The objective of an MBA Search Fund/LBO investment is to achieve venture returns by putting an unproven CEO in a business where the principle risk is "execution" and where the CEO has access to the resources/coaching necessary for success. This objective is based on these premises:

- The executive has all of the characteristics necessary to become a successful CEO.
- The business must be tractable in the sense that the new CEO could personally perform any of the functions required in the business.
- Board members must have the range of experience and skills essential to run the business.

**Buying the Company**

Most unsuccessful MBA Search Fund LBOs start with a bad buy decision. The two most important questions to get answered when buying a company are the following:

1. What do I know about the business, this company and the management and employees.
2. How do I know what I think I know.

Therefore:

- Validate that the business is tractable.
- Verify that the company makes money the way the seller alleges.
- Verify the company's *raison d'etre*—franchise, core competency, barriers to entry etc.
- Understand the risks to current financial trends.
- Understand how much of the company's growth comes from industry/market growth vs. taking it from the competition.
- Prepare a ranking of which employees are likely to survive the longest during the transformation to an incentive based/goal oriented culture.

**Taking Over the Company**

The two most important "Facts of LBO Life" are the following:

1. Personnel problems are usually the most debilitating in taking over the company.
2. The sooner you have your team on board, the sooner you will be running the company, rather than the other way around.

The two most likely weaknesses of newly minted CEOs are:

1. Unwillingness/inability to hold inherited employees accountable to their personal standards of work and performance.
2. Desire to give people a chance to prove themselves.

Therefore:

- Put as much, if not more, time and energy into learning/assessing people as in learning the business in the first months of running it (or, for that matter, during the due diligence process).
- Don't trust your business instincts because you may not have any. But do trust your personnel instincts because you do have those.
- If you have a personnel problem, remove it, don't try to fix it. Your job is to pick A players, not to help C players become B players.
- The longer you delay dealing with performance issues, the more you damage your own personal credibility and ability to lead. If you know about the problem, you can be sure everyone else does as well.
- "Expediency" in hiring kills! So do "ya buts" in performance evaluations!
- Relying on "self selection" is too slow and doesn't establish you as the leader.
Running the Company

It's human nature, especially for hard-charging, aspiring CEOs, to want to limit the demands on their board or to only involve them with problems that have been thought through to the point of having alternative possible solutions:

1. Delay in seeking counsel is dangerous.
2. Your advisors know you're inexperienced and expect to be able to help.

Therefore:

Take advantage of your Board and investor resources to discuss issues and problems with them, even in the formative stages of your thinking on issues. The chances of placing unreasonable demands on your resources are remote. Arrange with a specific Board member to be your CEO coach with an acknowledged commitment of at least a couple of days a month for a year or two, even if it's just over the phone. Put them on a retainer. Their commitment and retainer will make you more likely to use them.