NEW STREET CONSULTING GROUP

PRACTICAL KNOW-HOW FOR PORTCO INVESTORS

Optimising CEO performance in value creation

Proactive steps for PE to take to reach investment end goals faster

Start reading

Maximising Human Capital investment through the investment lifecycle

Estimated total costs to replace a CEO is an estimated 15 x the salary. [1]

Post-acquisition, portfolio company CEOs are under pressure to perform. They're tasked with delivering profit and growth through the value creation phase, preferably until exit. But the high replacement rate of CEOs and leadership teams shows that performance is too often failing to meet PE house expectations.

Replacing underperforming leaders is time-consuming, disruptive and costly – factor in the wider impact on the business and replacing a leader is estimated to cost 15 times their salary. Moreover, it is disastrous for the deal – leading to longer hold times and reduced returns.

83% of PE investors say replacing a CEO increases hold time. [2]

To optimise their returns, PE houses can do more to pre-empt these performance issues. Effectively, they are faced with a choice which appears simple but requires skill and judgment. They can replace leaders at the outset, if assessment and corroborating data suggests they are unlikely to be up to the challenge ahead.

Or, they can take active steps to enhance the performance of CEOs and leadership teams – at any stage of the value creation process. From aligning on the fundamentals of the strategy and sharing key beliefs, to coaching and workshops, there are proven ways to strengthen leadership performance.

63% of PE firms cited "human capital" at portfolio companies as their No 2 concern in 2019, behind revenue and margin growth. [3]

At every stage of the investment lifecycle, PE houses need to improve the deal's ultimate performance through human capital investment. Value creation happens through many different mechanisms, but ultimately it is driven by people: the CEO, the board and the workforce they lead. PE houses that desire higher, faster returns should focus on optimising leader performance from acquisition onwards.

What's driving the CEO turnover epidemic? >>

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73% chance portfolio company CEOs will be replaced during the investment lifecycle. 58% chance they will be sacked within two years.

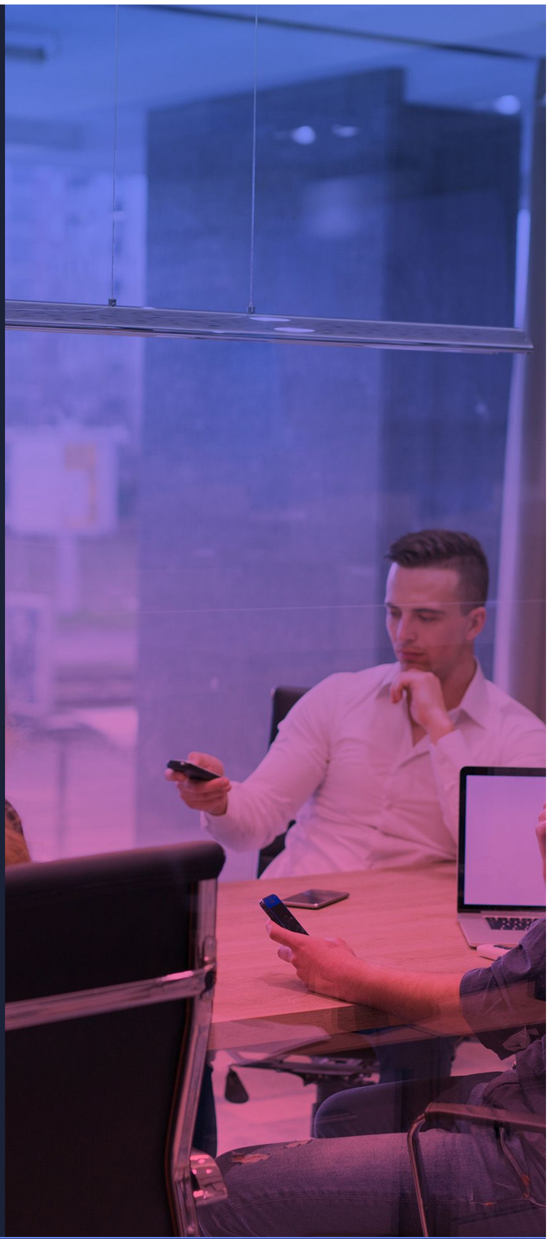
Research suggest that CEOs are replaced by PE houses in between 50% and 73% of deals. (insert footnote – Bain & Co) PE houses and portco CEOS have different opinions as to why, but industry research highlights some clear themes.

Three key reasons for CEO turnover, according to PE houses

1. Wrong fit for the role and strategic direction of business
2. Lack of impetus and urgency in driving growth
3. Inadequate capabilities and skills to scale

Three key reasons for CEO turnover, according to CEOs

1. Misunderstanding the role, its goals and PE house expectations
2. Failure to progress beyond short term tactical goals.
3. Inability to deliver the financial targets compounded by a poor working relationship with the CFO



Optimising performance through leadership development >>

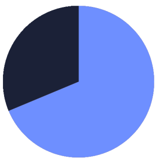
Optimising performance through leadership development

Three key lessons for PE houses to learn

1. Portco leaders should undergo a specialist independent assessment during the due diligence process (or at any point that a performance intervention is required. This will enable investors to identify, understand and address any issues over leaders' 'fit', their leadership capabilities or their ability to create value at pace.

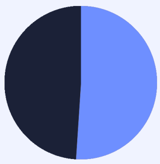
2. PE PE houses are strong when it comes to aligning interests but they also need to give CEOs a clearer picture of how they see their role together with explicit and implicit expectations and performance benchmarks. A key element of this process is ensuring the PE house and the portco leadership team share the same understanding of the fundamentals of the investment case. It's critical to surface any differences in views or perceived importance of certain activities.

3. To deliver on financial milestones, PE partners/portfolio managers need to promote a healthy dynamic between the CEO and CFO – and clarify how the relationship between the board, the CEO and the CFO will work to best effect.



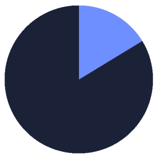
69% of PE firms seek a solution where a portco CEO's performance is deemed inadequate, rather than replacing them.

Nearly 70% of PE houses seek a solution instead of replacing an underperforming CEO – but clearly, these solutions aren't proving effective – or a higher percentage of CEOs would remain in post.



52% craft a remediation plan, with termination for continued underperformance.

In three out of four interventions the PE house attempts a remediation plan. Unless they really get to the core issues, these plans are often just a delay of the inevitable. The question has to be asked if the individual has the core capabilities required.



17% user executive coaching.

Executive coaching is used more rarely. It is best deployed to grow leaders and help them scale rather than deal with underperformance. It delivers by impacting on the thinking, beliefs and behaviour that hold back performance, leading to a change in what leaders do. Harnessing data and recommendations from leadership assessments and broader due diligence, you can identify where coaching might be valuable, speed its impact and align to the planned timescales for scaling the portco business.

Executive coaching in practice >>

Leadership development in practice

Mentoring from the Chair:
new Chairs are often selected for their mentoring skills

External coaching:
delivered by external specialists in line with development plan

Team workshop:
suited to improving the CEO-CFO-Board dynamic and aligning boards and leadership teams.ving the CEO-CFO-Board dynamic and aligning boards and leadership teams.

Issues for coaching to address

- Leadership approach
- Emotional resilience and confidence
- Systems thinking
- Speed to action
- Top team collaboration
- Interactions with PE house

Impact of executive coaching

Global study highlights 529% ROI and significant intangible benefits to the business.

86%

86% of organisations saw an ROI on their coaching engagements

529%

529% was the reported ROI in a recent study of executive coaching in a Fortune 500 firm, in addition to significant intangible benefits.

600%

600% was the average return from coaching in a survey of 100 executives

The vast majority if businesses see a return on coaching. Across all business types, the direct return on executive coaching is estimated at four to ten times of the costs. But in PE portcos, the impact is magnified by the difference coaching can make to deal performance and success.

Sources: International Coaching Federation. Metrix Global LLC. Manchester Inc.

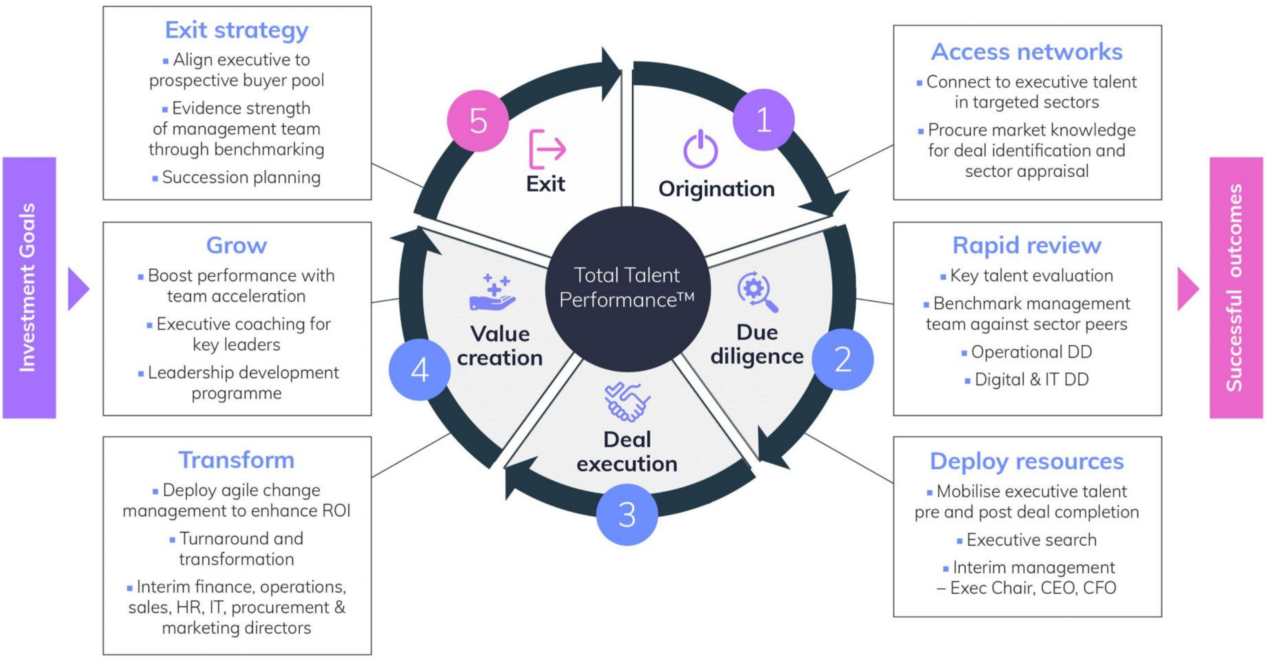
Intelligence-led solutions for enhanced ROI >>

Intelligence-led talent solutions for enhanced ROI

At New Street Group, we understand that strong financial performance is simply an output of good management and talented human capital. People are the key to making the right investments, to growing portfolio businesses – and to getting the best possible return at the exit date you desire. For over 40 years we've built lasting relationships with many world-leading organisations in the private equity sector. During that time, we've recruited, assessed or developed over 10,000 leaders.

We provide talent acquisition and talent consulting services across the whole deal lifecycle. You can engage us from start to end – or just at the stages when you want value-creating support. Through an ongoing partnership, we can pre-empt your needs and plan strategically to deliver your goals, up to and including exit.

We integrate best-in-class services in assessment, leadership development, interim leadership and executive recruitment, to create robust, rounded, intelligence-led solutions. Our unique Return on Interim (ROI) methodology monitors and measures performance of senior interim assignments, ensuring a maximum return from human capital investment and better business outcomes.



For advice on human capital at any stage of the investment lifecycle, please do not hesitate to get in touch.

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