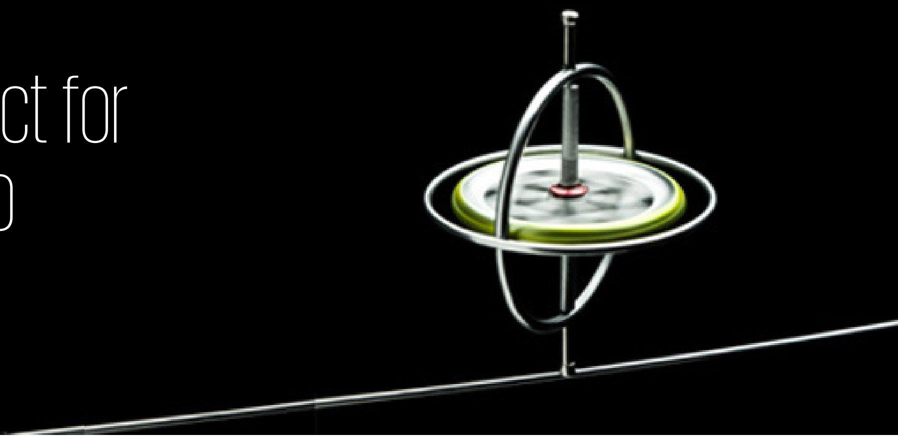
KPMG

A delicate balancing act for private equity portfolio company directors



Board perspectives

For former executives, the transition from managing a company on a day-to-day basis to serving on a board can be difficult. This is especially challenging at private equity (PE) portfolio companies where the dividing line between C-suite and boardroom is often porous by design.

Clearly, the director's role at a PE portfolio company includes monitoring financial performance, providing input on strategy, and supporting the CEO and management team. And when recruiting new directors, PE firms have high expectations of former executives who have significant experience within the portfolio company's industry. They expect these directors share their firm's philosophy, will help build the investment thesis before a deal, shape strategy after an acquisition, and really dig into the company's culture and leadership.

The extent to which the industry director is expected to engage will vary from company to company based on the experience, strength, and sophistication of the CEO and management team. For example, if the company has a new CEO or an inexperienced management team, the director may be asked to closely support and develop the CEO and may also be called upon to help shore up other critical management gaps. An important task for the director is to help define the appropriate roles and responsibilities early on and then make adjustments as the CEO and management team mature and gain more confidence.

PE investing is a relatively young industry and PE firms are still developing their business models in terms of how they engage with portfolio companies. At the operational level—for accounting, information technology, human resources, legal, and regulatory compliance concerns—many PE firms have internal or preferred external resources that provide support. For governance of the portfolio companies, however, the road map is not as clear.

For clarity, both first-time and experienced directors of PE portfolio companies may want to consider the following questions:

How should you shape your role?

"Based on your experience and industry knowledge, your opinion has real weight and meaning for the investment outcome," said one director. Are you willing to be as hands-on as may be required—and less hands-on when appropriate? "Your industry insight, political acumen, and contacts may have gotten you to the table, but how you handle behind-the-scenes conversations and help to act as a buffer between the private equity firm and management will keep you there."

How can you best support the CEO?

The pressure and expectations applied by PE firms on the executives of their portfolio companies can surprise even the most experienced CEOs. "Ensure that the current management team has enough confidence and latitude to do it their way," said one director. Make it clear to the CEO that "you don't want his or her job," another director said, but that you are there to listen and advise and, as needed, to translate the expectations of the investors.

What does the PE company expect from you?

While the PE firm values your insight, they expect you to be fully engaged and understand their perspective, including the time line and exit strategy for the portfolio company. They will also expect you to have a firm grasp on current industry-specific risks and opportunities. If the company is running smoothly, the PE firm will expect you to be an active director, providing the CEO and management team the support they require, as well as the independence and freedom the executive team has earned. If there is a problem, the PE firm may expect you to play a much more hands-on role, if not stepping in as interim CEO.

Even the most experienced industry executive struggles to shape his or her role in the boardroom, but clear and frank communication about expectations and priorities, with both the management team and the PE firm, is often the best place to start.

About the KPMG Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG's Audit Committee Institute and Private Markets Group, the WomenCorporateDirectors Foundation, and more—the center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Drawing on insights from KPMG professionals and governance specialists worldwide, the Center delivers actionable thought leadership—on risk and strategy, talent and technology, globalization and compliance, financial reporting and audit quality, and more—all through a board lens. Learn more at kpmg.com/blc.

Private Company Boards

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