

Transitioning from Executive *to Non-Executive*


Advice, insights and lessons
learned from current plurals




Attendees

Compass Carter Osborne

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Henry Elphick
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Jayne Davey
COO / Interim CEO,
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KP Doyle
Plural Chair



Chris Harper
Partner, Bevan Brittan




Giles Johnson
Business Advisor,
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Dan Kiely
Director, Compass
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Suzanne Lawrence
Chair, TFP Fertility



Luke Osborne
Senior Partner,
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Sanjay Panchal
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Rory Pope
Partner, Apposite
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Douglas Quinn
Plural Chair



Garret Turley
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Private equity has long understood the importance of non-executive chairs in driving value creation and ensuring robust governance, particularly in the highly regulated health and social care sectors. However, the market for candidates who meet the often-exacting requirements of private equity sponsors operating in this space is becoming increasingly competitive, making the need to cultivate a broader pool of talent to ensure a sustainable pipeline of qualified non-executive chairs greater than ever.

Investors, directors and other key stakeholders from across the sector were brought together by Compass Carter Osborne at a recent round table event to discuss the challenges and opportunities in non-executive chair

appointments and explore how the strategic aims of private equity can be aligned with the aspirations of successful CEOs looking to make the transition to portfolio careers.

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‘There is no lack of executive talent in the sector,’

but figures presented to the panel by Compass Carter Osborne suggest that investors continue to favour the appointment of seasoned non-executives. Of the 17 chairs that Compass Carter Osborne has placed in the last 12 months, none were

first-timers. In contrast, 24 of the 46 new chairs appointed at publicly traded companies over the same period were serving in the role for the first time.

The panel agreed that the capital structure and need for immediate value creation mean private equity-backed health and social care businesses often require different characteristics from a non-executive chair to their listed counterparts. And, in a world where speed is of the essence, investors are much less willing to take risks on inexperienced candidates, especially in portfolio companies with less seasoned management teams.

What investors want

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‘You need to have a chair who can understand and explain to often first-time management teams about the importance of pace eating into the capital structure,’

said one panellist. ‘Sometimes, the management team just cannot comprehend that, and the chair has to guide them on that journey. That’s where possibly a more experienced chair, or more experienced private equity non-executive is important.’



Indeed, participants said the ability to instil a sense of urgency into the business was a key reason many private equity sponsors prefer to avoid novices in chair roles. ‘They need to understand the value creation strategy and how the maths work and to be able to communicate that to the management team,’ said one panel member.

On the flipside, investors said experienced non-executive chairs were often needed to balance the eagerness of founding entrepreneurs and ensure they take a more process and data driven approach to growth.

Described by one participant as

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‘a blend of art and science combined into the alchemy of the team’

this finely calibrated selection process has to take into account the specific value creation strategy of individual businesses, as well as cultural fit, team dynamics, and skills blend. Panellists said the process was bespoke every time, but agreed that the capacity to make sound judgement calls on people as well as act as a conduit between management and the private equity sponsor were as important as the ability to drive performance.



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‘The chief executive tells the private equity sponsors 80% of what’s going on.’

They tell the chair 90%. So, you’ve got a gap of 10%, where the chair and the private equity sponsor are trying to triangulate to understand what the 100% is. That triangle of a relationship is incredibly important to the success of the business,’ said one participant.

This finely tuned balance is perhaps a key reason why private equity sponsors place so much emphasis on experience. One panellist told the round table that in most cases, they will have identified a potential chair before the deal goes live. ‘It’s a really important part of our investment case, and I’m looking for people who usually know the sector or sub-sector,’ they said.

Some investors said they were willing to look outside of the sector if a particular skill was required to complement the management team, such as a non-executive chair with a legal background to help drive a buy and build strategy. Others told the round table they were happy to appoint first-time chairs provided they could partner them with experienced non-executive directors in a mentorship capacity.



'I'm more relaxed about first chair roles,' said one panellist. 'If they have had a CEO role under private equity ownership then they will have seen how it works. And again, it comes back to the structure of the board. You might have another non-executive who has stepped back from chair roles and can help guide them. As long as they have a private equity background, so they understand the urgency and the investment case and what the game is.'

However, some participants said there was often real nervousness about being the first to appoint even the most talented former CEO. 'They may have made a successful exit and be pretty well known in the sector, but there's always someone who has to take that first risk to appoint them as chair,' said one panellist.

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'We often advise people that getting Trustee role might help get that ball rolling and then it's an easier sell into a non-exec role.'

Fostering talent at executive level

Despite private equity's clear preference for more seasoned non-executives, there was broad consensus among the panel that these are in increasingly short supply, accelerating the need to develop talent at executive level.

Panellists said encouraging CEOs to seek mentorship and access a diverse range of experience could help foster a new generation of non-executives. One participant advised would-be chairs to seek charity trusteeships while still in executive roles, while others recommended building varied networks to get into the orbit of investors.

Some on the round table also shared their early experiences in non-executive roles. Not all were positive, but the cumulative learning was seen as an important factor in growing a successful portfolio career.



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'It was fairly soon after taking on my first non-executive role and having a successful exit, that I took on my first chair role.'

You learn so much from working with different management teams, different boards and different investors,' said one participant. 'Looking back, that's what's allowed me to take on different roles and challenges.'

In addition, participants said CEOs looking to make the transition needed to develop a growth mindset.

'You need to think back to the things you did in your first job: you were hungry, you sought feedback, you were curious, and you learned,' said another panel member.



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'If you adopt that mindset and seek mentorship there are loads of people who have been chairs and executives before to draw on.'

I think naturally as you become more senior you feel like you should have all the answers, but you don't. And so going and seeking that mentorship is critical.'

Indeed, panellists said that continual learning was essential even after securing a first non-executive chair role.

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'It can be daunting when you first enter the orbit of investors,'

you need to be able to understand what some of the terminology means, then set about running the business in a right and proper way and delivering value from that,' said one panellist. 'Value creation also comes through running the business, and making sure you pay attention to all your key metrics.'

One of the biggest difficulties for first-time chairs transitioning from CEO can be knowing when to get involved and when to step back. And, according to some panel members, this can spell make or break for relationships with the management team. 'One of the

hardest things is watching [management] do something you don't agree with. You don't think it's going to work. But if you go and intervene every single time you're not being a non-executive anymore. It's a very difficult and very finely judged call about when to hang back and when to step in. But even when you step in, you've got to do it in a certain way. And

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'What is really key is that you build relationships so that you can have difficult conversations without falling out with people,'
said one participant.



Understanding the fine details

Long gone are the days when non-executive chairs could sit back and receive their remuneration packages for attending the monthly board meeting, signing the odd document and absolving themselves of responsibility when things go wrong. In 2003, the Higgs report emphasised the need for non-executive directors to be independent and to be ready to challenge the decisions made by the executive team. As one panellist pointed out

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‘The term non-executive does not mean not involved.’

Executives and non-executives have the same duties underlying their roles, albeit that in corporate governance terms, those roles diverge between the day-to-day and the strategic.

‘You can’t sit back and say, I’m a non-executive and, therefore, it doesn’t matter. If you’re taking the view that you effectively don’t need to know the information and the executive team have got it covered, that’s a warning sign. You need to be asking for, and ensuring you receive, the right information on a timely basis from the executive team to enable robust debate at board. And in



fact, in a number of corporate failures, one of the real trigger points was that there was no or limited meaningful non-executive challenge to the executive team,’ one participant told the round table.

Panellists also recommended that new chairs challenge what they are being told by the due diligence, as well as ensure they understand the exit strategy from the outset.

‘Never get into something unless you know how you’re going to get out of it,’ advised one participant. ‘That means having that total clarity on is this a hold, is this an in and out? Understanding who you’re going to be selling it to, what format it’s going to be taking and then understanding the equity piece is how you actually sell the role to the executive team you’re bringing in.’

Growing the talent pool

Given the financial risks and broad skillsets required from non-executive chairs, it is understandable why investors typically seek highly

experienced candidates who can not only drive value creation but also navigate the financial and cultural complexities of the business and, in many cases, co-invest. However, in spite of the challenges, the panel heard that there are opportunities to build a new generation of non-executive chairs in the sector, provided investors are more willing to start thinking outside the box.

Indeed, according to one panellist,

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‘Private equity sponsors’ asks are often so high that candidates who meet 99% of the criteria are still ignored.’



Insight from Compass Carter Osborne revealed a high degree of consistency in the candidates it is asked to find: no first-time chairs; buy and build experience and the ability to fit the culture. However, it said the toughest ask was often finding specific sub-sector experience.

‘Everybody says they would be interested in seeing people from out of sector and we can expend a tremendous amount of energy selling the sector to people who’ve never experienced it or never considered it previously, but when the rubber hits the road, they are the ones that get

rooted out of the process,’ said the company.

If, as anticipated, transaction activity picks up in the second half of the year, the competition for non-executive directors could accelerate significantly. While there might not be an outright shortage of talent within the sector, the available capacity is diminishing, meaning private equity investors may need to be more courageous in considering candidates from outside the sector or appointing first time chairs from within.

And, as one participant pointed out, in reality that risk may not be as great as it might appear:

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‘We’ve done a lot of talk here about structuring skills and experience and all the rest of it, but actually -a bright, good human being will on the whole learn what to do and do it really well.’

Enquiries



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Sharon is a senior member of the Compass Carter Osborne management team. She brings career-long exposure to HR and executive search and is extensively networked throughout the health and social care sectors. A founding partner of Carter Schwartz prior to joining Compass Carter Osborne, Sharon leads on the client and candidate experience alongside operational responsibility for the consultant and research teams.

Sharon encourages a healthy work environment for all. Having recently completed a diploma in aromatherapy, she finds pilates and dance-based exercise a great outlet for focus and fitness.

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David is Director of Marketing at Compass Recruitment Solutions (CRS).

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