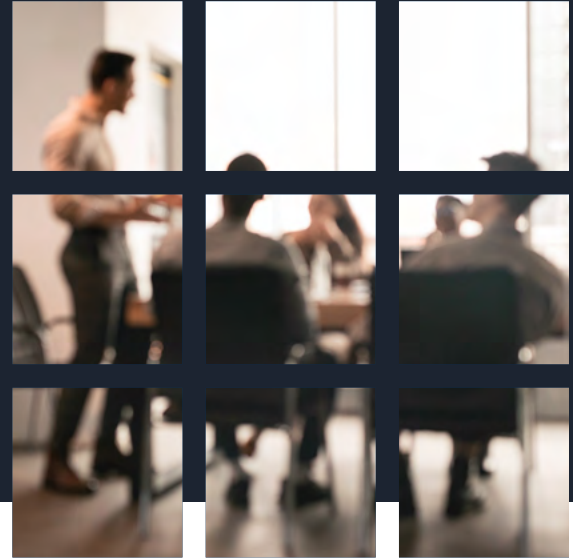




Building Value in PE Portfolio Companies: A Structured Approach to Driving Leadership Performance

By Eric Beaudan, Tracy Cocivera, John de Regt, Gary Payne, and Kim Stangeby



After a private equity (PE) firm has completed a new investment, value creation work becomes the key subject regarding this new portfolio company. And one of the most important assets for driving enterprise value is human capital. In fact, PE investors always feel more secure with a strong, high-potential management team whatever the quality of earnings. The critical piece is driving alignment between the team and PE firm to realize the full potential of the strategic investment thesis.

The recent merger of two mining companies provides a prime example. In reconstituting the Board, the CEO and management team sought external support for a two-day strategic offsite. When asked,

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“What defines success for the offsite?”, the CEO’s answer was: “Demonstrating to our billionaire keystone investor that our team has what it takes to breeze through forming, storming and norming.” What he didn’t say was anything about multiples, valuation, market testing, or risk mitigation.

As you acquire new portfolio companies, achieving a high ROI is paramount. If the path to better performance runs through your people, then improving the effectiveness of the company’s leadership team will improve your ROI. As this article explores, a methodical, structured approach to building the leadership team’s collective value creation capacity can make a significant difference in your portfolio company returns.

Why Portfolio Company Leadership Often Falls Short

In a newly acquired portfolio company, the leadership team must be equipped to drive the two primary components of enterprise value: EBITDA (earnings before interest, taxes, depreciation, and amortization) and the deal multiple. This group needs to operate as a well-oiled machine immediately, aligned with the strategic plan and the overarching business objectives, always with a sense of urgency that supports your investment timeline.

However, that doesn't always happen. Even if you've invested in a company with strong fundamentals and great growth potential, challenges like the following can make it difficult for the leadership team to build value at a level that meets your expectations.

- **Strategy doesn't end with the liquidity event.** As post-acquisition realities set in, it usually becomes evident that the strategic direction and plan that brought the business to this point won't drive it to the next level. Often, the leadership team lacks the capabilities to develop and execute a new strategy that will achieve your growth goals on the desired timeline, and they may struggle to engage with you effectively to stress test the assumptions that underpin the strategic plan.
- **Value creation opportunities abound.** A capital infusion opens the door to many new opportunities to unlock value...but which will best support your investment thesis? The portfolio company leadership team needs the focus and discipline to develop proofs of concept that demonstrate effective use of your capital, aligned with your objectives.
- **The time horizon has changed.** Leading a business through its early stages doesn't always require the same degree of urgency it takes to scale a PE portfolio company, so the leadership team might not be used to targeting highly ambitious short-term goals. But you need them to work together optimally from day one, as there is no time to waste righting the ship and no room for trial and error.
- **The required skillsets also have changed.** No matter how competent and dedicated the team, the leadership skillsets and competencies that brought the company from zero to \$30 million are unlikely to drive it from \$30 million to \$100 million. For example, scaling the business quickly and adapting the operating model accordingly require unique capabilities and experience. Additionally, leaders might need guidance on working with a Board that has a different make-up than they're accustomed to, including both financial and operational experts from the PE group.



For reasons like these, your star investment's leadership team will need maturing to generate returns of 2x, 3x, or more when you execute your next liquidity event. By employing a strategic approach to driving better team performance, you can equip your portfolio company leadership to operate optimally within a new environment and improve your ROIT (return on investment in the team).



Leveraging a Strategic Approach to Improve Team Performance

Whether you're keeping the current management team intact, replacing the CEO (which is common), or adding new talent to the mix, preparing this group for success is essential to achieving your goals. In fact, when a leadership team works together with a common vision, the company is twice as likely to adapt faster than the speed of environmental change and achieve above-median financial performance (as cited in the book *CEO Excellence* by Dewar, Keller, and Malhotra).

Many PE groups are finding the answer in Strategic Team Coaching, a focused, system-based approach to improving leadership performance to drive a better ROI on their portfolio companies. These investors recognize that immediately replacing executives who aren't performing optimally costs valuable time that might not yield rewards. Instead, they're leveraging the existing team by applying a proven methodology to help them collaborate faster and more effectively, gain the skills to perform at their peak within a new system, and achieve the desired outcomes.

Unlike individual coaching, Strategic Team Coaching involves working with leadership team members both when they are together and when they are apart, to improve their collective performance and effectiveness. This unique approach leverages the leadership team's collective potential as they develop and execute strategy to build greater enterprise value.



A Strategic Team Coaching model encompasses five key disciplines that are crucial to building value in a PE portfolio company.

- **Strategy and Mandate:** Leaders learn how to fully align on the strategy (which could be evolving) and gain clarity on who they serve (which often includes a wider ecosystem of stakeholders than they are used to).
- **Operating Model:** Leaders start to establish clear roles, optimize processes for working together, break down silos that make it difficult to capture opportunities, and develop a governance model suited to their evolving organization.
- **Team Effectiveness:** Portfolio company leaders become better equipped to collaborate, partner, and leverage the diversity of their backgrounds, experiences, and skills.
- **Stakeholder Engagement:** Leaders gain an appreciation for the wider range of stakeholders they need to work with and learn how to engage with them effectively.
- **Purposeful Learning:** Leaders begin to evolve their thinking to adapt to a portfolio company environment, learning how to pivot quickly and operate with resilience.

Implementing a Strategic Team Coaching approach starts with setting specific, measurable objectives that align with the PE group's goals for the portfolio company. Then a skilled coach evaluates leadership team members using objective assessment tools, identifying strengths and weaknesses that will impact their ability to build enterprise value.

With this foundation, the coach in partnership with the team develops a tailored plan that defines the specific coaching activities, cadence, and roles required to drive better leadership performance. A mix of team and individual coaching

sessions helps to evaluate and improve how portfolio company leaders operate on their own and when working together, while observing team meetings helps to assess team dynamics, spot derailers, and identify improvement opportunities.

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As the portfolio company leadership team charts a new course in alignment with your financial goals and time horizon, it's essential that they're effective right out of the gate. By applying a structured, proven approach to enhancing team performance, you'll equip your portfolio company leaders to drive the returns you expect to achieve.”



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Eric Beaudan is Partner and Global Head of the firm's Leadership Advisory Practice at Odgers Berndtson, based in Toronto.

Using the proprietary LeaderFit assessment method he designed, Eric works with organizations to assess and develop the leadership potential of their executives and high-potential talent.

Before joining Odgers Berndtson, Eric was Director of Organizational Development (OD) at Rogers Communications, where he revamped the company's executive development curriculum and talent strategy. Prior to that he worked for a consulting firm in Washington DC, Director of OD for the Bank of Montreal and an Organizational Effectiveness consultant with Towers Watson.

He holds a Masters of International Affairs from Columbia University, and a Bachelor of Arts in Political Science from SUNY Buffalo. Eric is a Certified Master Coach with the Behavioral Coaching Institute. He writes regularly about leadership issues and published his first book, *Creative Execution* in 2012.



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An organizational psychologist, certified coach, and leadership assessment expert, Tracy creates leadership development and talent management solutions for senior executives that result in lasting business outcomes. She brings 20 years of expertise in systemic executive coaching, top team and board effectiveness, leadership transformation, succession planning, and strategy alignment and planning to her clients.

Prior to joining Odgers Berndtson, Tracy worked for a global provider of talent and leadership development services where she built a national executive coaching practice, delivering leading-edge coaching methodologies and solutions to clients across North America. Before that, Tracy built a successful leadership development consulting firm in Dallas, Texas, working with Fortune 100 companies in a variety of industries including financial services, insurance, consumer product and services, retail and telecommunications.

Tracy holds a Doctor of Philosophy in Industrial/Organizational Psychology from the University of Guelph. She is registered with the College of Psychologists of Ontario and is a Professional Certified Coach. She has authored more than 20 articles for *Forbes* and is a regular keynote speaker at national and international conferences.





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As a graduate of the Hudson Institute's Coach Intensive Training and Master Coach programs, John is certified to administer the Hogan Personality Inventory and the EQi 2.0 emotional intelligence tool and carries the PCC certification from the International Coach Federation.

Before joining Odgers in 2018, John ran JDR Consulting, his executive coaching and leadership advisory firm. Previously, he spent 25-years in executive search, specializing in the aerospace, airline, and industrial sectors as a partner at Spencer Stuart, Heidrick & Struggles, and Russell Reynolds.

John earned his AB from Dartmouth College, MS from SUNY Maritime College, and MBA from New York University. He is the Board President of Warfighter Advance, a nonprofit helping veterans manage PTSD without pharmaceuticals, and a longtime member of the Five Mile River Commission.



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Gary Payne, a Partner in Odgers Berndtson's Austin, TX office, is an accomplished Executive Leadership Coach, fully credentialed with the International Coach Federation.

He leads the firm's Systemic Executive Leadership Team Coaching Practice in the U.S. With his extensive experience as a first-time CEO, long-standing P&L leader, and executive search consultant, Gary brings valuable insights to his clients. His expertise lies in coaching senior executives, particularly those in the C-Suite and high-potential leaders, across industries including Cleantech, Renewables, Oil & Gas, Healthcare, Technology, Financial Services, Not-for-Profit, Industrial, and Professional Services.

A defining point in Gary's career was his six-year tenure as the CEO of a Private Equity-backed Industrial Services company, where he tripled the EBITDA of the business organically before its exit in 2008. This firsthand experience as a CEO enables him to empathize with the pressures of the C-Suite, the dynamics of company strategy, what it's like to report to a Board, and the art of effectively managing the stressors inherent in executive roles.





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Kim Stangeby has spent over twenty years as a strategist in advisory and C-suite roles. Her area of specialization is strategic transformation and change, with a focus on board effectiveness, CEO-board strategic engagement, and C-suite strategic planning.

As Head of Odgers Berndtson's Board + CEO Advisory Practice, she is responsible for helping clients implement high-impact organization transformation solutions, including Board advisory, culture and talent strategy, succession planning and strategy development.

Kim's most recent executive role was as the Chief Strategy Officer at the Greater Toronto Airports Authority. As part of her mandate, she was responsible for Long-Range Infrastructure Planning, and served as the Interim Chief Human Resources Officer during the organization's transition to a new CEO. Prior to the GTAA, Kim held executive and C-suite roles at the Bank of Montreal, the Royal Canadian Mint, and the Bill and Melinda Gates Foundation. Before that, she spent ten years with McKinsey as an Associate Partner, where she focused on organizational transformation and change management.

Kim also serves as the Chair of the Governance/ESG and Human Resources Committee for several boards of Instar Asset Management, an independent alternative asset management firm with an emphasis on North American middle-market opportunities in the infrastructure sector, and other alternative real asset categories.

Kim speaks regularly on strategic engagement, transformation and change, and CEO and board effectiveness. She writes articles under the banner "Strategic Decluttering", to improve the strategic dialogue between CEOs and boards. She holds a PhD in Biomechanical Engineering and a Bachelor of Applied Sciences in Chemical Engineering, both from the University of Toronto. She is based in Toronto, Ontario.