



From Metrics to Exits and Beyond

Formalising an Operating Partner Strategy

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Foreword

When we published our 2022 white paper, *PE Operating Partners: Delivering a Winning Formula*, global dealmaking was riding high, with M&A volumes hitting US\$5.9 trillion in 2021 and private equity putting record amounts of capital to work¹. Two years on, and the mood – indeed the world itself – is rather different. Inflationary pressures, financing challenges, geopolitical tensions and a wider mood of uncertainty meant that in 2023, global private equity and venture capital deal value and volumes were, according to S&P Global Market Intelligence, at their lowest in at least five years².

However, it isn't all gloom. The fourth quarter of 2023 proved to be the most active of the year by value. Ernst & Young noted that there were opportunities for firms to opportunistically deploy capital to acquire top-tier assets at discounted valuations or find openings to enter new markets³. The firm's survey of private equity investors found 63% expect an uptick in distressed transactions and secondary buy-outs over the next year. Indeed, the EY-Parthenon Deal Barometer pointed to renewed CEO enthusiasm for deal activity, particularly in the US, and forecasted a 13% increase in private equity deal volume in 2024⁴.

Making the most of these transitional plays requires skilful management, which is where Operating Partners (OP) can add real value both pre- and post-deal, cutting through the noise of the pre-deal frenzy, assisting with due diligence and, post-acquisition, helping to implement changes to deliver a turnaround and create real value.

As we reported in 2022, however, too many private equity firms fail to make the most of these skilled and experienced executives: our research found many OPs are hired against a backdrop of urgency and stress, parachuted into hostile territory with limited back-up and their role poorly defined, which risks disappointment on both sides.

Two years on from those findings, we're taking another look. This is a sector unencumbered by the budget-restraint seen elsewhere but the scrutiny on return on investment is more intense than ever and firms cannot allow these highly prized resources to under-perform. In this paper, for which we undertook desk research and conducted interviews with practising OPs, we will look at how firms can leverage their talents to drive value from their portfolio targets.



¹J.P. Morgan, January 2022 <https://www.jpmorgan.com/solutions/cib/investment-banking/2022-global-ma-outlook>

²S&P Global Market Intelligence, January 2024 <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/global-private-equity-deal-activity-plunges-in-2023-80032940>

³https://www.ey.com/en_tr/private-equity/pulse

⁴https://www.ey.com/en_us/mergers-acquisitions/m-and-a-outlook



Operating Partners: the who, what and why?

Typically, an OP is a successful, former C-Suite executive with expertise either in a specific industry (such as mining, technology, healthcare or energy services), a particular function (finance, procurement or operations), or who has worked at a very senior level in a consultancy. They are hired for a prescribed period of time or life of asset with a mission to drive through value for the General Partner (GP) and will typically work closely with the senior management and Board of the target company to help deliver the GP's vision for the asset.



We're there to complement a firm. They often have excellent financial skills - they can look at a balance sheet and within 30 seconds identify the pain on it but this doesn't mean they can do what an OP can do."

A private equity firm may have the rarefied analysis to dissect a balance sheet and identify opportunities to add value through, for example, operational transformation or financial re-engineering. But this skill doesn't necessarily translate into executing a transformation plan. Not only do OPs bring in additional operational or functional expertise, they also have wide experience from a variety of senior roles, often having led listed companies, raised significant amounts of investment or have credible track records of leading transformation programmes or adding value during periods of disruption.

Some large firms have industrialised and standardised their approach to hiring and deploying OPs: Some firms have an established bench or network of retained OPs. whereas other firms have more ad-hoc arrangements, which may involve a scrabble for talent when it becomes clear that the business plan requires additional senior resource in order to drive through change and realise investment objectives.

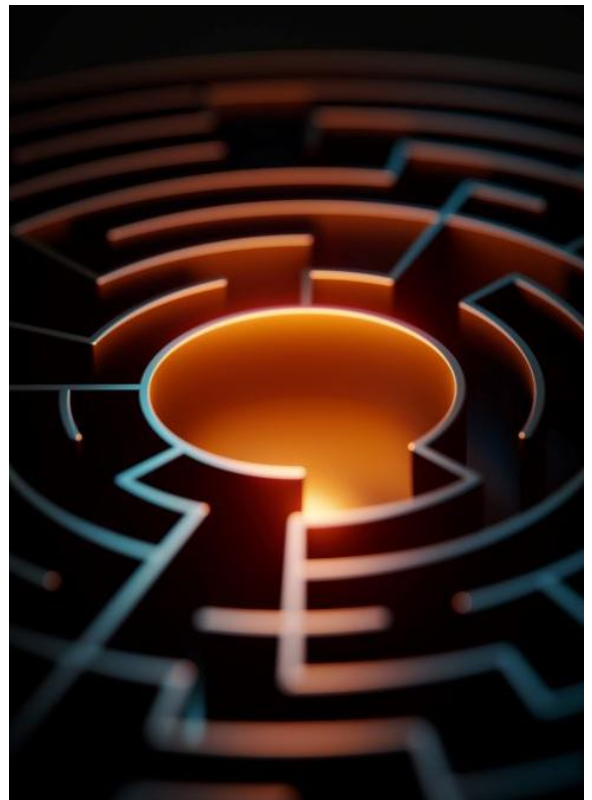
Laying the foundation

Define the problem you want to solve. This will help you understand whether an Operating Partner is the right person or whether a different kind of hire, such as a permanent Finance Director or a specialist cyber expert, would be a better fit?

Scope out the skills, characteristics and experience that will be needed to solve this problem. There are many types of OP so be clear in your mind on the attributes that will deliver a meaningful solution. Some of these include contract negotiation, understanding routes to market, geographic nuances, just to name a few.

Act early. Consider bringing in OP talent even before a deal has been done as they can consult and advise on deals already on the table or under due diligence and introduce targets, leads and contacts that may yield exciting new opportunities.

Seek advice. From our experience it's essential to push the boundaries of your network and ask for opinions and ideas.





Start early, start right

The majority of the OPs we interviewed for this paper preferred to be brought in early to help identify targets for acquisition or help with due diligence. Not only does this make the most of their expert insight but it ensures alignment of interest from the get-go.



Being brought in to help with due diligence is more effective than being foisted onto the company post-deal.”

Others pointed out that this is a role that is, by its nature, more transactional than a longer-term hire. The ability to ‘hit the ground running’, however hostile the terrain, is an occupational hazard.

‘You can be parachuted in and out, but it kind of goes with the territory,’ stated one interviewee. ‘You need to be able to roll up your sleeves and get on with it from day one.’

The relationship with the management team can be strained at first, depending on the circumstances of the takeover or buy-in. Private equity firms do not always handle these situations with tact. ‘You can be dropped into a 40-person call, with no briefing and no introductions made, and that’s it,’ one interviewee stated. ‘It isn’t easy but you just have to focus on why you’re there.’

It’s important for OPs to find consensus and build cohesion to drive value. Generally, they will have excellent interpersonal skills, are able to get on with different people in order to influence and smooth the way during difficult transitions – and they will achieve this while being highly directed towards outcomes.

It’s worth noting that the development of a strong working relationship with the management teams doesn’t get in the way of delivering on the GP’s vision, which may diverge from the management.

‘You have to be something of a diplomat but also to be very clear in your own mind about whose interests you’re there to represent,’ said one.

It isn’t always hostile, of course. ‘I’ve found founders of start-ups often welcome my arrival because they recognise I’m not just a numbers guy but have that credibility of having built and led companies myself. It sometimes develops into a mentoring role, which can be very rewarding.’

Another key point is the ability to start adding value quickly. This role is not about serving time on the Board – it’s about results. All parties need to be clear about the business plan and the deliverables the OP will be measured against. This should include a clear expectation about what resources will be available to draw on and the timeframe they have to execute the plan. Some will want to tap their contacts in the consulting world, or suggest a few key appointments, either externally or internally, to ensure they have a trusted team they can use to execute the business plan.

However, it’s important that this clarity of expectation isn’t too prescriptive. ‘You need targets, expectations and a time frame for delivery,’ said one OP. ‘But this is also about trust: I’m at a stage in my career where I am not going to be doing lengthy reporting and be treated like an employee.’



Start early, start right



Getting it right from day one

Bring them in as early as possible. Operating Partners can play an invaluable role in helping scope opportunities, identify targets and adding real value during due diligence.

Set clear expectations. Refine objectives, timelines and how success will be measured. Be upfront about the level of communication and reporting required.

Mutual respect is important. Tailor reporting requirements to fit the role.

Prime for success. OPs have excellent people skills but make sure you optimise their time by laying the groundwork with proper introductions, defining roles and setting out clear reporting lines. Communication is key to effective relationships, and as OPs only have a limited amount of time each month, ensuring relationships are made and expectations are outlined is of the utmost importance.

Support your talent. This is a challenging role so make sure you check in regularly to provide support and act as a sounding board for any issues or ideas they want to share.



Compensation: rewarding talent, incentivising results

Most PE firms have their own preferences for structuring their relationships with OPs. Some will request co-investment to ensure alignment of interest from the outset. For others, a straight day rate is the preferred option. From our own research, the majority of firms look to pay around £2,000 to £3,000 per day, with between five and eight days worked per month. At the higher end, the day rate might rise to £4,000 to £5,000 but with fewer days booked per month.



It's a rewarding and interesting role, but you can't be an OP at multiple firms – it's too demanding. It's not just showing up, you have to make an impact."

OPs are hands-on, working directly with the CEO and senior management team, and are typically expected to make an impact within 12-24 months. However, this is not a non-executive type role, nor is it a job for those who want to collect some chairmanships to fill time in the twilight of their working life.

What timeframe are you looking at?

One-off, or longer term? Be aware of market rates and be prepared to pay more if this will be a one-off, ad hoc contract rather than a longer-term relationship.

Be realistic on time. These are demanding roles so be clear about how many days a month will be required to deliver results. Be prepared to revisit terms if the initial scope doesn't match the scale of the job.

Be transparent. If planning co-investment, be transparent about expectations.

Seek advice. Professional talent advisory firms, like Cripps Leadership Advisors, can help scope out, define, identify, attract professionals and negotiate terms.

A changing reality

Economic headwinds of recent years have blown some PE deals off course. This has created a new dynamic for some OPs, which is where seasoned operators, who have helmed companies through previous downturns and weathered previous bouts of financial turbulence, can add real value.



Assets are being held longer. This can change the business plan significantly, and then our role becomes even more important."

This may mean recasting the assumptions that underlay the original business plan, perhaps pivoting the business in response to rapidly changing market conditions or helping renegotiate debt terms or access additional funding.

'Sometimes it's being a sounding board during tough times,' said one OP. 'Sometimes we're there to be a different set of eyes on the management team.'

Work in tandem

Pivot together. OPs have experience of managing through a downturn or navigating disruption. Listen to their insight when key assumptions are felled by reality, and be transparent about what this means in terms of financing, goals and exit plans.



The Debrief

We noted in 2022 that some OPs felt there was a ‘use and abuse’ mindset among some private equity firms. These are experienced and effective operators, who, given the battle for resources, can field multiple offers before selecting a role. To keep the best talent on your books, make sure that communications don’t go silent when the target firm is sold. Book a debrief session to hear their ideas of what worked, and what didn’t, and be sure to check in regularly, both formally and informally, in order to build a stock of ‘good will’ that can be called upon when needed.

Look at the long term

Find learnings: bring OPs in post-exit for an informal debrief to capture pain points and celebrate successes.

Build for the future: building long-term relationships with key OPs will prove mutually beneficial, potentially yielding openings into new markets and deal opportunities.

Cripps Leadership Advisors viewpoint

Operating Partners can be change-makers, playing a key role in executing transformation plans and realising value from an investment. But to optimise their talents, it’s vital to be upfront about expectations from the start.

Based on our insights, these are the key questions and points every firm needs to ask before hiring an OP:

- At what point in the process would we get the most value from this relationship?
- Where will the role sit in the existing structure and who will they report to?
- What resources will they be able to utilise to be successful?
- How can you develop or help facilitate a channel(s) for communication that works for all parties?
- What will their team look like?
- Consider creating a bespoke rewards and incentive programme.
- What does success look like? What metrics will be used to monitor performance?
- What leads and contacts can they bring to the table?
- Create a debrief session post-exit to understand learnings and nurture relationships for the future.

About



Mark heads our power and infrastructure division working on executive search mandates all over the world. His expertise covers the energy transition and digitalisation agenda, largely advising international private equity firms, asset owners and their portfolio companies and is at his best advising in growth-oriented situations. He is particularly interested in organisations that seek to create new business models, products and services.

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