Bruce Roberson, senior managing partner at Sun Capital Partners

Inside the Private-Equity Boardroom: Tight Deadlines and "Dirty Laundry"

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Exciting news: My colleague David Reimer, the CEO of The ExCo Group, and I are launching an interview series we're calling "The New Director's Chair," talking with leading board members about the lessons they've learned on the art of being an effective director and how the role is changing. To kick off the series, we reached out to Bruce Roberson, a senior managing partner at Sun Capital Partners, the private-equity firm, whose background includes long stints as a CEO and as a senior partner at McKinsey. We're confident you'll enjoy reading Roberson's smart, provocative and compelling insights. And stay tuned for more interviews in coming weeks with other leading directors.

Bryant: What are the differences between being a private-equity director and a public-company director?

Roberson: There are a handful of things that are different, and they're more different at the margin than at the core. But when you add up the sum of the margins, it's a pretty fundamental difference.

There's an overwhelming focus on making sure you have the right leadership in the chair. A typical private equity board is three to five people, and they may all be from the same firm. They don't have to navigate a set of boardroom personalities, and so the discussions around executive leadership can be much more straightforward. A CEO can go from in favor to out of favor much faster. We must have a leader whose skills really align with our investment thesis for growing and improving the business. On the other hand, you don't have to be the public face of the company on CNBC to be a very successful private-equity CEO.

There's also an overwhelming focus on making sure that the strategy is appropriate for building shareholder value over a three- to five-year period. In private equity, that time horizon is pretty fixed. You want to double earnings in three to five years, and leave something behind so the next buyer can double them again.

Another differentiation is that on a PE board, you are much more engaged with management. At Sun Capital, we have a three- or four-hour board meeting with each of our portfolio companies every other month. That said, public boards do a better job than most private boards in managing reputational risks. They tend to have more of a governance structure, with more committees and more formal mechanisms to address those sorts of things. It's an area where I think the private side could learn a lot from the public side.

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I also talk a fair amount with our new CEOs about the idea that there's a higher propensity to share the dirty laundry in a private-equity world, and there's more of a stigma to not sharing it early. If performance is bad and you're not sure why, you should say it's bad and you're not sure why, and ask, "Can you help me?"

It's more about untapped potential. In a public-company setting, you've got all these disclosure issues that you don't have in a private company, and it leads to an underlying set of behaviors of hiding the dirty laundry. Private's just the opposite. If we know it, we can fix it, so you have to raise the issues.

Reimer: And what are the patterns that you've seen in terms of new PE directors who stumble?

Roberson: One is trading on their prior expertise before they have a proprietary point of view. They show up at a meeting, there's a discussion about entering China, and they just start talking about their experiences in China. Chances are that this particular company has a very different set of challenges, so they need to offer less general advice and more specific, on-point advice. So we encourage our new directors to spend about two weeks, full-time, getting to know a company.

A second big problem is being either too quiet or too vocal. If you're too quiet, the perception is that you don't have a point of view. Your board is likely to have three or four private-equity deal executives. They're usually relatively sharp-edged, and I don't mean that in a negative way. It's an argumentative industry. You have to be precise with language as you articulate your point of view. If you're too quiet on the board, you don't get into that flow. Conversely, if you're too argumentative, you're not understanding or advancing the discussion.

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A third mistake is piling more work onto a management team that is already buried doing things that we expect are going to double the equity value over three years. If you're going to add some initiative to their workload, you have to take something else off. It's under-appreciating the bandwidth that's required. I had one CEO describe it as initiative diarrhea. The language was stark, but I understood exactly what he was talking about. You need a smaller number of things done well.

Bryant: What X-factors separate the truly great PE directors from everyone else?

Roberson: There is a clarity around what they're saying that is particularly on-point. They are able to convey it very clearly, in a way that you can understand and appreciate the importance of it. The second thing is the ability to provide private counsel from a position of power but not in an overbearing way, so you're not coming off as threatening or pulling rank.

Reimer: What was your growth curve like as you moved from consulting with McKinsey to being a CEO yourself to joining a private equity firm?

Roberson: Many partners at McKinsey think they'll be a great CEO. But there's a lot of things you don't understand when you do make the shift. I don't think you understand how much time you spend meeting with your general counsel, dealing with HR issues, helping an employee who's having personal problems, handling some emergency at one of your locations, and talking with your most important customer because they're mad at you. As a consultant, you're used to dealing with strategy, and so it takes a while to adjust your calendar.

It also takes a while to get used to not being surrounded by consultants who can do really deep analysis for you on a whim. You forget how much of that structure is available to you.

There are lessons to be learned around transparency as well. Earlier in my career, I was running a hazardous waste business, and you have inspectors in your facility every day. We had an inspector come into one facility, and they noted a number of violations. Local management told me we had to close down for the day, but it was no big deal. That turned

Google alert," he said. "I suggest you inform your board." The closing wasn't material to our bottom line, but I learned to be more transparent.

Bryant: What are the qualities that matter most to you in the CEOs you're hiring?

Roberson: There are a handful of traits that are common to the CEOs who succeed with us. They have to be articulate but also concise. Many CEOs are very effective because they tell stories, but if they can't pivot to being clear and concise, they're not going to interact well with a set of deal professionals. They have to be able to articulate major things that they're doing in terms of clock-speed and money. They have to be financially literate and think in terms of opportunity cost, and a lot of really effective senior executives don't.

Each portfolio company also has a unique set of challenges, and they're something specific that the CEO is going to have to do to succeed, like scaling from 40 locations to 100. And we want CEOs who have done something like that before because you don't have time to learn on the job.

In interviews, I'll ask a lot of questions around that experience. "For you to succeed, you're going to have to be really good at opening 100 geographic locations. Talk to me about when you've done that. If you could do it over again, what would you do?" You're after someone who's not only done it, but they're thoughtful about what they did, and they're not ashamed to say they did these four or five things wrong and they could have done it better.

I'll also ask a lot of questions about the people they've hired. "How do you hire people? What kind of people interest you? Tell me about the people who your board said you should get rid of but you kept. Why? How did that work out?" And did they ever lose a major customer? I want people who have the grit to work through something really hard. They were scared, nervous, not sure what to do and they didn't freak out. They were able to keep their calm and get to the other side.

Bryant: What were some early influences for you?

Roberson: I grew up in Tucson. My dad helped run the student union for the University of Arizona – it was a number of restaurants, so he worked nights and weekends. My mom taught first grade for thirteen years. It was a fairly disciplined home. The kids mowed lawns and did yard work over the summers. All the money went into a jar so we could pay for one week in San Diego as a family vacation. And from sixth grade to ninth grade, I delivered 300 papers every morning.

Reimer: In all your leadership roles, what has been the most important lesson you've learned about how to get the most out of people?

Roberson: For me, it's been figuring out what someone's good at and leveraging their strengths so they do more of that, instead of trying to make them more rounded and to be something they're not. It's just like filling out a football team. If you have just an awesome wide receiver, you want to fill out the team around him.

The converse is also true. You sometimes know relatively quickly that someone's not going to be great at their job. If they're not going to be great in the job, then find them another one where they can be successful.