”

OPPORTUNITY FOR WEALTH CREATION

The Private Equity Chairman is usually heavily invested in the performance of the portfolio business via an equity stake or other performance-based incentive. This compensation structure helps to align their interests with the PE investors and Management Team and – in the case of a successful exit - is likely to culminate in a significant financial return.

42% of Chairman surveyed cited this incentive structure as one of the main attractions of Private Equity.

“The rewards for success can be very attractive without the suffocation of corporate governance fog that drowns PLCs.”

“The chance to grow a successful business whilst making money during the process.”

“The potential of rich reward for success.”

“The financial upside of getting it right.”

“The chance to be very well remunerated for a job well done.”

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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