Low-Hanging Fruit

SOUND DECISIONS // Key Post-Investment Talent Management Strategies

David Wise
Senior Client Partner, Korn Ferry

Joseph Healey
Senior Client Partner, Korn Ferry

With vast quantities of dry powder, endless leverage and more competitors than ever, valuation multiples are at all-time highs. That means there is no way to make money on the "buy" as there was in the past. For private equity sponsors, it's an environment that has put new emphasis on post-investment value creation to unlock value in portfolio companies.

Most financial sponsors are experienced in optimizing operations and strategy. However, in our experience, PE funds chronically underestimate the value of focusing on the organization and talent. That's where there are hidden opportunities to make changes that directly impact valuation—and in the process improve things for employees. Here are three areas to focus on:

The right executive team. Really. Unless it's a deal for a complete category killer, the quality and the "stuff" of the management team will be the greatest predictor of the exit outcome. This isn't news: Lots of private equity firms assess management teams to understand if they're good leaders. The mistake they make? Not validating that they're the right leaders for a portfolio company cadence, and for a specific growth/turnaround/platform strategy. Lots of executives are great leaders, but our research suggests that most of them aren't built to lead a portfolio company. (One insight: A success factor that's critical for a portfolio company CEO to have? Resilience. Make sure your CEO has it.)

Alignment. Creating alignment with management around what good value creation looks like drives better exits, period. The biggest mistake we see sponsors make is building incentives entirely around the outcomes, which is often a base case growth/exit scenario that feels out of reach. It leads to infighting and drives suboptimal behavior. This is an area to sweat the small stuff when designing pay. How incentives are designed has a dramatic impact on what executives actually do. Yes, those dollars all come out of EBITDA, but behavioral science tells us that you'll get better outcomes when the executive team has incentives that focus on how strategy gets executed, and when the executive team feels it has been treated fairly and competitively in the exchange.

Quick productivity wins. When a deal is announced, employees become anxious and distracted. They've heard what life can be like under a private equity regime, and they know there will be change. Focus on quick wins that eliminate barriers to people doing their jobs well and that immediately impact productivity. You can do this in a number of ways. One of our favorites is a First 100 Days diagnostic, where you get live, post-close, hyper-specific data on things management can do (quickly, inexpensively, tactically) to remove barriers to getting work done. The impact on employees—to see how the first changes improve their work lives—is absolute gold.

When you get them right, these actions show up in the valuation. But do them quickly. The faster people can see what the future will look like, and how it will be better, the faster the rest of it happens. //

David Wise is a senior client partner in Korn Ferry Hay Group's New York office, where he leads the private equity group for North America. He is also a member of the firm's North American leadership team.

Joseph Healey is a senior client partner and leader of Korn Ferry's private equity practice.