

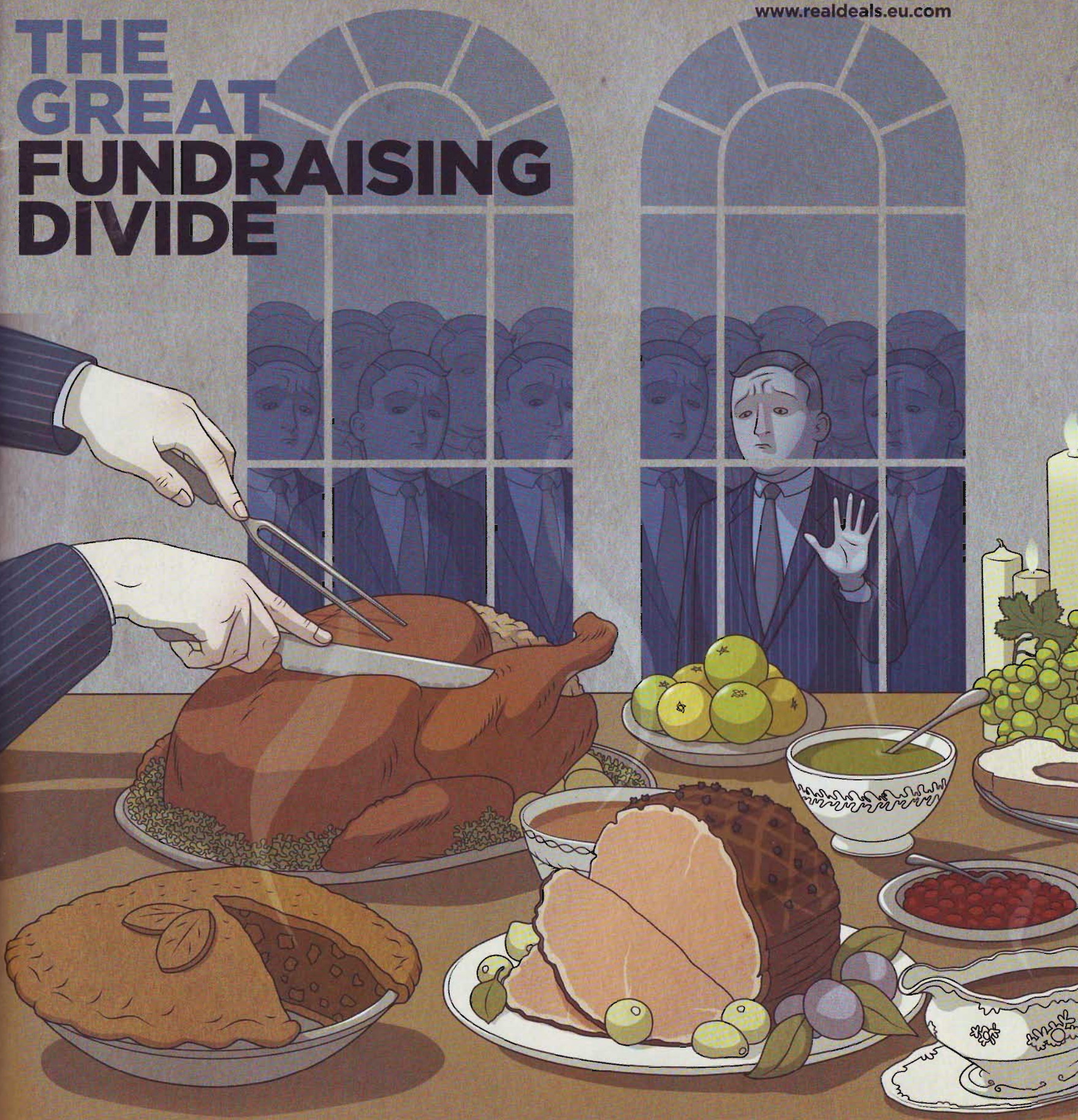
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THE GREAT FUNDRAISING DIVIDE



Q&A: BUSINESS GROWTH FUND BOSS STEPHEN WELTON SETS OUT HIS STALL



Recent research suggests that successful chief executives fit a measurable profile – the implications for private equity could be profound.

DR SABINE DEMBKOWSKI AND FIONA ELDRIDGE

STAR SPOTTING

Over recent years, more attention has been paid to the “who” as well as the “what” and “how” in private equity-backed deals. Financial engineering has long taken centre stage, but options for this are reducing and exit multiples have decreased, so more attention is being given to optimising the performance of the chief executive and his management team, through selection and/or development.

Human capital due diligence is now an essential part of pre-deal analysis. It is evident that without an effective leader and top team, a business is more likely to fail. Therefore, it is not surprising that individual development and high-quality executive coaching has gained traction within private equity. However, what remains the holy grail is how investing organisations can identify the “right” leader and top team, and develop that effectively.

To date there has been little systematic academic research into the characteristics and abilities of a chief executive that really matter in terms of superior financial performance. Steven Kaplan from Chicago Booth School of Business and his team have addressed this gap. In his study he compares chief executive characteristics to post-deal corporate performance. The data used is drawn from an assessment of 316 chief executive candidates in 224 private equity-funded companies over a seven-year period.

Candidates were rated in five categories: leadership, personal, intellectual, motivational and interpersonal. The appointed chief executives were then rated as being successful, mixed or unsuccessful. The measures were company performance from the private equity firms; publicly available financial information and press coverage.

Of the appointed chief executives,

approximately 44 per cent were successful (that is, delivered a minimum of twice the investment), 40 per cent were unsuccessful (lost investors money) and 16 per cent delivered mixed results. These findings underline the importance of identifying the “right” chief executive and knowing how to develop him.

All candidates exhibited high integrity and a strong work ethic – the sine qua non for the role. Digging deeper into the results provides evidence that there are two distinct groups of characteristics associated with a successful deal outcome: overall managerial talent and ability of the candidates, and resoluteness and execution skills.

The second group appears to have the greatest effect on success. This supports previous research suggesting that the most successful leaders are those who stick to their guns and do the right things at

the right time (see table, below).

One of the key characteristics is efficiency. Chief executive candidates with a higher efficiency rating are associated with a 20.8 per cent increase in probability of a successful outcome from a deal. In fact, those with a high score (four) for efficiency were associated with a 93 per cent success rate, whereas those with a score of three had only 50 per cent success. High scores on proactivity also increased the likelihood of a successful outcome by 42.6 per cent. This staggering difference demonstrates the importance of having the right leader developed in the right way.

Resoluteness and execution do not operate in isolation – the successful chief executive also requires general managerial talent and ability (see table, bottom).

These key characteristics can be used in the development of a

candidate profile for search and selection, and provide guidance in the preparation of longlists and shortlists. They can also assist in the execution of a consistent interview process, particularly when multiple interviewers are involved in the process and guide development.

The research seems conclusive: post-deal, with a leader in place, private equity can protect its investment and increase the likelihood of a good return using leadership and executive coaching services that help chief executives and their top team strengthen the key characteristics and abilities linked to successful financial outcomes.

DR SABINE DEMBKOWSKI is founder and director of **The Coaching Centre in London and Cologne**, and **FIONA ELDRIDGE** is director of **The Coaching & Communication Centre**.

CHARACTERISTICS OF RESOLUTENESS AND EXECUTION

Characteristic	Description	Example
High standards	Expects optimum personal and team performance.	Strives for top performance from self and others.
Proactive	Acts without being told. Brings new ideas.	Innovative, injects fresh thinking into organisation.
Commitments	Lives up to agreements, regardless of personal cost.	Gets the job done, no matter what.
Efficiency	Significant output with minimal wasted effort.	Gets a lot done in a short period of time.
Organisation	Plans, organises, schedules and budgets in an efficient, productive manner.	Achieves what they set out to do, prioritises.
Persistence	Willing to go the distance to get something done.	Sticks with assignments until completed.
Accountable	Sets goals for team and follows up to ensure progress toward completion.	Sets goals, follows up, and holds people accountable for shortfalls.

HIGH-SCORING CHARACTERISTICS OF MANAGERIAL TALENT AND ABILITY

Characteristic	Description	Example
Respect	Values others, treating them fairly and showing concern for their views and feelings.	Talks about performance as a team effort and gives credit where it is due.
Flexible	Adjusts quickly to changing priorities and conditions. Copes with complexity and change.	Matter-of-fact approach to change – just gets on with it. Not phased by implementing major change.
Attention to detail	Does not let important details slip through the cracks or derail a project.	Doesn't skim through – drills down into detail and knows the right questions to ask.
Listening skills	Lets others speak; seeks to understand their views.	Recaps and summarises to check understanding.
Open to criticism	Solicits feedback and reacts calmly to criticism.	Acts on feedback to improve own performance.