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Why private equity firms should assess leadership at portfolio companies

Executives and staff at a newly acquired organization inevitably undergo stress in the course of a transition in ownership. Unfortunately, private equity firms do not have the time to wait through an extended adjustment period for management to find its footing. Rather, they need to know as soon as possible if the right leadership is in place to deliver investors the annual return and ongoing growth they anticipate.

Assessing the existing management structure and making adjustments as necessary are essential steps to turn around underperforming businesses or push successful ones to new heights. Objective analysis through data-driven assessment offers the best starting point, bringing the PE firm actionable intelligence on the leadership team's capabilities, attitudes and relationships.

Who's in charge here?
Building a strong PE portfolio is all about glimpsing the potential in businesses and turning those possibilities into profitable outcomes. As Harvard Business Review pointed out, successful firms can identify situations where strong existing leadership just needs greater independence and rewards to push the organization forward. They can also discern other cases where growth requires bringing in someone fresh who has the necessary vision and skills. New ownership leads to changing priorities, so even managers who did excellent work in the past may find themselves at sea under shifting circumstances.

Assessment is an integral tool for learning early on in the venture how existing leadership will handle the changes to come. The European Financial Review outlined the myriad ways assessment provides a clearer picture of how leaders measure up to the demands of their positions. Objective testing and analysis demonstrate how managers think about complex problems, suggest whether they will be able to grow and adapt with a changing organization and reveal what incentives motivate their greatest efforts.

Putting managers through assessment in the course of an acquisition or immediately afterward can add to the trepidation and strain of an already difficult time. However, PE firms need to know whether the CEO has the necessary support to fulfill the business's goals.

Finding the right management team
Following this initial round of assessment, it may be necessary to replace one or several members of the existing management team. Even if that structure is left intact at first, the time will come to seek out a new leader. Objective analysis can have a major impact on this search process, narrowing options and improving the results.

Different assessment tools may be best suited to particular industries and challenges, but each assists PE firms in grasping how a new manager may contribute to the organization's productivity and culture. For instance, the Management Research Group's Leadership Effectiveness Analysis bases its criteria on six categories, which are in turn associated with 22 behaviors. The categories include:

- Creating the vision.
- Developing followership.
- Implementing the vision.
- Following through.
- Achieving results.
- Team playing.

While each area may be weighted differently depending on the demands of a particular role and business situation, all have an important part in how leaders will usher the business forward under new ownership. Finding managers who show strong ability in these areas brings renewed focus and empowers the business culture, yielding improved outcomes for all stakeholders.