



How to build an effective board

Q&A with Christoph Rubeli and Christian Unger



Christoph Rubeli and Christian Unger, Co-Heads of the Operating Directors & Entrepreneurial Governance business unit

As former CEOs and current portfolio company board members, Christoph Rubeli and Christian Unger know a thing or two about corporate governance. Today, they lead the Operating Directors & Entrepreneurial Governance business unit at Partners Group, which has been tasked with unlocking the full potential of private markets governance across the firm's portfolio. Here, they share with us their insights into what makes an effective board and how and why you should evaluate board performance.

Why is it so important to get portfolio company board composition right?

Christoph: Based on an analysis of our portfolio performance, we concluded that a governance structure that enables value creation, or what we refer to as “entrepreneurial governance,” is the key element that separates an average investment from an excellent one. At the heart of entrepreneurial governance is an effective board of directors, which is why the composition of our portfolio company boards has become an increasing area of focus for us.

As a private markets investment manager, we have staffed many a portfolio company board and, over the years, have distilled what works well and what does not. Adhering to our belief that board work should be hands-on and a means to steer a company top-down, we have formulated a playbook for portfolio company board design. Our team's task is to ensure that these standards are implemented and maintained across our portfolio.

What is entrepreneurial governance?

In private markets, successful entrepreneurial governance is enabling proactive and hands-on value creation, led top-down by the board. It is Partners Group's belief that this dominant focus on value creation, rather than financial engineering or valuation arbitrage, is the key generator of private equity returns. The composition, conduct and mandate of private equity-backed boards is an essential part of this.

A portfolio company board usually comprises key members of our investment team, industry value creation experts, a Lead Operating Director (independent chair) and a handful of Operating Directors (non-executive directors) with extensive, relevant experience. Operating Directors are selected based on their ability to contribute to strategic growth in a specific way and not merely to act as a counterbalance to the executive directors and investment team representatives.

Partners Group's entrepreneurial governance framework



What is unique about the board of a privately-owned company compared to that of a public company?

Christian: Having been the CEO of both a publicly-listed company and a privately-owned company, I believe public and private markets have very different approaches to governance. The governance concept in public markets is that a board oversees, controls and guides the management team and, mainly, the CEO. However, many public company boards today spend large amounts of precious time on the controlling only, often putting discussion of business strategy in second place. This means there is little to no scope for board members to actively manage an asset.

In contrast, this is exactly what we want our portfolio company boards to do; we want the Operating Directors we appoint to work closely with the management team on value creation initiatives. To enable this, compared to public markets, we compose smaller boards that meet more frequently and are more deeply ingrained in the business. In addition, board members and management teams are typically expected to invest meaningful amounts of their own wealth into the portfolio companies they lead. This means they share the upside potential but also the downside risk, creating a powerful incentive for value creation for the benefit of all stakeholders involved.

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How do you design the ideal portfolio company board?

Christoph: The first step to designing an effective board is to start as early as possible. Every time we look at a new investment opportunity, early on in our screening process we start to engage

with investment teams to discuss board composition. What skills or attributes do we require to realize the investment case? What advisers can we bring in that could later take on the role of Operating Director or Lead Operating Director?

At this stage, we already assign responsibilities for each of our proposed board members, thinking carefully about the skills required to transform a business and take it to the next level.

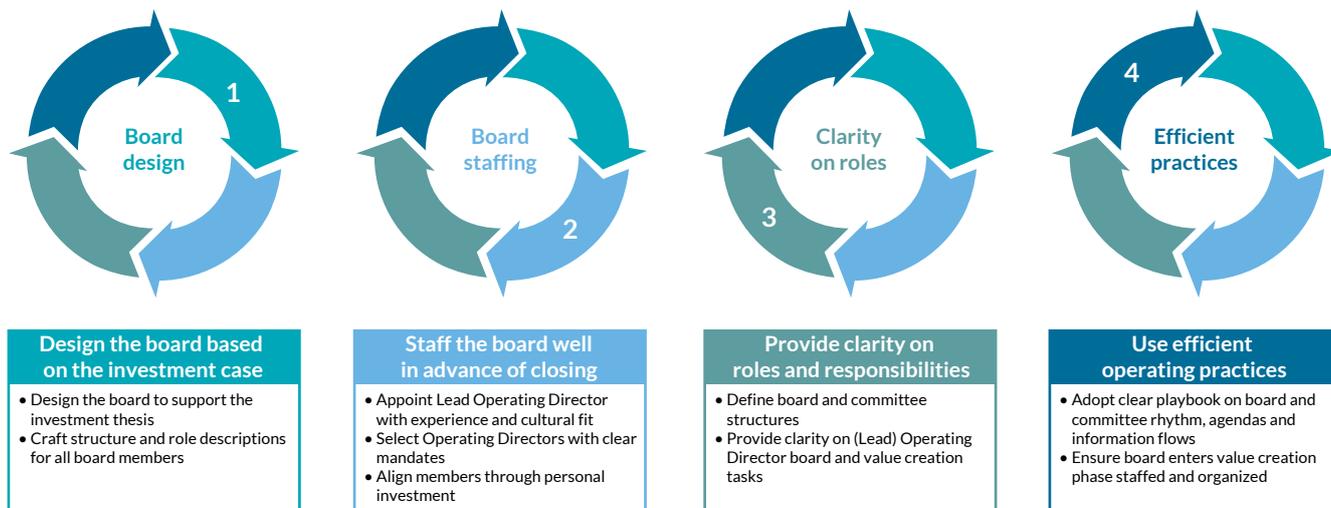
Once we are certain that we will pursue an investment, we begin to staff the board in earnest. We appoint an experienced Lead Operating Director and select key Operating Directors with clear value creation mandates well in advance of closing, while still reserving a board seat or two so that we can add competencies at a later stage as a company develops.

Christian: Following the closing of an investment, our approach is not to implement a standardized 100-day plan or to hand out 200-page manuals with thousands of questions for the management team. Instead, we want to give the management team and our Operating Directors the time to get to know each other, enabling our Operating Directors to gain further insight into every aspect of a business.

Within the first three months after the closing, we conduct a workshop with the board and management team and decide what the final board composition should be and where we can have the biggest strategic impact on the business. Within the first six months, we follow up on this with a big strategy workshop with the entire senior management. Here, we reconfirm our action plan for the following years, assigning clear roles and responsibilities within the board and management team.

As we want our boards to be accountable for implementing strategic initiatives, each of our board members will have KPIs and specific assignments to fulfill during our holding period, just the same as the management team.

Building boards to realize the investment thesis



How do you measure board effectiveness?

Christian: The right board setup in the first year might not be the right setup four to five years down the line. We therefore evaluate the quality of the board work on a regular basis to see if we still have the right composition as a business grows and evolves. To assist us with the evaluation, we have developed a proprietary data-driven tool that provides a 360° qualitative and quantitative assessment of board effectiveness, highlighting the key strengths of a board and its individual members, those board capabilities that need to be developed further, and potential misalignment among board members. Once these data points have been collected, the tool also compares the performance of our boards across the platform, providing us with valuable insight into how each board is tracking.

The tool gives us a unique opportunity to apply a disciplined and rigorous approach to board evaluation in order to identify gaps and facilitate knowledge exchange among board members with the ultimate objective of maximizing the value they can add to our portfolio companies.

Christoph: Our approach to board assessment is very methodical, and this is because we want our boards to be the center of vision and strategy for our portfolio companies. We constantly ask ourselves whether we have the right board composition, the right mindset and the right culture to enable sustainable growth. That is why each of our Operating Directors faces an annual re-election process.

However, while our approach aims to be very systematic, at the end of the day, effective board work is also an art; it is about being able to work together and to coordinate and align the interests of all stakeholders in an optimal fashion.

Christoph Rubeli is Co-Head of the Entrepreneurial Governance / Operating Directors business unit, based in Zug and Singapore. Previously, he was Co-Chief Executive Officer of Partners Group and co-led the Executive Committee and Global Executive Board and was a member of the Global Investment Committee. He is a member of the Board of Directors of the firm's portfolio companies Cerba HealthCare and Foncia. He has been with Partners Group since 1998 and has 33 years of industry experience. Prior to joining Partners Group, he worked at UBS. He holds an MBA from INSEAD Paris, France.

Christian Unger is Head of the TMT Industry Value Creation business unit and Co-Head of the Entrepreneurial Governance / Operating Directors business unit, based in Zug. He is a member of the Global Investment Committee, the Private Equity Directs Investment Committee and the Global Direct Debt Investment Committee. He is a member of the Board of Directors of the firm's portfolio companies Civica, GlobalLogic, SPI Global and Curvature. He has been with Partners Group since 2013 and has 24 years of industry experience in the media and digital space. Prior to joining Partners Group, he was global CEO of Ringier AG, Switzerland's largest media company. He holds a master's degree in economics from the European Business School, Germany.

Partners Group is a global private markets investment manager with USD 83 billion in assets under management and more than 1,200 employees in 20 offices worldwide. The firm manages a broad range of customized portfolios for an international clientele of over 850 institutional investors.