Understanding Portfolio Company Leadership in Turbulent Times:

Three enduring lessons in creating value

Russell Reynolds Associates

Leadership through uncertainty

Uncertain times can severely test and expose the quality of a portfolio company's leadership. Complexity increases when leading a highly leveraged portfolio company, where multiple stakeholders (sometimes competing) must be effectively managed. It is in these circumstances that great leaders must rapidly adapt and demonstrate decisive judgement. Through their actions, they set an example for their leadership team and the wider company, which differentiates them from their peers by creating opportunity in what might seem like a period of uncertainty or, indeed, crisis.

We are continuing to experience highly volatile times in the global economy; evidenced in currency volatility and unprecedented levels of migration and terrorism.

However, despite this turbulence, private equity firms are raising ever-larger buyout funds and facing a highly competitive acquisition market. This amplifies the need to create value in their portfolio companies by driving significant operational improvement and growth.

How do effective portfolio company leaders manage with this uncertainty, and how can private equity firms identify these key traits? Here are three themes for private equity firms to consider to ensure that their companies are "future ready."

LESSON 1. PREDICT SUCCESS THROUGH UNDERSTANDING LEADERSHIP STYLE ...

A thorough evaluation of not only the professional credentials of a portfolio CEO, but also of their leadership style, is critical to predict success. Our quantitative research shows that the most successful portfolio CEOs have distinctive leadership qualities. They are humble, even-keeled and develop constructive relationships with their leadership team and stakeholders.

Above all, they excel in rapidly changing and turbulent business situations, which is particularly critical given the rapid time frame in which a portfolio company must be transformed, and significantly grown, to ensure a successful return. As such, it should not be surprising that the ability to juggle competing priorities and adapt rapidly while demonstrating judgement at speed are key competencies.

These leadership traits, and their value-destroying opposites, are often visible prior to an acquisition. **A thorough understanding of the team's leadership competencies is essential even during the due diligence phase.**

KEY QUESTIONS

- How do you evaluate leadership teams?
- What leadership qualities do you most value in a leader?
- Do you have a clear sense of the different competencies required to succeed in varying business situations?
- How do you assess the ability to make quick judgements?
- What makes a successful portfolio company CEO?

LESSON 2. IT IS NOT ALL ABOUT THE CEO ...

In a complex acquisition with challenging success metrics, it is critical that the whole leadership team is ready and able to contribute. You must ensure that your management team is able to juggle competing priorities, change gears and accelerate as needed. Furthermore, a strong management bench is essential to enabling succession planning. A recent Russell Reynolds' analysis of 75 buyouts revealed that 63% of the top-performing exits had CEOs who had been internally promoted, illustrating the value of a good team.

One person alone cannot lead in turbulent times. The best leaders step up when there is constant, and unpredictable, change, helping those around them to lead.

KEY QUESTIONS

- Without asking your CEO, who is his/her successor?
- Is the next generation of leaders stepping up? Who is choosing to lead in these uncertain times?
- Is the current leadership seeking help across the company?
- Is the culture of the company one that allows people to lead without authority?
- Is there a balanced and competent leadership team across all primary functions?

LESSON 3. TO ASSESS OR NOT TO ASSESS ...

Determining when to introduce assessment is delicate. However, in comparison to the effort and cost of pre-deal diligence, knowing one's management team and their leadership qualities is all too often neglected. It is especially critical in turbulent times, when business situations are volatile. Through our years of experience working with private equity firms and their portfolio companies, we have seen firsthand how leadership issues can torpedo the success of an otherwise promising deal. Pre-deal assessment should be normalized, linked to the team's and the organization's health, and be developmental in nature.

In Europe, we currently see less pre-deal assessment than in the U.S. market, where it is becoming increasingly common. We have also observed that the most progressive firms are beginning to assess the full leadership team through the entire investment lifecycle—from diligence to exit.

The desire to gather "data" on the leadership qualities of a team can be divisive if not positioned clearly, consistently and developmentally. **Therefore, positioning assessment as constructive and developmental, and treating the management team with respect and humility, can bring private equity firms and managers together by demonstrating the willingness of the firm to invest in the people as well as the company.**

KEY QUESTIONS

- When do you assess management?
- How do you assess management?
- Do you track how a team develops through the life of your investment relative to your initial assessment?
- Do you currently favor developing your team versus changing it?
- Do you continue to assess and develop your leaders during the hold phase?

PRIVATE EQUITY PRACTICE

With a global team of over 40 consultants, we have completed 1,500 engagements over the past five years for private equity firms and their portfolio companies.

We assess and recruit boards and management teams throughout the investment lifecycle, including chairmen, non-executive board members, CEOs, CFOs and executives for portfolio companies globally and across all sectors.

We work with a number of the leading buyout investors to identify and assess investment professionals, operating partners and experts in investor relations and capital raising. We support these clients as they institutionalize their infrastructure, helping to recruit heads of finance, risk, compliance, legal and other key corporate functions.

LEADERSHIP AND SUCCESSION SERVICES

In the last three years, we have undertaken over 1,000 leadership and succession engagements, including engagements for private equity firms and their portfolio companies across all sectors. In 2016, Russell Reynolds Associates and Hogan Assessments, a global leader in personality assessment and leadership development, announced a global, exclusive partnership designed to increase the success rate of executive appointments and accelerate the development of rising leaders. The partnership combines Russell Reynolds' depth of expertise in advising senior executives and boards on executive search and succession with Hogan's market-leading suite of assessment instruments, data assets and scientific acumen.

Russell Reynolds Associates is a global leader in assessment, recruitment and succession planning for boards of directors, chief executive officers and key roles within the C-suite. With more than 370 consultants in 47 offices around the world, we work closely with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, environmental and political trends that are reshaping the global business environment. Find out more at **www.russellreynolds.com.** Follow us on Twitter: **@RRAonLeadership**

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