

Best Practices for Hiring Big-Company Talent For Your Portfolio Companies

By Kathryn Kehoe, Managing Director, CMF Associates

March 2011 - In 1994, Robert Kraft bought the hapless New England Patriots franchise which had a combined win/loss percentage of .219 for the period 1990-1993, the league's worst. From that point forward the Patriots have been one of the most constant winners in the NFL and much of the credit goes to leadership and recruitment of A level talent. Similarly, in looking back at some of the most successful portfolio company investments, many PE executives will agree that talent management issues surfaced early and were subsequently managed effectively.



With the employment picture stabilizing, private equity funds that make new acquisitions should be more sensitized to the employee churn following a transaction and to decreases in the supply of new talent as the economy improves. In short, private equity funds, in concert with their portfolio company management teams, should be prepared for new challenges in acquiring senior leadership talent and should consider executives displaced from large companies since the start of the recession.

Individuals with large-company backgrounds can bring significant benefits to middle-market businesses in pursuit of growth. First, these candidates typically bring in-depth skills, institutional training and a strong career trajectory to the table. In addition, they likely have a well-developed project planning and process management perspective, which can add diversity and experience to entrepreneurial, and often-unorganized companies pursuing growth. Many who have worked in a large corporate environment and have had multiple roles can bring deep industry, product or business model expertise to a growing middle market enterprise. Finally, veterans of the large-company environment (and, subsequently, large-scale improvement initiatives) frequently

bring a best practices, continual improvement mindset to the role that can help bring behavioral changes to long time middle market employees that is beneficial for smaller companies seeking to take operations, processes or systems to the next level.

However, it's critical to also be aware of the potential downside of bringing "large company candidates" into a smaller company environment. First, there is a risk that candidates experienced in larger companies will assume your middle market company is simply a smaller version of a big company -- when it is actually a completely different animal, -- The typical smaller company is resource constrained compared to a large company -- whether they be financial, human, or technical or "all of the above." For instance, a large company executive who joined a small services firm was shocked when she came to fully understand that she was solely responsible for all aspects of a new service offering roll-out -- from market strategy and positioning to writing the sales collateral. While fewer management layers could be refreshing to a former large company executive, they may be sidetracked from accomplishing their objectives by focusing too much on consensus building and not on decision making. Often large company executives

are uncomfortable with taking full ownership of a function or an initiative and related decision making accountabilities without consensus. Furthermore, they may not understand that every decision – or lack of a decision – has an impact on the P&L. In the middle market, the impact of executive decision making is immediate and felt throughout the organization, while large companies often provide buffers between decisions and consequences. Adjusting to an environment that is focused on speed in decision-making and on the direct impact on earnings can be uncomfortable for former large company executives.

On a broader level, large company executives may be at a loss for how to execute a growth plan in an environment with fewer people and financial resources than that of their previous job. While these executives' background and experience may be astute in understanding and articulating a smaller business's most problematic areas, many of these professionals still fail in this environment because they have never had to play the role of the player as well as the coach. For instance, in a recent restructuring at a healthcare company that required the elimination of 100 jobs, a significant number of the positions selected for elimination were held by big-company people who did not make the transition to a smaller-company culture and employee behavior norms. In many cases, company management had observed that when these individuals couldn't get their work done, they would simply move the work around rather than take ownership and resolve issues.

It's practically a given that large company candidates will be among those being considered for post-transaction operational or financial positions. If you choose to pursue the advantages this type of expertise can bring to a portfolio company

embarking on growth, be sure that your assessment of these candidates includes the following critical indicators of success in the smaller-company environment:

- Developing and implementing the strategy – Assess the candidate's ability and willingness to implement with limited resources. – Large company roles are usually oriented around development of strategy or implementation of strategy. The candidate cannot view implementation as burdensome or someone else's job.
- A comfort level with start-up environments – Ascertain the candidate's experience in starting a new initiative, such as opening a new facility or launching a new product. For example, a large US manufacturing company executive who opened a smaller plant in Canada for their employer successfully transitioned to a mid-market company as the Head of Operations.
- A balanced view of results and process – Large company experience usually includes how to create process, often sorely needed in the small company looking to get to the next level. But, the small company often can't let process get in the way of results. Assessing whether a candidate has a "get it done" personality will help ensure you hire someone who understands the balancing act.
- Ability to conduct complex problem-solving – Seek out an individual who has successfully navigated a difficult corporate scenario, such as a product recall.
- Adaptability in unfamiliar territory – Dig deeper into the candidate's experience working in different cultural environments, or other activities that indicate a willingness to work beyond his/her comfort zone.

- Management of high-stakes decision-making – Explore the candidate’s track record of work situations in which his/her decision-making made a significant impact and he/she was accountable for the ultimate outcome. What was the impact on the company’s financial results and can the candidate articulate that?
- Management experience in a smaller division – Large-company executives who have held leadership roles in a smaller division of the organization are typically accustomed to working with a higher level of autonomy and are more astute decision makers. In one case, this type of experience helped an executive from a \$900 million division of an \$80 billion dollar healthcare company successfully transition to a role at a mid-sized company.
- Cross-Functional experience – Gauge the extent to which the candidate understands the inter-relationships and dependencies of organizational parts. Does the Business Development candidate understand Operations? Has the candidate spent time working outside of their area of functional/technical expertise? In many large companies, involvement with other organizational units is considered stepping on someone else’s turf; the smaller company executive will need to have interaction across the business and consider the impact of their decisions across the company.

- External network – Smaller companies depend on a variety of external parties given their limited internal resources. Candidates with strong leadership skills and a well-developed external network usually have a broader view than those who have remained insulated in a big company. In addition, these candidates should do better in managing board relationships (few large company executives have interacted with their Board of Directors) based on their experience in interacting with a wide network of people.

- A genuine interest in and commitment to working in the smaller company environment – Take a close look at large-company candidates who have intentionally sought out smaller company experience to facilitate a permanent transition to the environment. This approach made the difference for a financial executive with a large-company background who was trying to make such a transition. He spent two years as a financial consultant to middle-market firms to gather relevant experience, and was subsequently hired into a permanent finance

As the game of business continues to become more complex, faster paced, and internationally integrated, middle-market portfolio companies could be well served with integrating the talents of select large-company executives, but should proceed with a structured recruitment and candidate assessment process in order to maximize the score when they cross the end zone.

About

Kathryn Kehoe is a managing director of CMF Associates and leads the firm’s executive recruiting and organizational design practice. She has worked with companies from the middle market to the Fortune 100 in a broad range of industries. CMF specializes in financial and operational consulting, recruiting and organizational design for private equity firms and their portfolio companies as well as for middle-market public and private businesses. Industry expertise includes manufacturing and distribution, services, software and technology, healthcare, energy, and wholesale and consumer products (www.cmfassociates.com).

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