PE HUB

Portfolio company CEOs need different skills, mindset to succeed

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Finding the right chief executive for a portfolio company can be a tricky task. CEOs of portfolio companies need a different mindset than if they worked for a publicly-traded company, said Les Berglass, Chairman of Berglass + Associates.

CEOs should understand they serve one master, the private equity firm. “When we’re recruiting someone for a private equity deal for the first time, we tell them the PE firm owns two things: the company and the cash in the company,” Berglass said. “And the thing that is most important to a private equity firm is the effective use of their cash in the company.”

Founded in 1990, New York-based Berglass focuses on executive recruiting for consumer goods companies. The firm, which specializes in retail and digital, has worked with several private equity firms including Apax Partners, CCMP Capital Advisors and Catterton Partners.

The consumer goods sector is seeing an uptick in open positions for CEOs, Berglass said. The advent of the Internet caused an upheaval in the consumer goods sector, he said. Customers are more informed, pricing is more efficient with more choices available, he said. Such a change has created a need for a more skilled CEO, Berglass said.

“Before we just needed a leader who could pick the right product,” Berglass said. “Now we need a leader who can pick the right people.”

CEOs need to be mentors, need to be able to delegate and “they have to be willing to admit they don’t know everything,” Berglass said.

Roughly 30 to 40 percent of Berglass’ business is comprised of recruiting executives to fill CEO spots at portfolio companies, he said. Finding such leaders takes time. Berglass advises PE firms to launch their search for a CEO as soon as they sign the letter of intent and begin due diligence. While Berglass + Associates targets finding a CEO within 90 days, it can take as long as six months to recruit a chief executive, he said.

Here are his tips for picking the right CEO:

1. **Point of view:** Berglass looks for a CEO that understands their role with a portfolio company will end sometime. From the first day they acquire a company, PE firms are looking for a path to an exit. This most often means a sale. Private equity firms typically hold their investments for three to five years. Oftentimes this can last longer, from five to seven years, Berglass said. This is much different than CEOs of public companies who don’t operate on such short timelines.

2. **Skillset:** Portfolio companies are basically stand-alone businesses, Berglass said. CEOs should have the ability or understanding to “run every function within a business,” he said. They should have previous experience running a stand-alone business, not a unit of a multi-divisional company with a shared service model, he said. “They have to really be in control of every line on a P/L and focused on the balance sheet, cash flow and banking relationships,” Berglass said.

3. **Boards:** CEOs of public companies generally meet with their boards once a quarter. Boards of portfolio companies will often call their CEOs once a week, Berglass said. The further the portfolio company is from hitting its budget, the more frequent the calls, he said. Private equity boards are also much less forgiving than boards of public companies, he said.

4. **Acting quickly:** CEOs should be comfortable with the enormous freedom they will have as heads of portfolio companies. But they do need to hit their financial targets. “Private equity investors lose faith in leadership more quickly when they stumble than in a public company,” Berglass said. For example, Carly Fiorina spent roughly six years, from 1999 to 2005, as CEO of Hewlett Packard. During this period, HP’s financial performance was rocky but the company succeeded in buying Compaq, which some people now consider a wise move. Don’t expect so much leeway at a portfolio company, Berglass said. “PE firms give you less time to fail,” he said.