

# from MNC CEO to private equity executive

By Alice Au

## Some invaluable insider tips.

When Blackstone announced the appointment of former Financial Secretary of Hong Kong, Antony Leung, as a Senior Managing Director and Chairman of their Greater China operations in January 2007, it marked another milestone in an ongoing trend of Asia's high profile executives defecting to Private Equity (PE).

The world's largest players have been adding dots on their corporate maps denoting offices in Hong Kong, Japan, Singapore or India, and courting Asia's top executives who often join as Operating Partners – some with the view to eventually running a major portfolio company.

In April 2007 for example, former Asia CEO of STAR Television, Michelle Guthrie, joined Providence Equity Partners as a managing director and The Carlyle Group scooped up Patrick Siewert and Herman Chang as Senior Directors. Mr. Siewert's last position was Coca Cola's President and Chief Operating Officer for East, South Asia & Pacific Rim, while Mr. Chang was

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Delphi's President China and Managing Director for the Asia Pacific operations of a global product business unit.

While this may seem to attest to the allure of senior roles in PE, "this industry is not for everyone," as Mr. Herman Chang, Senior Director at Carlyle, points out.

Mr. Jim Tsao agrees. Mr. Tsao joined CCMP Capital Asia in 2005, leaving behind the Group Managing Director role at one of the largest listed food products companies in Hong Kong – a role he held for eight years. "It was my dream to become the CEO of a listed company since my business school days, and I achieved that at the age of 40. I had turned around a company that was at the brink of bankruptcy and helped re-establish it as the regional industry leader in its core segment. However, my learning curve was flattening out, as things went from hectic to organized, and then to routine. It was way too early for me to think about retirement and I was looking to take up another challenge. I felt that joining a PE firm would give me the chance to get back onto a steep learning curve, and to see different industries and geographies that I had not seen before. The opportunity to feel excited again was the biggest kick!"

"That excitement has lasted till today, two years into the job change – but one must understand that things are very different in this environment. You are no longer surrounded by troops of subordinates who take orders from you. You are likely to be surrounded by a team of young professionals who challenge things from all directions. For me personally, the transition from being one of the youngest CEOs of a listed company to being one of the most senior members of the team, took some adjustment."

### Clearing A Few Misconceptions

Indeed, common misconceptions about the PE industry still exist.

First, most media reports tend to focus on the size of PE investments, which often overshadows all the hard work that goes into value creation. "My past

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impression was that PE companies were mainly into financial restructuring. Providing capital is one thing, creating value is really core to what we do,” commented Mr. Chang.

“In previous years, you could grow your way or leverage your way to success. These days, the ability to instill operational improvements and world-class standards is paramount.” adds Ranvir Dewan, Senior Principal and Advisor at TPG. As CFO of Korea First Bank (a TPG portfolio company), Mr. Dewan helped restructure the bank to become one of the better performing banks in Korea and continued as CFO after it was sold to Standard Chartered Bank, joining TPG 18 months later.

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PE executives – whether as a Portfolio Company Executive like Mr. Dewan during the earlier part of his involvement with the industry or as an operating partner like Mr. Chang – are required to think in the longer term and operate on a higher level. While senior executives find that much of their time is dedicated to the operational routines of running large organizations, PE executives spend their time on all aspects of value creation.

Second, no two private equity firms are alike in strategy and in structure.

Some firms such as Providence Equity Partners are sector focused, while most others like TPG, KKR, and Blackstone are multi-industry focused. At TPG and KKR, Operating Partners typically have early consulting backgrounds and are laser focused on operation turnaround. At CCMP and Carlyle, Operating Partners are more integrated with deal teams, participating in business development besides driving results at portfolio companies.

While a strategic mindset, financial acumen, deep operational experience and outstanding people skills are all necessary, finding the right fit with a firm’s culture, vision, strategy and operating mode is paramount. As one senior executive stressed “I had been running a multi-million dollar business for years, and I was not about to change my style overnight.”

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### From MNC To PE

Steven Schneider, who joined TPG Capital as Partner and Managing Director in 2005 after 20 years with General Electric where his last position was President and CEO of GE Asia Pacific, said “I get calls weekly from friends and associates asking me what PE is all about. Managing and or engaging in portfolio companies in Private Equity and or multinationals is different in some regards, but also very similar. We are all focused on results... setting high performance targets in areas such as operations, growth, leadership, people development, and customer satisfaction, but our operating systems can tend to have differences in regards to the weekly and monthly rhythm and engagement processes. My experience to date has been that PE engagement in Portfolio Companies has a very high feedback loop; it’s not exactly real-time but pretty close. It is critical to stay very close to all of our portfolio companies so as to insure we are providing the correct support and guidance so as to meet and or exceed expectation.”

Commenting on his transition into private equity, Jim Tsao provided a vivid illustration. “You have to be ready for the role change. A CEO is like the captain of a football team. You enjoy the game and putting together your team – and get to play the game yourself passionately. In PE, your role is like that of the owner of the sports club. You need to find out what game is popular and which club is a good investment. Then you need to find the team that can play to win, and finally, find a good buyer after you have lifted the status of the club. You now have a much broader view in the sports arena and you will get to see a lot more games and players. But as you are no longer a player, there will be times you miss the action.”

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The role of ‘owner’ clearly requires a broader perspective of long-term opportunities, threats, market trends, potential buyers, exit plan etc.

“At any multinational or a PE portfolio company, the focus is on delivering results. The journey there, however, looks quite different. In PE, the vision, goals and deliverables are very clear; communications between strategic PE investors and management is also far more transparent, open and supportive.

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In a public company with numerous stakeholders and prerequisite disclosure protocols, communications tends to be more guarded,” explains Mr. Patrick Siewert, Senior Director at Carlyle.

Mr. Dewan elaborates, “Execution is in a relatively shorter time frame, compared to working in a MNC environment. Each portfolio company has its own complexities and its own set of circumstances. But in each case, crisp execution is the key to success. Fortunately, the degree of restructuring and change for an acquired portfolio company is far greater than what is possible in a multinational, because of the implications of the changes for the rest of the businesses and geographies in the group. In addition, you generally work with and rely on a large number of external resources such as consultants, lawyers, accountants and investment banks.”

In numerous open conversations with senior PE executives around the region, the Private Equity practice at Heidrick & Struggles has been privileged to many enlightening, open and candid insights. Here are some others:

On what it takes to succeed

1. Have the confidence to operate on a stand-alone basis, without the support of the regional or global infrastructure afforded by multinationals.
2. Be ready for a life change and the huge demand to learn new things all the time.
3. Ensure you have built up a strong array of operational skills.
4. Do not fall in love with any industry in particular. What the market likes is more important than what you like.
5. Know what the firm’s expectations are. As an operating partner, are you expected to play the role of the COO, consultant, monitor, or integration manager?
6. You will find yourself in a very fast paced, exciting, and demanding environment. Pick out what is important and focus on that. It may be just one or two things that create the most value.
7. Be prepared to develop a passion to add value to your portfolio companies, and find a team that has the passion to deliver it with you.

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8. Be humble in how you drive change. Be prepared to use your influencing skills and patiently transfer knowledge, so that the portfolio company can be in better shape when you exit.
9. Be prepared to deal with problems on a day-to-day basis. There will be many times where you need to be hands-on, to coach and to address issues directly.
10. You need to be comfortable working with and developing your network of third-party consultants.
11. Don't confuse efforts with results.
12. Have the courage to deal with uncertainty. Don't just look at the big pay-off, the glamour. The journey can be difficult – you may end up questioning if the pay-off is worth it.

### On playing the role of Portfolio Company Executive

13. Be prepared to deal with initial opposition from the management. It takes patience and strong people skills to build relationships with the management team. You need to demonstrate your skills and the value you bring – and win their trust.
14. Be prepared to live in developing countries for extended periods of time, if that is where your portfolio companies are located.
15. The culture in most Asian companies tends to center round ethnic or regional influences. A challenge is how to absorb talent from around the world into that culture and turn them into global companies.
16. Local companies that lack the international exposure often do not have standard processes and behavior set in place. Moreover, most Asian companies are still in the hands of the founder or its founding family. Building the internal mechanism for proper governance in spite of their personal influence is often a challenge.
17. Cash is King. Many investments are leveraged. You will hit the covenants easier than you think.
18. There is some inherent career uncertainty in this role, where the new buyers may decide not to take you on!

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Private Equity as a category is also still getting known, and very often Real Estate Infrastructure Funds, Venture Capital, Hedge Funds, Government Investment Arms all get identified as Private Equity.

### Taking The Leap Today

Renuka Ramnath, CEO of ICICI Venture and one of the pioneers behind PE in India, commented at a recent forum hosted by Heidrick & Struggles in Mumbai, “When I started my career in 1986, it used to take companies over a decade to double their net worth. Now the situation is such that one sees companies doubling their net worth every year, and this presents the investment opportunity for PE, and is the reason for it being such an exciting option.”

“Not very long ago, in 2001, when I was raising funds for ICICI’s first fund, industrialists in India asked me what Private Equity was all about. In just over half a decade since then, the market has changed so much that you do not get a newspaper today that does not have a Private Equity article on the front page... People (in India) used to talk about large deals not getting done right, but then there was also a time when one could not find the large deal... Private Equity as a category is also still getting known, and very often Real Estate Infrastructure Funds, Venture Capital, Hedge Funds, Government Investment Arms all get identified as Private Equity. This makes it harder for the entrepreneur to distinguish between Private Equity and other categories of capital. These remain innate challenges.”

Asia presents PE firms with many investment opportunities, but with today’s high entry multiples, however, senior MNC executives entering PE now are likely to find themselves tasked to create or add value for portfolio companies in a matter of months, rather than in a number of years. They can however, be assured that the ride will be as exhilarating as it has always been.

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