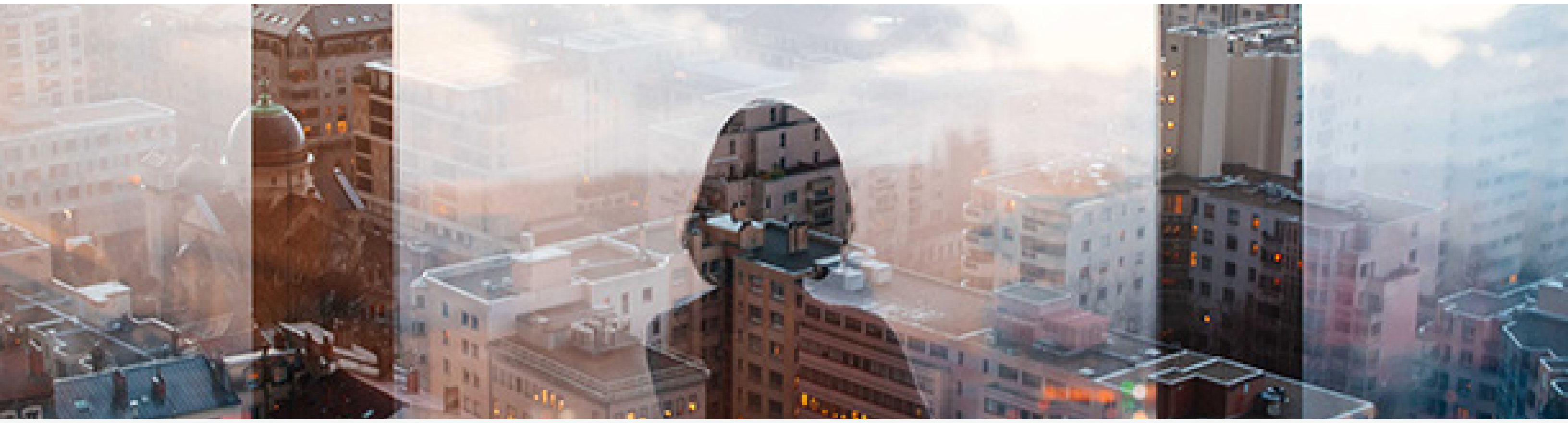
Big shoes to fill: Transitioning from founder to new CEO

A change at the top is often required to realize growth objectives in a private equity-backed, founder-led business. **After investors help the founder craft a graceful exit from day-to-day management, they must usher in a new CEO thoughtfully.** Successfully supporting that transition – from evaluating new talent through the first 100 days – is at the core of Ampersand's expertise. To augment our experience, we interviewed 20+ PE investment professionals and CEOs, all with direct experience with founder-led companies. Here, we offer best practices to position an incoming CEO for success.



Find the right CEO

CEOs successful in taking the reins after a founder exits will:

SHOW RESPECT WHILE DRIVING CHANGE.

CEOs who excel following a founder's departure bring their own proven playbook, but don't come out of the gate with guns blazing. They show public appreciation for the founder's accomplishments, immediately and often. Likewise, they fervently pursue growth, but at a pace that doesn't cause the organization to burst at the seams. Success in high-growth contexts and previous experience in professionalizing organizations are musts.

AVOID POWER STRUGGLES.

The most effective founder-CEO successors wield a healthy mix of self-confidence and patience. They possess a thick skin and resist unproductive power struggles with founders and/or their loyal fan base. Instead, they leverage their experience and a healthy dose of emotional intelligence to connect to the current organization and win people over. They keep their egos in check and their emotions at bay so that team members can honor the exiting founder and work toward new CEO-led initiatives, rather than creating an "us versus them" scenario.

BUILD RAPPORT WITH THE FOUNDER.

The transition of power from founder to a new CEO requires significant interpersonal savvy. CEOs who focus solely on the nuts and bolts of the business and see the founder as an unnecessary distraction are more likely to fail. In contrast, successful incoming CEOs establish a healthy rapport with founders by showing respect, providing the founder with "a lot of therapy" (e.g., listening, empathizing, reinforcing their accomplishments and value), and establishing good boundaries (e.g., clarifying roles, responsibilities, and decisionmaking on the executive team, especially between the new CEO and the founder).

INTENTIONALLY MANAGE THE TRANSITION.

Some PE firms launch a CEO search prior to close, either quietly while they help the founder come to terms with succession or with the founder's blessing firmly in hand. It is ideal, though uncommon, for a new CEO to be in place Day One post-close. In the perfect scenario, the founder lauds the change to employees with an inspirational message and offers enthusiastic support to the new CEO, even changing physical offices to signal the transition.

Case in point: Holding out for a hero

CHALLENGE

A founder-led, $210M service business was sold to an established PE firm dedicated to partnering effectively with management teams to realize investment potential. Adogmatic founder and lack of a clear business strategy hampered growth and stymied talented executives, making the need for a new CEO apparent.

CONTRIBUTIONS

The PE firm launched a search immediately post-close. Internal debates swirled about the essential qualities and experiences needed to succeed in the CEO role.
Ampersand's scorecarding process brought much-needed clarity, establishing well-defined accountabilities against which all candidates were assessed. As a result of Ampersand's diligence of the top five candidates, a clear leader emerged.

OUTCOMES

The CEO who earned the job boasted a "been there, done that" track record – quickly earning him credibility with investors and company leadership. His driven but egalitarian leadership style also put employees at ease. He readily sorted through complicated interpersonal dynamics, pet projects, and an outdated organizational structure to uncover the true potential of the business and develop its leaders. Viewing challenges as opportunities rather than annoyances, he incited action from a team used to the status quo. Thorough diligence paid off with a CEO who brought impressive technical and industry knowledge, along with a balance of interpersonal finesse and confidence particularly well suited for this role.

Set the CEO up for success

Boards have a significant role to play in ensuring the success of a new CEO. Our research suggests the following:

EMPOWER TALENT DECISIONS.

Enable a new CEO to evaluate talent in the organization and make decisions accordingly. Avoid asking them to blindly clean house. If a sizeable reduction in workforce is called for, think carefully about when and how to communicate it to employees. If the founder is still supportively involved, they may play a role in communicating such changes. If the founder wants to stick around and play a new role, the new CEO should get to choose the role and decide whether the founder stays. Making talent decisions for a new CEO ties one hand behind their back.

CREATE EARLY DIALOGUE AROUND STRATEGY.

Consider asking the CEO to present their growth plan to the Board within the first three months. Rather than a formal Board presentation, make it a dialogue. Have each member of the Board ask questions and offer perceptions of strengths and risks. Share ideas; some investors are so leery of telling the CEO what to do that they swing too far the other way, leaving the CEO in the dark. Ask questions that help the CEO differentiate "goals" from "strategy." Pull in external consultation early if additional support is needed.

Leverage healthy governance

SUPPORT THE CEO DAY ONE.

The Board should lead the charge supporting the new CEO's ability to make decisions, own the growth strategy, and direct the leadership team accordingly, particularly if the founder remains involved. While the new CEO must be able to stand on their own two feet, don't make them fight every battle alone; set them up for success by enforcing predetermined swim lanes with the founder at the Board level.

LAY OUT INVESTOR EXPECTATIONS UP FRONT.

Give the new CEO best practices to effectively partner with the PE firm. Allow them the autonomy to run the business, but make expectations for a successful partnership transparent from the start.

ENSURE ROLE CLARITY FOR ALL STAKEHOLDERS.

Communication from the Board around CEO role clarity needs to be crystal clear. Founders and new CEOs have been known to pit Board members against one another to win support in their favor, a situation that must be avoided. An ex-CEO or two on the Board can play an integral part in coaching the new CEO and helping them avoid landmines.

Closing Thought:

Even the most experienced, competent CEOs will benefit from a thoughtful onboarding plan that leverages investors' knowledge of both the business and the players involved. Set the new CEO up for success by taking a intentional approach to their first 100 days.

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