INSIGHTS

The Race Towards Value Creation

Every business is actively engaged in one or more critical strategic change initiatives at any one time. What's the big difference when you're working with private equity? It's a matter of pace and narrative.

The day a private equity firm brings your company into their portfolio, that's the day the real race to accelerate value creation begins. You have signed on to deliver on a specific value agenda in a specific timeframe and to achieve the highest valuation possible at exit. Everyone involved — including your senior leadership team and the PE team — wants to maximize top line growth while optimizing bottom line savings and efficiencies. Everyone wants to be making smart decisions, executing fast, getting the value out, and then moving on even faster.

Instantaneously, the narrative about the future of your organization changes. Now it's all about a bigger "we", a "we" that includes the PE firm. We have to come together and begin firing on all cylinders at once. We have to figure out the smartest ways to increase the multiple and design a value agenda around those. We have to focus on the right strategies to grow revenues without getting distracted by too many shiny objects. We must optimize people, processes and technologies. We must build a strong, flexible foundation for growth and speed. It might even be necessary to transform the organization itself. All while moving at 100 m.p.h.

AT THE CENTER OF ALL THIS ACTIVITY TO REALIZE A CERTAIN MULTIPLE IN A THREE OR FIVE-YEAR TIMEFRAME IS THE RELATIONSHIP BETWEEN THE PRIVATE EQUITY PARTNER AND YOU AS THE PORTFOLIO COMPANY'S CEO. MISALIGNMENT BETWEEN THE TWO OF YOU CAN PUT VALUE CREATION AT RISK.

"What is the biggest reason for misalignment between CEOs and operating partners?"

We posed this question recently at a panel discussion we were moderating at the Private Equity International Operating Partners Forum in New York. The answers we got back from operating partners and portfolio company attendees was clear. **Change** was the primary reason: 49% cited the pace of change, 13% mentioned the degree of change, and 7% spoke of what needs to change. Not surprisingly, given all this focus on change, **leadership blind spots** came in a close second at 31%.

There's definitely room for improvement here. We at Ankura have been fortunate to have worked with a number of CEOs whose companies have been backed by private equity as they led exciting transformations. We have seen how an effective relationship between the operating partner and the portfolio company's CEO can have a multiplier effect on business results. There are two key lessons we've learned while partnering with these winners as they work together to create value: 1) create a sense of urgency, and 2) hack the things that derail momentum.

CREATE A SENSE OF URGENCY

All too often CEOs make the mistake of comparing the pace of change inside their company today to what it was in the past. Inevitably, the company will be moving somewhat faster than it did yesterday. But is it moving fast enough to keep up with the pace of external change? What's happening in the marketplace? What are competitors doing? The end of that three or five-year window will be here before we know it. Can we do what needs to be done to win in time?

We've seen that CEOs and operating partners stand a better chance of creating a compelling narrative imbued with a sense of urgency inside a portfolio company by doing the following four things either during due diligence or immediately after the deal closes.

1. CO-CREATE RULES OF ENGAGEMENT

Establish your working relationship as one in which either party can initiate an open and honest conversation, challenge the status quo and candidly point out that what got you here won't get you where you're going. Take the stance from day one that you are in this together: remind yourselves of this commitment when the going gets tough. Be transparent. Always engage in *constructive* dialogue.

2. DESIGN WITH THE END IN MIND

As Franklin Covey says, "Begin with the end in mind."[1] Develop a mutually agreed upon definition of what success looks like at exit (the long term), at the end of the second year (the mid term) and at the end of the first year (the short term). Design your critical KPIs and build mechanisms for regularly tracking and discussing their progress.

3. FOCUS ON THE IMPACTFUL FEW

Develop a comprehensive and detailed plan for creating value. There will be a million things that could and should be done. Align on which *one or two* important initiatives will move your value creation plan forward the furthest and the fastest. Make them your first priorities and ruthlessly go after them by designing high-level, cross-functional 100-day plans to drive momentum. Allocate dedicated resources to execution and widely report on progress so everyone is focused on the right drivers. At the same time, clearly articulate to everyone throughout the company what is **NOT** going to be done. This will help reinforce the idea that your intention is to take aim at a limited target set to ensure you deliver, rather than to take a scattershot approach and try to do 10 things superficially. Once those first initiatives are accomplished, ruthlessly go after each of your next priorities until you meet, or hopefully, exceed your original goals.

4. ESTABLISH "MINIMUM VIABLE" GOVERNANCE

Knowing that the pace of change inside your company is going to pick up, go for what's most effective. Revamp your decision-making structure to match your new value creation plan and clearly communicate that to everyone involved. Explain that you are moving decisions down into the organization so they can made at the most appropriate level to increase customer responsiveness, agility and execution speed.

5. HACK MOMENTUM DERAILERS

CEOs and operating partners alike have gotten to where they are today by being courageous and intelligent leaders, shrewd and wise risk takers. But they are not all-seeing and all-knowing. Like any other human being, they may be blind to what can derail the momentum they build up in their careers — or in the implementation of a private equity deal. Here's how to hack some of the more common momentum derailers leaders encounter in the latter.

- **Create a CLEAR Vision of "Done"**

  "Done" doesn't have to be "to perfection". But it has to be good enough to create that value you're going after together. Make a big deal about getting your value creation plan done perfectly and you'll never get past second — perhaps not even first — base. Don't be distracted by all the bits and pieces of the organization that vie for attention. Instead, discern what's really going to move the value creation plan forward. Put aside what can wait for now so you can get things moving in the right direction with the speed and focus you need on value.

- **Generate TRUE Urgency**

  We are all operating in an environment of perpetual urgency. Unfortunately, much of this frantic pressure to "do something right away" leads to doing things that don't really matter. It's a kind of "false" urgency in that it's driven more by a sense of foreboding than a sense of determination. What we want to generate as leaders is, as John P. Kotter so aptly put it, a "true urgency [that] focuses on critical issues, not agendas overstuffed with the important and the trivial."[2] Ruthlessly prioritize. Ensure each of your teams is doing the same. Ask often, "To what end are we focusing on this?"

1 Franklin Covey, *Seven Habits of Highly Effective People: Powerful Lessons in Personal Change* (New York, NY: Free Press, 2004).
2 Dr. John Kotter, "It All Starts With A Sense of Urgency", manifesto extracted from "A Sense of Urgency" (Change This, September 2008), p. 5. Accessed online November 21, 2017 at http://changethis.com/manifesto/50.02.SenseUrgency/pdf/50.02.SenseUrgency.pdf.

• Have the **DIFFICULT** Conversations

In the midst of all this organizational change, there will inevitably be people who don't have the capabilities you need now or who aren't really interested in helping the company get to the next level. This is one of the hardest things leaders have to address. However, we don't do these individuals or our company any favors by holding on to them and avoiding those "difficult" conversations about their future. Like any conversation worth having, these will take some effort. Be honest. Say what you both need to hear: the truth about what's happening in the company and their future—or lack of it—in that.

• Rely on **HONEST** Counselors

Unfortunately, open dialogue and honest feedback is hard to find among peers and colleagues when you reach the level of CEO. When you're playing at this level, it's critical to know what is really happening now in your business and your organization, your industry and your markets. Without such real-time input, you leave yourself and your portfolio company wide open to being blindsided by someone else's new narrative about the future. If you don't have a network of honest counselors already, start looking out for people you can trust to tell you what you need to hear, rather than what they think you want to hear.

At the end of the day, you want to be able to rely on your PE operating partner as one of your honest counselors. You want to be able to turn them and ask them to share what areas they see you being "blind" in. Listen to learn. Thank them, regardless of whether you agree or not. Some of what they share may be challenging to hear, but your career and your company may fare better if you really take in what they have observed and act on it. You can always take it for a test run and evaluate the results. If things go well, repeat. If not, come back to them and repeat the process. Remember, your operating partner and the PE firm have a vested interest in helping you win in the long game you're playing together.

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ABOUT US

Ankura is a business advisory firm defined by *HOW* we solve challenges. Whether a client is facing an immediate business challenge, trying to increase the value of their company or protect against future risks, Ankura designs, develops, and executes tailored solutions by assembling the right combination of expertise. We build on this experience with every case, client, and situation, collaborating to create innovative, customized solutions, and strategies designed for today's ever-changing business environment. This gives our clients unparalleled insight and experience across a wide range of economic, governance, and regulatory challenges. At Ankura, we know that **collaboration drives results.**