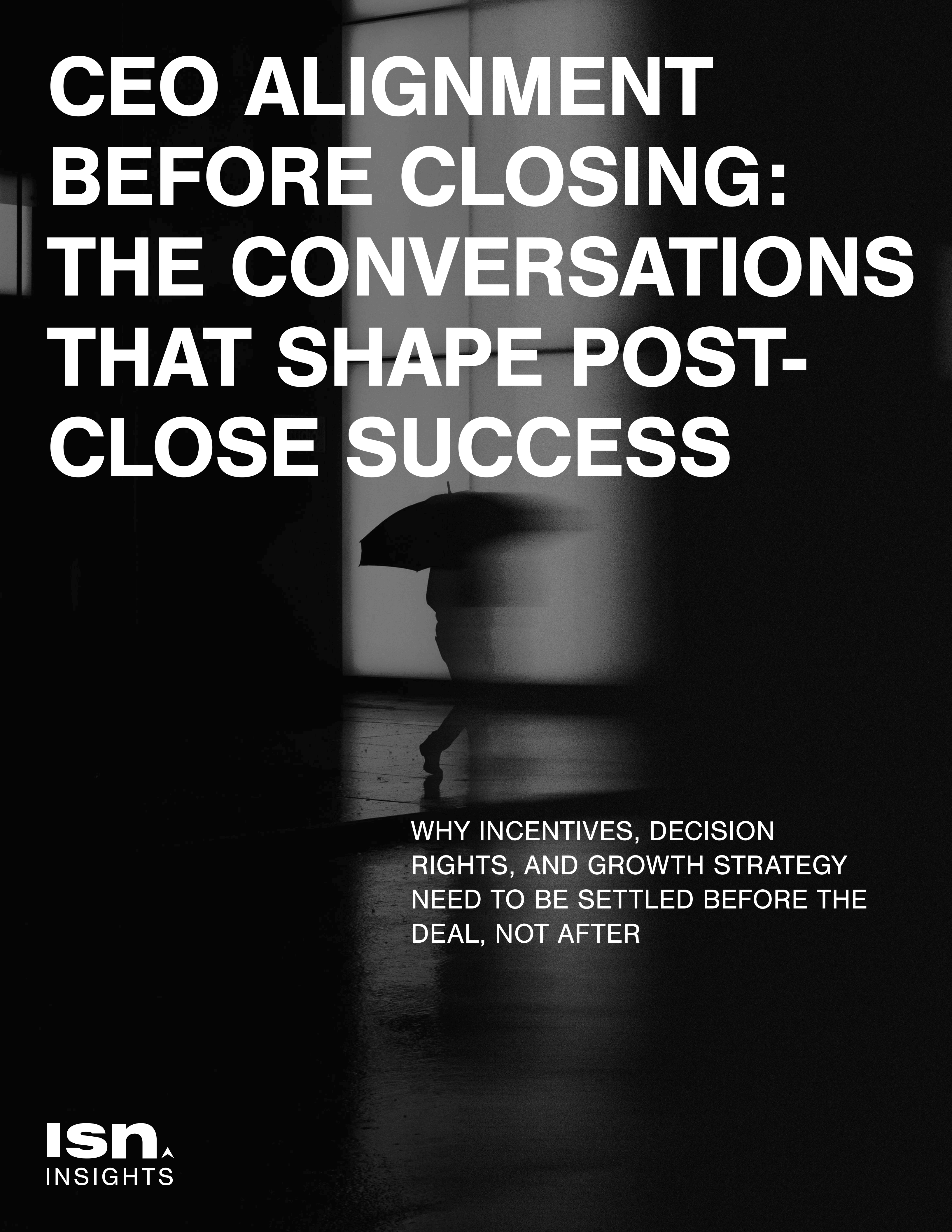
CEO ALIGNMENT BEFORE CLOSING: THE CONVERSATIONS THAT SHAPE POST-CLOSE SUCCESS



WHY INCENTIVES, DECISION RIGHTS, AND GROWTH STRATEGY NEED TO BE SETTLED BEFORE THE DEAL, NOT AFTER

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EXECUTIVE SUMMARY

Most CEO misalignment in private equity is not discovered during diligence. It surfaces after close, when expectations that were never fully tested against each other start to diverge. AlixPartners' eleventh annual PE Leadership Survey, fielded from October through December 2025, found that PE firms and portfolio companies align on goals but not always on priorities, with misalignment in how leaders prioritize growth, risk, and execution slowing transformation and creating unnecessary tension. The same research links that gap directly to leadership turnover, noting that CEO turnover in PE portfolio companies is increasing and that superior returns now depend on deliberate alignment, leadership stability, and disciplined talent practices that endure from deal close through exit.

For Independent Sponsors, this is not an abstract governance issue. It is a deal-economics issue. Heidrick & Struggles reports that more than 70% of CEOs at PE-backed companies are replaced during the average holding period, and AlixPartners' prior-year survey found that 86% of CEO turnover is driven by the private equity firm itself, not the executive. Replacing a CEO mid-hold is expensive and disruptive under any ownership structure. For an Independent Sponsor running a single deal with a concentrated capital stack and no bench of portfolio operators to fall back on, it can stall the entire value-creation plan.

The fix is not better diligence on the CEO as a person. It is a more deliberate set of conversations, before signing, about incentives, decision rights, and what growth is actually supposed to look like.

THE GAP IS ABOUT PRIORITIES, NOT GOALS

The AlixPartners data is consistent across years on one point: sponsors and CEOs rarely disagree on the destination. They disagree on the path. Earlier survey years found a 15-point gap between PE leaders and portfolio executives on whether a lack of clear vision and strategy is a major obstacle to transformation, and found that portfolio leaders favor growth-related initiatives by nearly two to one, while PE firms more often want portfolio companies to emphasize efficiency over growth.

That gap rarely gets named explicitly before close. Sponsors and CEOs both nod along to "grow the business and improve margins" during the deal process, without ever forcing the harder conversation about which one comes first when the two are in tension, or what trade-offs are acceptable to get there.

INCENTIVE DESIGN HAS TO MATCH THE ACTUAL HOLD STRATEGY

Compensation structures for portfolio CEOs have shifted meaningfully toward long-term alignment. Industry compensation data for 2026 shows a continued move toward long-term, exit-aligned incentive instruments, including equity, profit interests, phantom equity, and stock appreciation rights, designed to encourage long-term ownership behavior even at the cost of delayed gratification. The same data notes that transaction bonuses are now awarded more selectively, often tied to specific return thresholds rather than simply closing the deal.

For Independent Sponsors, the design question is less about which instrument to use and more about whether the incentive structure actually reflects the hold period and exit path the sponsor expects. A CEO compensated primarily for a fast flip will manage the business differently than one compensated for a five-year build. If that mismatch is not resolved before close, it tends to surface as a disagreement over capital allocation in year two, by which point it is far more expensive to fix.

DECISION RIGHTS NEED TO BE EXPLICIT, NOT ASSUMED

A recurring theme across recent PE leadership research is how much avoidable friction comes from undefined decision authority rather than disagreement over strategy. Robert Half's 2026 research on post-acquisition change management notes that effective post-acquisition alignment depends on employees and leaders understanding how priorities have shifted and, critically, where decision authority sits. The same research observes that value creation rarely stalls because the strategy was wrong; it stalls because the organization, including its leadership, is not ready to execute it.

For a CEO and an Independent Sponsor, that means agreeing in advance, not after the first board meeting, on which decisions the CEO owns outright, which require sponsor sign-off, and what the actual cadence of reporting and check-ins will be. Vague references to "open communication" during the deal process tend to collapse under real operating pressure if the specifics were never written down.

THE COST OF GETTING THIS WRONG IS HIGH AND RISING

The financial and operational cost of misalignment is well documented. AlixPartners found in its tenth annual survey that 42% of portco leaders report ongoing CEO turnover well after the deal closes and that only 46% of PE firms say they discuss succession regularly. Perception gaps compound the problem. The same survey cycle found only 10% of PE firms say portco leadership gives them a competitive advantage, while 43% of portco leaders believe their own teams do, a disconnect that contributes directly to execution gaps.

For Independent Sponsors, an unplanned CEO change is not a footnote. It typically means a search process, an interim leadership gap, and months of lost momentum on a value-creation plan that was likely underwritten with a specific operator in mind. The earlier alignment conversations happen, the less likely that scenario becomes.

WHAT ACTUALLY MATTERS NOW

01

Treat incentive design as a strategic decision, not a closing document. Structure compensation around the actual hold period and exit path, not a generic equity grant.

02

Put decision rights in writing before close. Define what the CEO owns outright, what requires sponsor approval, and how often the two sides will formally check in.

03

Force the growth-versus-efficiency conversation early. Both sides will say they want both. The real alignment work is agreeing on sequencing and trade-offs.

04

Build a recurring alignment check into the first year, not just the first 100 days. Misalignment that goes undetected tends to surface as a leadership crisis around year two.

AlixPartners, Eleventh Annual Private Equity Leadership Survey, published 2026.
AlixPartners, Tenth Annual Private Equity Leadership Survey: Leadership Under Pressure, published March 25, 2025.
AlixPartners, Ninth Annual Private Equity Leadership Survey, published March 26, 2024.
Heidrick & Struggles, Closing the Leadership Gap in Private Equity, published January 27, 2026.
Robert Half, Private Equity Change Management: Turning Post-Acquisition Disruption into Scalable Value, published March 11, 2026.
Buffkin Baker, Private Equity Compensation Trends for 2026: Precision, Performance, and Pay for Value Creation, published February 23, 2026.

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