MERGERS & ACQUISITIONS

INSIGHTS: PRIVATE EQUITY

6 CEO Skills Prized by Private Equity Firms; The right growth strategy and the ability to break down silos are among the skills valued by investors.

By **Susanne Richman**

Every private equity acquisition in just about any industry is, on some level, a transformation story. The PE firm believes it can help a business increase organic growth, find a new market, or scale to the next level-or the firm wouldn't take on the investment.

The most successful private-equity acquisitions start with a clear strategy for growing the business--and they all require a CEO who has the specific skills required to execute that strategy. While all successful CEOs share certain skills and personality traits, CEOs with private equity partners need to be able to draw on a few key skills that match their new investor's investment thesis and help realize the company's shared future vision.

As a vice president of talent at a large, technology-focused investment firm, I have a front-row seat to watch these dynamics play out-as do many of my industry colleagues, as private equity interest in technology and software companies specifically has seen a big uptick recently. Private equity firms have finally realized the value of these companies' fast growth and recurring revenue streams.

Here are six key skills private-equity CEOs, in high-tech and other industries, generally need to have:

1. A Great Strategic Mind With Strong Pattern Recognition

Growth through acquisition is a common private equity strategy. At my firm, Battery Ventures, which does traditional venture-capital as well as private equity investing, acquisitions are key to how our private equity team tries to create value for almost every company we invest in. To execute this strategy successfully, the right CEO needs the ability to see which add-on acquisitions could drive value creation and create a whole that's greater than the sum of its parts. That requires great pattern recognition and a "nose" for finding and unlocking value in complementary products and businesses. It also requires the ability to think about the overlap between businesses and figure out how to build the right alignment, infrastructure and processes to make the component parts of the new business work together and scale effectively.

2. A Track Record of Driving Organic Growth in a Business

Another common reason a private equity firm might partner with a company is when the firm sees untapped growth potential, which could be realized by building out a fully scalable sales engine, investing in new product development or reaching a new market. A CEO executing this strategy with private equity partners should have experience driving rapid growth, whether as a CEO or as a top leader who has developed a new product or built out a sales team successfully. Years ago I worked with an executive with a deep commercial background in his first CEO role. He developed a new go-to-market strategy, built a sales force and brought rigor to sales operations. Though he was new to the end market, as CEO he brought a deep understanding of the levers required to build and drive a great sales organization-and in that regard was a great fit for the role.

3. Experience Building High Performing Teams

A big part of a CEO's job at a growth company is recruiting, onboarding and retaining top talent. The right CEO will empower the team, invest in growth and develop, and invest in, talent. They'll act as a strong mentor and coach and set priorities that are clearly communicated and continuously measured. They'll also excel at aligning the team on strategy/execution, and make sure everyone's on the same page when working towards key goals.

4. Experience Building Out Organizational Systems

Every PE strategy will involve building a company and seeking growth. Maybe the company is a small family business or a bootstrapped organization that needs stronger operational capabilities and infrastructure to succeed. Maybe it's a unit carved out from a bigger company that will need new support teams and processes built from scratch. In this situation, the CEO needs to build a new, self-reliant culture that doesn't look for help from the former parent to respond to challenges. Whatever the strategy, CEOs working with private equity need to be "building CEOs" who can see what a fully professionalized company looks like and can build stronger teams as well as tech systems, financial reporting, and other infrastructure.

5. The Ability to Break Down Silos

In part because M&A strategies are so common in the private equity world, a PE-backed CEO needs a nuanced understanding of the cultural aspects of change. If you're merging two companies, you need a CEO who can break down silos between companies and departments and create a shared vision that everyone gets excited about. Even if the investment firm's strategy doesn't involve M&A, almost certainly it will involve major changes within the company. That requires a CEO who 'gets' culture and can secure internal buy-in on change. Some PE-backed companies are family businesses unused to rapid change, so CEOs need to get ahead of this issue and stay out in front of it. The critical point will occur when challenges arise in bringing together two organizations with different values and approaches. Years ago I worked with a first-time CEO stepping from a P&L leadership role in a larger company into a smaller, founder-led business. While first viewed as an outsider, he worked hard to understand the company's values, nurture relationships and rapport, communicate often and inspire a collective vision. Thanks to these efforts he enhanced this high-performance culture, and his colleagues embraced his external experience and perspective.

6. A Change-Oriented Mindset

No matter the strategy, PE-backed CEOs will succeed only if they have a certain disposition. A caretaker simply won't work-private equity strategies are all about significant change. PE CEOs need to embrace change, lead it well, and sell it internally to others. They have to be ready to make decisions quickly, even with incomplete information. They need to be data-driven with a bias towards action--yet maintain a sharp results orientation. They should also have a strong grip on operating metrics, including (and especially) cash flow. Rapid change will dramatically impact things like cash flow, so a CEO needs to carefully manage these factors. In addition, the CEO needs to work collaboratively with their board, keeping them informed and building trust. Perhaps most important, successful CEOs leading change have a player-coach mentality. They roll up their sleeves and do the work as well as lead it.

Whether a PE firm works with the existing founder or CEO or brings in an outside executive to help scale the business, the CEO at the head of a PE strategy must be laser-focused on creating change, driving growth and preparing the organization to scale.

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