

**DIRECTORBANK.**

**THE ROLE OF THE  
PRIVATE EQUITY  
CHAIRMAN**

**Part 8.**

**When the CEO sees the  
Chairman's role as an imposition.**

**A series of short reports on the role of the PE Chairman  
encompassing the views of 240 experienced Chairmen.**

# CEOs occasionally don't feel they need a Chairman and see it as an imposition. Have you experienced this and, if so, how have you overcome the situation?

Of the 240 Chairmen Directorbank surveyed, **47%** have experienced a reluctant CEO who viewed their appointment as an imposition.

A small number of respondents admitted sensing animosities during the recruitment process and as such chose to decline the opportunity.

*"If I don't feel there is good chemistry between me as the Chair, the PE House and the CEO, I walk away."*

*"I don't take it on unless the CEO is properly enthused."*

However, the overwhelming majority of respondents worked through the conflict in an attempt to achieve resolution. This was typically done with a stepped approach.

## 1. UNDERSTAND THE CONCERNS

The first step to an effective resolution, according to the surveyed Chairmen, is to spend decent time with the CEO in order to truly understand his needs, aspirations and fears. Any concerns should be dealt with head on, and issues addressed through open and frank dialogue that acknowledges the CEOs reluctance. Such conversations should be conducted in private.

## 2. REMOVE THE THREAT

In the majority of cases, the reluctant CEO saw the Chairman as a threat to his power. This was overcome by pinning down and clarifying the role of the Chairman whilst ensuring clear separation of Chair and CEO responsibilities. Setting such clear parameters and expectations early on, and nipping any ill feeling in the bud, was sometimes enough to smooth the relationship.

*"I have seen the situation arise where the CEO fears the Chairman will be second guessing the executive team. This is not the role of the Chairman. The executive team is there to perform, deliver the business plan. The Chairman's role is to create an environment for the entire Board to function successfully and allow the executives to deliver."*

## 3. PROVE YOUR WORTH

### a. Provide specialist knowledge

It takes time to build trust and this comes from steadily demonstrating what value one can bring to the business and showing positive results from any intervention. Usually this is in areas where the CEO may have less experience or knowledge, such as in the areas of banking, covenants, exits or market expansion. Importantly, the Chairman must trust the CEO to do his job and avoid toe stepping.

*"The Chairman has to earn the CEOs respect, not the other way round."*

*"The relationship of CEO and Chairman should be that of Grandfather and Father. A good Chairman is a source of inspiration and challenge, but ultimately they must allow the CEO to execute his full responsibility."*

## **b) Be a good mentor and sounding board**

The role of the CEO can be a lonely one, and a Chairman who takes the time to develop a more personal, transparent and supportive relationship beyond formal meetings can often overcome acrimony. This becomes more apparent when there is a 'bump in the road', and at such times the Chairman's insight and guidance is often more readily appreciated.

*"Asking great questions is a key skill set for a chairman and answering them is for the CEO. Open discussions that motivate the CEO and help him improve effectiveness works towards building confidence, respect and trust."*

*"Being a CEO is a pretty lonely existence, and even the most secure need someone whom they can trust to provide unbiased professional advice."*

*"You need to allow the CEO to run the company, but you should be his personal mentor and be the one to tell him when he fails to do the right thing."*

*"Developing a more personal relationship outside the Board room is the only way to avoid more macho style conflicts when disagreements arise. Such issues are much more likely to arise when things are not going so well, making it even more difficult to resolve."*

## **c) Effectively manage the board and its processes**

One area in which the Chairman can demonstrate great value is by acting as an effective buffer between the executives and the shareholders. Through his experience and skills of reasoning and mediation, he can help remove unnecessary stress and distraction from the CEOs remit, freeing up his time to concentrate on managing the day-to-day running of the business.

*"CEOs rarely manage the shareholder well, and rarely get what they want or need from the shareholder, so that's the real area to show expertise."*

*"The role of the Chairman is not to second guess the CEO, but to act as an independent bridge between the executive management team and PE. Great value can be added here."*

## **4. IF ALL ELSE FAILS, ONE MUST TAKE EXTREME ACTION**

A low number of respondents highlighted cases where resolution just couldn't be achieved. Sometimes this boiled down to a CEOs lack of experience, particularly in PE. Occasionally other factors were at play such as arrogance, over confidence, insecurity or a wish to control shareholder understanding. Sometimes it was simply a clash of personalities. Ultimately, such scenarios resulted in more extreme action and the CEO, more often than not, was removed from the business.

*44% of the 240 Chairman surveyed had not experienced any animosity from a CEO, and 9% failed to comment.*

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