

# Stewardship vs Leadership

## What it means to be a Non-Exec Chairperson in Private Equity

Didier Bench, Operating Partner at Hg

With over thirty years' leadership experience at international technology firms, digital companies and investment funds, I can say one thing – no two roles have been the same. Each role has intricacies, some requiring you to adapt and learn new skills, some which draw on experience.

The transition from executive to non-executive is a particularly interesting one – one which requires an evolution from a leadership role to one requiring stewardship, guidance and, perhaps most important, mediation – aligning the interests of key stakeholders.

Within companies backed by private equity, this role requires additional, unique qualities. Private equity is an active, long term form of investment, with significant influence on a company's core strategy, whilst often providing significant operational expertise and resources to help support management teams, like we do at Hg.

This creates a very unique environment for the Chair – a dynamic that differs from similar roles at publicly listed companies and other organisations. Many people, including private equity investors, have often asked me to define this dynamic. Here are some thoughts.



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### Maintaining the direction of the management team and the Board

First and foremost, the Chairperson's fundamental role is to keep maximum cohesion and alignment within the Board. A large part of this is defining the priorities in accordance with the CEO, then setting the Board agenda to allow for honest and open debates, setting the right environment for making informed decisions.

...But the contribution of the Chairperson goes well beyond this in private equity backed environments, where there is often an accelerated value creation strategy in motion, with a number of moving parts at play. In this environment it's important to:

- Be a sounding board, coach, advisor and, sometimes, mentor to the CEO and management team, sharing experience and best practices from operating in similar industries over many years;
- Give the Board and management team space for creative thinking, promoting 'out-of-the-box' insight to help enable accelerated value creation;
- Help ensure that any aspirations, visions and challenges put forward by the management team are executable according to the financial objectives set by the Board. It is a key role for the Chair to help the company stay on track with its core goals;
- Promote dialog between the Directors and the CEO to maximise innovation, whilst also making sure that the right analysis and relevant KPIs are available for the Board, to able them make the right decisions. This is important when multiple views are expressed and, ultimately, key decisions need to be made.

## Evaluating performance within Private Equity

Many companies backed by private equity investors will find a new required focus on metrics, analysis and reporting. Having a very engaged shareholder means that monitoring a company's performance and evaluating risk is a very important role for the Board. Any good Chair will facilitate this, ensuring that:

- Comprehensive and structured financial, operational reporting and strategic analysis are regularly shared with the Board to monitor the Company's performance;
- Proper risk vs opportunity evaluations are carried out, in the wider context of value creation – adjusting the levels of risk to optimise deliverable performance;
- Regular performance reviews of the management team are conducted, allowing for the right decision to be made at the right time if needed.

### Visibility of the product/market dynamic

Whilst reporting metrics may be fundamental in private equity, an additional viewpoint is required from the Chairperson. They need to look beyond the analysis, to try and anticipate the unexpected and form insight into the long-term dynamics of a company's market. For this, there is no substitution for industry specific experience.

Organic growth comes from, principally, building and delivering the right product to the right market. It's therefore important that the Board has good visibility of this dynamic, beyond the immediate financial performance of the company.

Key information includes how market demand is evolving, how the competition is behaving and how product investment and development could affect future performance.

To achieve this, a Chairperson with capitalised experience, coming from both past roles and access to the experience of others in a Fund's portfolio, can help a lot to build and trim the right strategy with the CEO.

The same applies for growth through M&A strategy, as well as a company's exit horizon, although this will be more forefront in the mind of the private equity shareholder.

Ensuring this visibility to the Board on a regular basis, allows the Board to assess investment/divestment impact on Product & Market, to agree on priorities and execution risk. Experience of a market is therefore crucial.

**Ultimately all Chairs, working with private equity or otherwise, should have a common goal – alignment from a position of neutrality.**

**The key skill is building trust with three main constituents. This is a delicate balancing act – simple when times are good, critical if times are tough.**

**Overall, I believe that a good Chairperson should be a sparring partner to the CEO, have the confidence and hearing from the Board, whilst acting as a responsible steward on behalf of the Fund.**

### Facilitating the exit process

Unlike the publicly listed markets and in other organisations, a Chairperson at a private equity backed company knows that at some point they will need to oversee and facilitate an exit process from its majority shareholder.

They have to be cognisant of both the private equity fund's objectives, as well as the management team's aspirations – ensuring the alignment of both views.

Once again, experience is key. The Chairperson might have been in this situation many times, whereas the management team may not. This makes it easier to manage any disruption, anticipate incoming scrutiny and questioning, whilst generally taking an overview of the process.

During such a situation, the role of the Chairperson can be pivotal. Key roles are:

To align Board and Management on timing and objectives;

To ensure that the Board is prepared, selecting the right advisors and engaging in a process with realistic expectations from both parties;

To coordinate appropriate Fund resources and support to prepare the company and the Management team for a successful exit.

All of this can only be achieved with a natural and constructive dialog with the CEO and, eventually, some of their team at her/his invitation.

### Didier Bench

An Operating Partner at Hg, Didier has more than 30 years of leadership in the development of international technology firms.

