Preliminary and incomplete

What Do We Learn About CEOs From a Survey of Private Equity CEOs?

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Abstract

The selection and performance of CEOs at private equity-backed firms have significant implications for value creation and firm outcomes. Who are PE CEOs? What do they do and how? This paper sheds light on these questions by presenting the results of a survey filled out by 47 individuals who have been CEOs of PE-backed firms. External CEO appointments dominate across various deal sizes and growth trajectories. Revenue growth emerges as the primary objective across all scenarios, consistent with value creation imperatives in PE investments. General managerial skills consistently receive the highest ratings across all scenarios, followed closely by industry-specific knowledge. Company-specific knowledge, while valuable, is rated significantly lower for external CEOs and for leaders of slower-growing firms. These findings contribute to the literature on corporate governance in PE-backed firms and extend our understanding of executive labor markets.

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1. Introduction

The governance and operational strategies of private equity (PE)-backed firms have become an increasingly important topic in corporate finance literature (Kaplan and Strömberg, 2009; Cornelli and Karakaş, 2015). Of particular interest is the role of Chief Executive Officers (CEOs) within these entities, as their selection and performance have significant implications for value creation and firm outcomes (Acharya et al., 2013; Gompers, Kaplan, and Mukharlyamov, 2023). While extensive research has examined CEO appointments in publicly traded companies (Parrino, 1997; Huson et al., 2004, Cziraki and Jenter, 2022), the distinct characteristics of the PE environment warrant separate investigation.

In public corporations, particularly those comprising the S&P 500, internal promotions dominate CEO succession, accounting for approximately 80% of appointments (Cziraki and Jenter, 2022). This preference for internal candidates is often attributed to the availability of extensive talent pools within large organizations and the perceived risk mitigation associated with candidates who possess deep firm-specific knowledge (Cremers and Grinstein, 2014). However, the PE landscape presents a stark contrast, with external hires constituting roughly 75% of CEO appointments (Gompers, Kaplan, and Mukharlyamov, 2023). This divergence suggests the existence of a robust external labor market for executive talent within the PE sector and raises important questions about the drivers and implications of these hiring practices.

Empirical evidence from our survey yields several important insights into CEO selection and priorities in private equity-backed firms. First, we find that external CEO appointments dominate across various deal sizes and growth trajectories, with 70% of CEOs hired externally. This prevalence persists even in larger firms. Notably, 61% of external hires are sourced through

professional recruitment firms, indicating a structured approach to talent acquisition in the PE sector.

Our analysis reveals distinct patterns in CEO priorities based on firm characteristics. Revenue growth emerges as the primary objective across all scenarios, consistent with value creation imperatives in PE investments (Kaplan and Strömberg, 2009; Gompers, Kaplan, and Mukharlyamov, 2023). However, we document significant differences in secondary priorities based on pre-investment growth trajectories. CEOs of slower-growing firms place greater emphasis on redefining business models and recruiting executive talent compared to their counterparts in rapidly growing firms. This finding aligns with the strategic imperatives of turnaround scenarios, where restructuring is often necessary to enhance performance. Interestingly, we find no statistically significant difference in the likelihood of external versus internal CEO appointments between slow-growth and fast-growth scenarios. This suggests that PE firms prioritize specific turnaround capabilities and skillsets over the internal or external status of CEO candidates when addressing varying growth contexts.

Our survey also examines the perceived importance of different types of CEO knowledge and skills. General managerial skills consistently receive the highest ratings across all scenarios, followed closely by industry-specific knowledge. Company-specific knowledge, while valuable, is rated significantly lower for external CEOs and for leaders of slower-growing firms. This implies that these executives effectively mitigate gaps in firm-specific knowledge. Private equity-specific knowledge shows elevated importance primarily among repeat CEOs with prior PE experience suggesting a connection and understanding derived from repeated exposure to the PE model.

These findings contribute to the literature on corporate governance in PE-backed firms (Acharya et al., 2013; Cornelli and Karakaş, 2015) and extend our understanding of executive labor markets in the PE context. The results have implications for agency theory and potential governance conflicts in public companies. Our paper extends our understanding of the executive labor markets for PE-backed firms and provides insights into the mechanisms through which PE ownership influences corporate governance and value creation (Bernstein and Sheen, 2016). The findings have implications for agency theory in the PE context (Jensen, 1989; Kaplan and Strömberg, 2003) and how PE firms approach executive talent management.

2. Preliminary results

This section presents and interprets interesting facts that emerge in the survey data. We do so by tabulating the results for the overall sample and for various subsamples. Table 1 summarizes the survey questions we use to create the following subsamples:

a) CEO appointment: Internal (i.e., employed at this company for at least 1 year) vs. External

b) Growth trajectory pre-investment: Slow vs. Fast

c) CEO's prior experience running a PE-backed firm: None vs. Some

d) Deal age: Recent (i.e., announced within 5 years before the survey) vs. Mature

e) Deal size: Small vs. Large (i.e., total enterprise value over $1 billion)

f) PE ownership: Low vs. High (i.e., more than 75%)

g) Board size: Small vs. Large (i.e., 7 people or more)

In prior work, we establish a contrast between CEO appointments in PE-backed versus public firms (especially those in S&P 500). PE-backed firms are significantly more likely to fill

the position of a CEO with an outsider, while publicly-traded firms rely more so on internal promotions. This result is consistent with a number of mechanisms.

First, S&P 500 firms—by virtue of their size—enjoy a larger internal pool of talent that obviates the need to hire externally; the best candidate for the CEO position comes from within the firm. Second, unlike an average public firm, PE targets are companies in need of a turnaround that can benefit from an outsider bringing in a fresh perspective to redefine the business model.

Table 2 tabulates internal vs. external CEO appointments in six sets of subsamples. The differences in means are never statistically significant. Notably, external appointments are equally likely in smaller and larger PE deals. If anything, the fraction of smaller deals with an internally-sourced CEO (30.8%) exceeds that for larger deals (25.0%). Though this difference is not statistically significant.PE-backed firms with a slow pre-investment growth are indeed less likely to have an insider as a CEO than faster growing firms (21.1% vs. 35.7%), but this difference is again not statistically significant.[1] The lack of statistical significance and mixed directional results suggest that these two explanations are not first-order drivers of the distinction between CEO hiring practices at PE-backed vs. public firms.

Though we cannot establish this directly, our results are consistent with the notion that private equity firms have the resources and incentives to conduct a thorough search for the best candidate for the CEO position, both within and outside the firm. Table 3 shows, for example, that 60.6% of external CEOs in our sample have been identified by a search or recruitment firm. The boards of public firms—potentially risk-averse in hiring—may choose a safe internal candidate even when it comes at the expense of shareholder value. Somewhat consistent with this story is the fact that PE-backed firms with smaller boards in our sample (potentially less robust corporate

[1] This result's direction stems from the fact that slower growing firms are significantly more likely to replace an incumbent CEO (see Table 3).

governance practices) are more likely to promote an internal candidate than firms with larger boards (33.3% vs. 26.9%, not statistically significant).

Table 4 explores the importance of various value-add tasks: overall and in subsamples. Increase revenue/improve demand factors and find new executive talent rank as the most important with facilitating a high-value exit a close third. Subsample analysis, especially by pre-investment growth, reveals interesting patterns. CEOs of firms experiencing slower growth at the time of investment assign higher importance to most tasks, especially (at the 1% significance level) redefine business model/strategy and improve IT and incentives, and (at the 5% significance level) find new executive talent and facilitate a high-value exit. While the top 2 tasks for slower and faster growing firms are the same as in the overall sample, the 3rd most important tasks are different. For slower growth, it is redefining business model/strategy; for faster—search for acquisition opportunities.

It is worth mentioning that the question used to categorize firms by pre-investment growth was asked at the beginning of the survey, whereas the question about the importance of tasks—closer to the end. The emergence of meaningful differences between subsamples reflects that the answers are picking up the truth. If the two questions were asked one after another, one might worry that respondents would have been self-primed to answer in a way that creates the above-mentioned patterns.

The existence of statistically significant differences between growth subsamples confirms the sufficient amount of statistical power for this analysis. With this in mind, the lack of statistically significant differences between internal vs. external subsamples is highly informative. This null result suggests that PE firms search for a CEO broadly without conditioning their internal vs.

external status on the nature of challenges and opportunities (e.g., desperate need to redefine business mode/strategy) a portfolio company faces.

The analysis of board size subsamples shows evidence consistent with the fact that larger boards are indicative of better corporate governance. In such firms, CEOs find it less important to improve corporate governance or incentives. They also assign a lower importance to the task of facilitating a high-value exit, potentially because directors of larger boards assist in making progress toward this objective. Boards and CEOs share the workload.

The relative importance of these tasks changes with deal age. For mature investment (i.e., deals announced 6 or more years before), facilitating a high-value exit is the top-1 priority for CEOs. For recent investment, this task ranks 5th in importance. Similarly, though less dramatic, the importance of searching for acquisition opportunities changes from 6th to 4th as a deal matures.

Improving IT/information systems ranks 3rd and 5th in importance for recent and mature investments, respectively. This being the most significant drop in priority as a deal age suggests that once IT/information systems are improved, the firm can place further improvements on a backburner and dedicate more resources to other objectives.

Table 5 illustrates how CEOs view the importance of skills and types of knowledge commonly talked about in the CEO literature: general managerial skills, industry-specific knowledge, company-specific, and—since we study CEOs of PE-backed firms—private equity-specific knowledge. General managerial skills rank highest in every subsample. Industry-specific knowledge ranks 2nd in all subsamples except for one. The exception is internally-appointed CEOs. In that sample, company-specific knowledge is 2nd and industry-specific is a close 3rd (almost a tie).

Private equity-specific knowledge ranks 4th in the majority of subsamples. Its perceived importance receives the highest boost in a subsample of CEOs who had already been CEOs of PE-backed firms before their appointment under consideration. On the one hand, this result could be a reflection of self-importance: A person possessing a certain skill assigns a higher level of importance to that skill. The same mechanism potentially explains why internally-appointed CEOs assign a higher level of importance to company-specific knowledge.

On the other hand, serial CEOs of PE-backed firms may rank PE-specific knowledge as more important because of a nuanced understanding of the business that others lack due to their less extensive experience of working in the PE environment. Consistent with this alternative is the fact that in mature investments, PE specific knowledge ranks higher than in recent investments. This difference is significant at the 10% level.

Table 6 sheds light on the role of company-specific knowledge by showing how CEOs allocate their time between company-specific and PE-specific tasks. Externally hired CEOs devote more time to company-specific responsibilities. Two related explanations may account for this pattern. First, because they lack company-specific knowledge, external hires may need to spend more time on activities that internally promoted CEOs can handle more efficiently. Second, they may intentionally focus on company-specific tasks to accelerate their acquisition of firm-specific knowledge. Interestingly, even though company-specific tasks take up more time as a deal matures, company-specific knowledge is not labeled as more important with the passage of time. These findings align with the following idea: while company-specific knowledge matters, externally appointed CEOs can overcome its absence by proactively acquiring it on the job.

Table 7 shows that all-cash CEO compensation is significantly higher in larger deals—$1.5 million versus $0.9 million. What explains this disparity? CEOs hired into larger portfolio

companies are more likely to be simultaneously in discussions with multiple firms, consistent with a competitive and well-functioning CEO market. Larger firms are also more likely to engage external recruiters and use formal assessment services. Again, this stands in contrast to the idea that larger firms rely primarily on internal pools of talent for CEO promotions.

About half of CEOs in our sample—same rate for both first-time and serial PE CEOs—went through a formal evaluation process with a PE firm when recruited. Such internal assessments by PE firms are more common for CEOs joining firms experiencing slow growth at the time of investment (74% vs. 40%). This points to the general partners' close involvement in sourcing talent.

3. Conclusion

We have presented preliminary results that emerge from the survey of 47 individuals who have been CEOs of PE-backed firms. The current version performs univariate analyses using t-tests. Future iterations of this paper will study the robustness of these findings in a multivariate setting and control for characteristics of PE-backed firms and PE sponsors.

Our findings contribute to the literature on corporate governance in PE-backed firms and extend our understanding of executive labor markets. The documented contrast between CEO hiring practices at PE-backed firms and public companies has implications for agency theory and potential governance conflicts in public firms.

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Table 1: Constructing subsamples for the analysis

This table presents the responses to survey questions that we use to create subsamples for further analysis. Our sample includes 47 individuals who have been CEOs of PE-backed companies. Panels mention the wording of each question at the top of each table.

Panel A: CEO appointment—Internal vs. External

Prior to being recruited to be the CEO of this PE-backed company, you were...		
Response	**Count**	**CEO Appointment**
Employed at the same company for at least 1 year	14	Internal
Employed at the same company for less than 1 year	2	External
Employed at a different company	24	External
Temporarily between positions	6	External
Retired	1	External
Number of Responses	47	

Panel B: Growth trajectory pre-investment—Slow vs. Fast

At the time of the private equity investment, what was the growth trajectory of this company?		
Response	**Count**	**Growth**
Declining Growth / In Need of a Turnaround	11	Slow
Minimal Growth	8	Slow
Steady Growth	17	Fast
Rapid Growth	11	Fast
Number of Responses	47	

Panel C: CEO's prior experience running a PE-backed firm—None vs. Some

Prior to this most recent PE-backed company, how many private equity-backed companies were you CEO of?		
Response	**Count**	**Serial PE CEO**
0	29	No
1	12	Yes
2	3	Yes
3	3	Yes
4 or more	0	Yes
Number of Responses	47	

Panel D: Deal age—Recent vs. Mature

How long ago was the private equity investment at this company announced?		
Response	**Count**	**Deal Age**
Less than 1 year ago	5	Recent
1 - 2 years ago	7	Recent
3 - 5 years ago	20	Recent
6 - 10 years ago	11	Mature
More than 10 years ago	3	Mature
Number of Responses	46	

Panel E: Deal size—Small vs. Large

What was the Total Enterprise Value of this company at the time of the private equity deal (i.e. the price the private equity firm paid)?		
Response	**Count**	**Deal Size**
Less than $25m	0	Small
$25m - $100m	2	Small
$100m - $500m	11	Small
$500m - $1b	13	Small
More than $1b	20	Large
Number of Responses	46	

Panel F: PE ownership—Low vs. High

What fraction of this company is/was owned by the private equity sponsor(s)?		
Response	**Count**	**PE Ownership**
Less than 25%	1	Low
25 - 49%	4	Low
50 - 74%	10	Low
More than 75%	32	High
Number of Responses	47	

Panel G: Board size—Small vs. Large

How many people are on this company's Board of Directors?		
Response	**Count**	**Board Size**
3 or less	2	Small
4	1	Small
5	9	Small
6	9	Small
7	14	Large
8	5	Large
9	4	Large
10	2	Large
11 or more	1	Large
Number of Responses	47	

Table 2: Internal vs. External CEO Appointments

This table summarizes the prior employment of CEOs. Those who have been employed at that company for at least 1 year before becoming its CEO are classified as internal appointments. Our sample includes 47 individuals who have been CEOs of PE-backed companies. Table 1 describes the subsamples. Statistical significance of the difference between subgroup means at the 1%, 5%, and 10% levels are denoted by ***, **, and *, respectively.

Prior to being recruited to be the CEO of this PE-backed company, you were...						
	Pre-PE Growth		**Serial PE CEO**		**Deal age**	
Response	**Slow**	**Fast**	**No**	**Yes**	**Recent**	**Mature**
Employed at the same company for at least 1 year	0.211	0.357	0.241	0.389	0.250	0.357
Employed at the same company for less than 1 year	0.053	0.036	0.069	0.000	0.063	0.000
Employed at a different company	0.579	0.464	0.552	0.444	0.563	0.429
Temporarily between positions	0.158	0.107	0.103	0.167	0.094	0.214
Retired	0.000	0.036	0.034	0.000	0.031	0.000
Number of Responses	19	28	29	18	32	14

Prior to being recruited to be the CEO of this PE-backed company, you were...						
	Deal Size		**PE Ownership**		**Board Size**	
Response	**Small**	**Large**	**Low**	**High**	**Small**	**Large**
Employed at the same company for at least 1 year	0.308	0.250	0.333	0.281	0.333	0.269
Employed at the same company for less than 1 year	0.038	0.050	0.067	0.031	0.000	0.077
Employed at a different company	0.500	0.550	0.467	0.531	0.571	0.462
Temporarily between positions	0.154	0.100	0.133	0.125	0.095	0.154
Retired	0.000	0.050	0.000	0.031	0.000	0.038
Number of Responses	26	20	15	32	21	26

Table 3: Path to Becoming CEO

This table illustrates how survey respondents became CEOs. Our sample includes 47 individuals who have been CEOs of PE-backed companies. Table 1 describes the subsamples. Statistical significance of the difference between subgroup means at the 1%, 5%, and 10% levels are denoted by ***, **, and *, respectively.

How did you become CEO? Please check all that apply.					
		CEO Appointment		**Pre-PE Growth**	
Response	**Mean**	**Internal**	**External**	**Slow**	**Fast**
Prior affiliation with one of the private equity sponsors	0.255	0.143	0.303	0.211	0.286
Recruited by a search or recruitment firm	0.489	0.214	0.606**	0.632	0.393
Referred by investment bank working on the deal	0.021	0.071	0.000	0.000	0.036
Referred by consulting firm working on the deal	0.000	0.000	0.000	0.000	0.000
CEO of the same company before PE investment	0.191	0.500	0.061***	0.053	0.286**
Promoted from a senior role at the company after investment	0.106	0.357	0.000***	0.105	0.107
Other	0.106	0.143	0.091	0.105	0.107
Number of Responses	47	14	33	19	28

Table 4: Importance of Tasks

This table illustrates the importance that CEOs ascribed to a range of value-add workstreams after the private equity investment. Our sample includes 47 individuals who have been CEOs of PE-backed companies. Table 1 describes the subsamples. Statistical significance of the difference between subgroup means at the 1%, 5%, and 10% levels are denoted by ***, **, and *, respectively.

After the private equity investment, how important was each of the following tasks?									
	Mean	**CEO Appointment**		**Pre-PE Growth**		**Board Size**		**Deal Age**	
Response		**Internal**	**External**	**Slow**	**Fast**	**Small**	**Large**	**Recent**	**Mature**
Reduce costs in general	2.98	3.21	2.88	3.26	2.79	3.33	2.69	2.97	2.79
Improve IT/information systems	3.72	3.43	3.85	4.47	3.21***	4.00	3.50	3.78	3.79
Introduce shared services	2.20	2.57	2.03	2.67	1.89	2.43	2.00	2.19	2.00
Improve revenue/demand factors	5.06	5.07	5.06	5.42	4.82	5.24	4.92	5.28	4.57
Redefine business model/strategy	3.64	3.21	3.82	5.16	2.61***	4.00	3.35	3.59	3.79
Find new executive talent	4.62	4.21	4.79	5.32	4.14**	5.05	4.27	4.78	4.29
Improve corporate governance	2.98	3.00	2.97	3.47	2.64	3.57	2.50**	3.19	2.64
Improve incentives	2.98	3.36	2.82	3.89	2.36***	3.48	2.58	3.19	2.50
Search for acquisition opportunities	3.66	3.21	3.85	3.47	3.79	3.81	3.54	3.50	3.86
Bring on strategic investors	0.98	0.93	1.00	1.53	0.61**	1.10	0.89	0.81	1.43
Facilitate a high-value exit	4.02	3.64	4.18	4.84	3.46**	4.95	3.27***	3.59	4.86*
Number of Responses	47	14	33	19	28	21	26	32	14

Table 5: Importance of Skills and Knowledge

This table illustrates the importance that CEOs ascribed to various types of skills and knowledge. Our sample includes 47 individuals who have been CEOs of PE-backed companies. Table 1 describes the subsamples. Statistical significance of the difference between subgroup means at the 1%, 5%, and 10% levels are denoted by ***, **, and *, respectively.

In your role as CEO at this company, how important was each of the following skills and knowledge?									
		CEO Appointment		**Pre-PE Growth**		**Serial PE CEO**		**Deal Type**	
Response	**Mean**	**Internal**	**External**	**Slow**	**Fast**	**No**	**Yes**	**Secondary**	**First-time**
General managerial skills	5.49	5.29	5.58	5.58	5.43	5.52	5.44	5.52	5.46
Industry-specific knowledge	4.19	4.71	3.97	4.00	4.32	4.00	4.50	4.24	4.15
Company-specific knowledge	3.40	4.79	2.82***	2.58	3.96**	3.24	3.67	3.57	3.27
PE-specific knowledge	3.17	3.57	3.00	3.42	3.00	2.66	4.00***	3.57	2.85
Number of Responses	47	14	33	19	28	29	18	21	26

In your role as CEO at this company, how important was each of the following skills and knowledge?								
	Deal Age		**Deal Size**		**PE Ownership**		**Board Size**	
Response	**Recent**	**Mature**	**Small**	**Large**	**Low**	**High**	**Small**	**Large**
General managerial skills	5.53	5.36	5.35	5.65	5.13	5.66**	5.48	5.50
Industry-specific knowledge	4.25	3.93	4.23	4.05	4.73	3.94*	3.90	4.42
Company-specific knowledge	3.47	3.07	3.42	3.25	3.60	3.31	2.71	3.96**
Private equity-specific knowledge	2.84	3.79*	3.19	3.05	3.00	3.25	3.57	2.85
Number of Responses	32	14	26	20	15	32	21	26

Table 6: Allocation of Time

This table shows the allocation of CEOs' time between company-specific and private equity-specific tasks. Our sample includes 47 individuals who have been CEOs of PE-backed companies. Table 1 describes the subsamples. Statistical significance of the difference between subgroup means at the 1%, 5%, and 10% levels are denoted by ***, **, and *, respectively.

What share of your time did you spend on company-specific tasks and private equity-specific tasks at this company?				
	Deal Age		**CEO Appointment**	
Response	**Recent**	**Mature**	**Internal**	**External**
Company-specific tasks	81.34	87.29*	78.93	85.00*
Private equity-specific tasks	18.50	11.29**	19.64	14.85
Other	0.16	1.43*	1.43	0.15*
Number of Responses	32	14	14	33

Table 7: Compensation and Hiring Process

This table summarizes the all-cash compensation of CEOs, whether they were in conversation with multiple companies about a CEO position, and whether a formal assessment was part of recruitment. Our sample includes 47 individuals who have been CEOs of PE-backed companies. Table 1 describes the subsamples. Statistical significance of the difference between subgroup means at the 1%, 5%, and 10% levels are denoted by ***, **, and *, respectively.

Panel A: By Deal Size

		Deal Size	
Response	**Mean**	**Small**	**Large**
What is/was your all-cash compensation at this company? ($m)	1.181	0.856	1.538***
Were you in conversation with multiple companies about a CEO position? Yes.	0.426	0.269	0.600**
In your recruitment, did you go through a formal assessment with an external search or recruitment firm (like GHSmart)? Yes.	0.426	0.308	0.600**
In your recruitment, did you go through a formal assessment process with someone internal to the PE firm? Yes.	0.532	0.500	0.550
Number of Responses	47	26	20

Panel B: Formal Assessment by the PE Firm

In your recruitment, did you go through a formal assessment process with someone internal to the PE firm?						
	CEO Appointment		**Pre-PE Growth**		**Serial PE CEO**	
Response	**Internal**	**External**	**Slow**	**Fast**	**No**	**Yes**
Yes	0.571	0.515	0.737	0.393**	0.552	0.500
No	0.429	0.485	0.263	0.607**	0.448	0.500
Number of Responses	14	33	19	28	29	18