Leader*Shift:* What's Happening with Value in Private Equity portfolio companies?

How aware are your portfolio company CEOs of value delivery in the most critical parts of their organization?

You've set up each and every company in your portfolio to create during the hold period. You've tasked each CEO with bending their company's value curve upwards as quickly as possible. However, in a world of accelerating change and remote/hybrid work, CEOs are not always clear about exactly who to call to find out where and what value is being delivered, never mind how fast it is arriving.

In these days of increasing complexity and high volatility, we don't have time for our portfolio company CEOs to be doing intuitive guesswork about value. In their haste, they will turn to their direct reports for answers, and those direct reports will turn to their direct reports, and so on. Not only is this hierarchical approach too slow. Its implicit direct report bias doesn't guarantee what should be discovered actually will be.

Instead, we need the CEOs leading our assets to be extremely precise with their data sources and appreciably faster with their assessments. They have to look more broadly and much deeper into their enterprise to identify the **roles critical to value creation** and the people in those roles who should, ideally, be among their Favorites. They need to stay connected with these individuals to keep their sense of what's happening with the company value agenda acceptably accurate and fresh.

Private equity firms find it imperative—and invaluable—to make, use, and regularly refresh what we call "The List" of critical roles for every one of their assets.

The question is, which roles should be on "The List"?

FOCUS ON HOTSPOTS

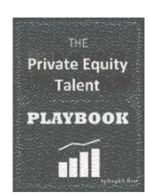
We mentioned in the previous article how a clear focus on a half dozen or so hotspots, places in the organization where significant value is or will soon be occurring, can make it possible to deliver extraordinary results in record time. When a CEO focuses their attention on the key people delivering value at these hotspots, they can maintain an accurate, ever-changing mental map of the company's value agenda. And that improves their ability to respond appropriately and tactfully in real-time, with greater situational awareness, to everything that happens.

The dynamic nature of value warrants a dynamic monitoring framework. In private equity especially, these "value hotspots," initially derived from the investment thesis and the value creation plan, are not cast in stone. Some may recede into the background as circumstances change (for example, when international regulations limit commerce or demand falls). Others may emerge, offering a business the opportunity to create unanticipated value.

Making a list of the critical roles at these hotspots gives the CEO an intense focusing tool to monitor what value is being delivered, by whom, and how fast.

Imagine your firm as a house. Each room in that house represents a company in your portfolio. In each room, you set up five or so Tables, one for each value hotspot in that company, surrounded by three to seven chairs. At the center of each Table, you place an assignment: deliver the value expected at this particular hotspot.

One chair at each Table is reserved for that hotspot's "owner." This is the role accountable for value delivery at that hotspot. This is the individual whom the CEO will call when things are not going so well (as in when the value is not arriving on time). This role and this person's name should be on the CEO's "List."



The work to be done at these value-making Tables tends to be cross-functional in nature. Therefore, the people occupying the rest of the chairs typically come from across and down several layers in the organization. Each chair will be responsible for a percentage of the Table's total expected value. Some may be considered critical enough to value delivery or value protection to warrant adding them to the List as well.

Not using the "List" is an invitation to fail to deliver the value agenda. Not refreshing it is an invitation to fail to keep up with change.

KEEP IT FRESH

Let's say one Table in one room of a firm's house will deliver value through procurement savings. As colleague Sandy Ogg says, "Pricing plus procurement equals beach house." If you get pricing right, you bring in better revenues. If you get procurement right, you get better margins, which leads to greater EBITDA, which leads to a better multiple, which leads to a beach house at exit. Other Tables in the room will cover pricing, new products, geographic expansion, and growth levers. Around 40 chairs should cover all the hotspots in the room/company.

For this particular asset, the "Procurement" hotspot will be a critical component of margin expansion. The Head of Procurement will occupy the owner's seat at this Table. Seated with him will be roles responsible for direct and indirect procurement, manufacturing, engineering, sales, operations planning, and finance. Working together, the people at this Table will bring the Procurement hotspot to life by delivering the value.

Even before work starts, the firm, together with the company's CEO, can use evidence-based tools and routines we have developed to assess whether the individuals assembled will be sufficient to the demands of the roles. The same tools can easily monitor the results being delivered at each chair and for the Table as a whole. In cases where an individual doesn't solidly "click" into their role, interventions can be made to mitigate risk to the value expected. (We'll discuss this more in the next article.)

You entrust your portfolio company CEOs with two critical allocations: capital and talent. The "List" enables them to do both well. It helps them keep their finger on the company's pulse, on what's moving and changing at all its value hotspots. And, if you keep your firm's "Lists" up to date, you can, at a moment's notice, tally up all the value delivered at all the Tables across all your assets to get an accurate read on the collective improvement in enterprise value.

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About the Hunt Group

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