



Is Your Next Role CHRO for a Private Equity Portfolio Company?

Private equity's impact on the global economy is growing every year. The sector has become a financial behemoth worth as much as \$7 trillion dollars globally, according to a 2020 McKinsey report — and, as a result, an important direct employer of millions of people worldwide.

Consequently, in our work advising leading private equity firms and portfolio companies, we are seeing that both the demand for and the profile of HR leaders at portfolio companies is on the rise. More private equity owners today view the CHRO not only as someone who oversees the HR function, but also as a strategic business partner to the CEO, the board and private equity partners and operators.

So, what unique skills and experiences set HR leaders up for success in a private equity portfolio company? This article looks at that question, based on our extensive client work with private equity portfolio companies as well as a dozen interviews we conducted over the past year with successful portfolio company CHROs.

In this article, we look at these findings:

- » Why the CHRO is an influential role at portfolio companies
- » A common profile for a successful portfolio company CHRO
- » How HR leaders can prepare for a role in private equity

The CHRO as a value driver at portfolio companies

Our interviewees all agreed that the recipe for success as a CHRO at a portfolio company differs from that at public companies. In general, they have fewer compliance and regulatory issues to deal with than publicly traded companies. On the other hand, private equity owners may often be reluctant for “big-HR” investments, depending on the exit strategy and the need to increase value prior to a sale or public offering.

Regardless of the ownership strategy, however, the CHRO can play a key role in driving value in a few ways:

A clear link to ROI. A strong CHRO can provide private equity owners with a clear link between the portfolio company’s talent activities and its financial success, including in areas from compensation to training to satisfaction metrics and more.

When owners are pursuing rapid growth as part of the exit strategy, for example by organic means or through M&A, the CHRO can propose modest changes by clearly demonstrating to the owners the value it can bring. When efficiency is ownership’s path to an exit, the value focus — and the corresponding need for more internal efficiency — will require a decisive CHRO who can help implement the playbook appropriately to push the company forward.

Forward-looking solutions. Even as they face fewer regulations than public companies, private equity owners today increasingly recognize the impact that strong talent can have, and conversely the risks that come from HR problems. In the right circumstances, targeted investments in talent and leadership development can bring outsized value through increased productivity and employee satisfaction. Furthermore, as the general public places greater importance on diversity, equity and inclusion, the CHRO is crucial to ensuring that the organization is properly focused on the issues and addressing the company’s DE&I needs.

A link between exit strategy and talent. Many portfolio companies operate with a focus on the exit. The plan for exit, however, can vary widely, from downsizing to rapid M&A to carveouts and other setups. Each of these strategies poses a range of issues where a strong HR leader can help ensure that the company meets its targets and is ready for exit. Workforce downsizing can be complex, which requires careful HR leadership. Equally as complex is the organizational and workforce management of M&A’s rapid growth. Every situation has its own distinctive talent needs in which the CHRO is central to successful execution.

The attributes of the successful portfolio company CHRO

The fast-moving environment of portfolio companies rewards flexible HR leaders who can work at both the granular and strategic levels — while also possessing the financial acumen to understand the business and how HR can contribute to driving value. Does the proposal from HR benefit the company's growth targets and do so within a proper cost perspective? Will the proposed program or training show a demonstrable increase in results? Can you show a link to the bottom line and demonstrate clear value to the company and its PE owners? As one CHRO told us, "We're really focused on squeezing every bit of juice out of the stuff that we have.... For just a small amount of additional money, can we get a little bit more value rather than fully replacing a system?"

Among the unique career paths — and personal characteristics — of the CHROs we interviewed, there were some common attributes.

A “roll-up-the-sleeves” attitude. For most portfolio company CHROs, the mission will likely entail doing more with less in completing the standard functions of HR. While this can be a challenge with fewer of the resources you might find at a larger organization, the lower number of requirements and regulations can serve as an opportunity for finding innovative, value-driving solutions within a shorter time horizon. There are often more opportunities for calculated risk-taking in finding new approaches to meet organizational talent needs. In our interviews, it was clear that creative, results-oriented CHROs who are willing to roll up their sleeves can make an outsized strategic impact on a portfolio company.

Financial acumen. In the private equity sphere, impact is almost universally measured in terms of numbers: primarily, how much the portfolio company can increase in value, often as quickly as possible, in preparation for a private sale or public offering. How that goal will be achieved, however, varies by company. Some are acquired for their untapped growth potential, others to rapidly increase efficiency before a sale. Not surprisingly, the path to sale has a major impact on what is expected of the CHRO.

Experience as a change agent. While many of our interviewees ascended through the HR function, all had gained a wide breadth of expertise throughout their careers — experience that proved to be valuable in the fast pace of a private equity environment. One of our interviewees cited her background in management consulting, where she typically worked with organizations undergoing a transformation, while several others credited their experience on M&A and workforce integration with giving them an appreciation for the private equity environment. These change-oriented experiences provide a degree of agility that serve a CHRO well when moving into the PE space.

Conclusion

The top portfolio company CHROs lead with creativity and innovation by understanding both the inherent challenges of the position and the breadth of opportunities it provides. They lead from the front as functional experts, and they tap into their skills to create solutions that help their companies meet their goals. By gaining the confidence and trust of the CEO and owners, the HR function can move at a fast pace and create follow-ership throughout the business, allowing it to play a strategic role that contributes to increasing value.

3 Ways HR Leaders Can Prepare for a Portfolio Company CHRO Role

» Do Your Homework and Align Your Expectations

Anyone considering a position in a portfolio company must understand the private equity firm's goals in owning that business. What is the investment horizon? Are there plans to either grow or downsize before being sold? What level of importance does the private equity owner place on talent?

In many cases, joining a portfolio company means that you're going to an environment where resources may be more limited than in a public company — smaller teams, less existing technology and systems, or lower appetite for investment in either additional people or new tools. Can you work within these possible constraints to succeed in the position?

» Demonstrate HR's ROI

Private equity owners and portfolio company leaders are typically data-driven, numbers-oriented and analytical. Successful portfolio company CHROs will similarly link their role to the company's bottom line and have the ability to link the HR function's work and roadmap to the business' overall goals.

» Gain Experience Outside of Your Domain

Business acumen is a key success factor for portfolio company CHROs. Seek opportunities that allow you to connect with the business as much as possible — if you're in a specialized HR role, branch out and seek opportunities to be a partner with the business. Volunteer to be part of cross-functional projects and get involved in M&A type activities where possible. The more transformation and change management experience you can gain, the more prepared you will be.





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