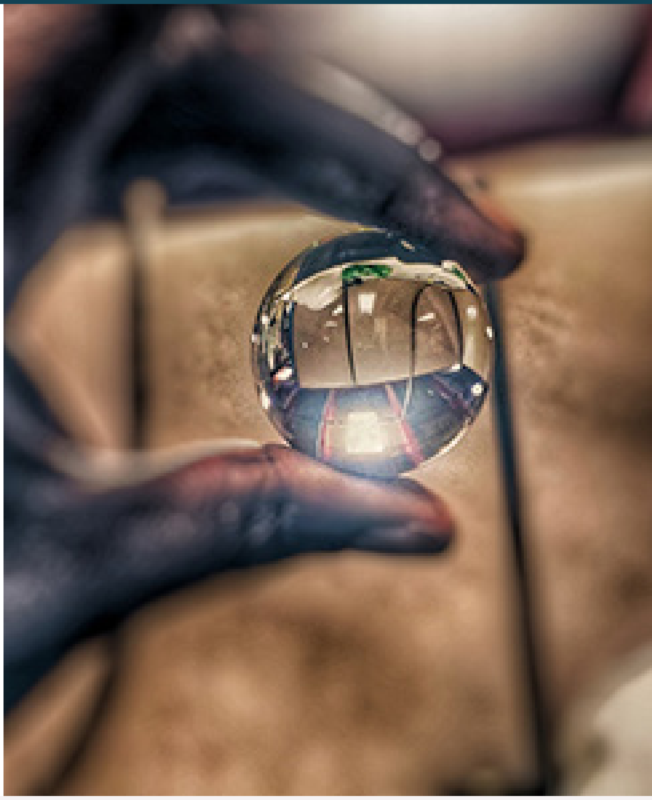
Mindreading is not a recipe for successful Board-CEO partnership.



We recently received a call from a client concerned about a portfolio company. The lead investor was frank:

"We can't figure out what's happening. The organization has so much potential but has been underperforming since we closed the deal last year. Can you help us?"

Ampersand met with members of the management team and uncovered a consistent theme: "We have no idea what the Board wants, let alone how to talk to them." We quickly realized that before anything could be done to address the missed expectations, both sides needed to hit the "reset" button on their relationship.

With expertise helping middle-market private equity diagnose and resolve pain points within their portfolios, we see this all too often. **Not unlike a marriage, hope runs high up front when two parties enter into a promising relationship with the best of intentions, only to find themselves confused over what the other needs or wants from the partnership.**

Our research confirmed these disconnects are commonplace.

We interviewed 25 PE investment professionals and portfolio company CEOs to isolate causes of communication issues and misalignment of expectations between Boards and CEOs. **We sought to glean their wisdom and understand best practices, knowing that establishing a productive relationship from the start has a strong correlation to achieving results.**

We uncovered several key actions essential for a solid Board/CEO relationship.

ALIGN AROUND THE EXIT STRATEGY, KEY MILESTONES, AND CRITICAL OBJECTIVES EARLY ON.

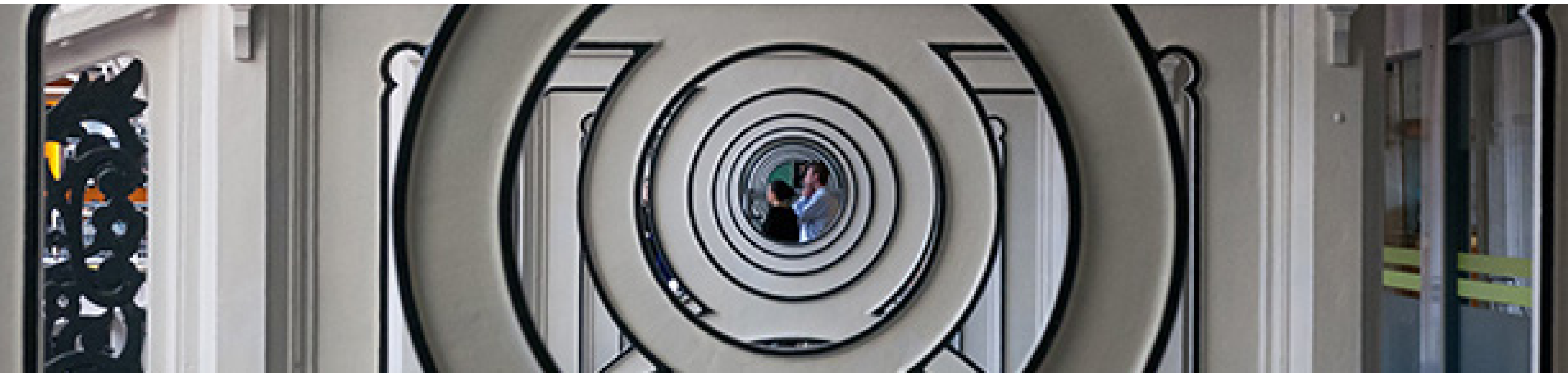
In particular, help CEOs understand what the Board and investors are really trying to accomplish and why. One interviewee noted that "investors tend to play our cards close to the vest." Even with the best of intentions (e.g., giving a CEO plenty of room to lead), the risk of doing so is high: "The CEO will be concerned with the company and running it well, and we are concerned with that too. But the CEO must understand the investment, what returns are, and how the business needs to go to support those returns.... Sometimes the management team fails to understand how a decision they made affects cash flow and therefore EBITDA, and then that can affect the covenants on the debt, which limits future growth."

On the flip side, we have been in situations where the Board itself is not aligned – leaving CEOs caught in the middle. Putting it out there early will open the door to work through any areas where all are not on the same page and provide an opportunity for both sides to gain a full view into the other's goals and objectives.

DEFINE EXPECTATIONS AROUND THE PARTNERSHIP ITSELF, NOT JUST THE BUSINESS.

Align on the "what" and the "how" of communication. Investors/Boards often share a reporting calendar, but are slow to communicate what information is most and least helpful. And CEOs can be uncertain as to when to reach out between formal meetings. Success requires both transparency and vulnerability. The most effective CEOs and Board members take the plunge early on to discuss their preferences for communication, hot buttons, and strengths and weaknesses.

While well-formed preferences for reporting formats may exist, some are loath to explicitly share, only to become frustrated when Board meetings don't meet expectations. One investor commented ruefully: "Sometimes we grumble for months about the quality of communication, but management thinks it is fine. We need to make sure we articulate up front what we need to see from them...and what they can expect from us."



LEAN TOWARD OVER- RATHER THAN UNDER-COMMUNICATING.

Often said but not to be underestimated, surprises do nothing to improve Board/CEO relationships. Too, often a group-generated solution is the best one – yet it is not uncommon for a new leader to want to prove their mettle by keeping the cards close to the vest until a solution is found. We heard from an investor (clearly still rankled) who explained: "I was recently surprised by an announcement in the market I knew nothing about, and we are a significant shareholder. Being surprised with what I see as bad news and hearing about it from the rest of the market – it was not a good thing." A CEO offered practical advice: "A general key to alignment is in having less-formal interactions – a casual, ad hoc update on a specific issue, or a pre-call before the Board meeting. We hop on the phone every two weeks to bounce around ideas. Informal communications help because they let us know there is nothing up the PE firm's sleeve – they are not hatching and plotting something in the background they aren't disclosing. And we understand the bigger picture, like M&A and potential exit."

ASSUME POSITIVE INTENT AND LEAD WITH TRANSPARENCY.

Both sides should adopt a mindset of "they are trying to help." In all interactions, first seek to understand and second, seek to help design a solution. For CEOs, it is helpful to identify a handful of folks (on the Board or within the investor group) to leverage as sounding boards and sources of support between scheduled interactions. For the Board, challenge your assumptions; ask yourselves how much can be shared with CEOs and know that deeper insight can often help them to lead more effectively.

The research is clear: expecting each party to read minds is not a formula for successful Board/CEO relationships – or for making the investment thesis a reality.

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