Serious human capital management for seriously good performance

Private equity firms develop financial and strategic plans, which they use to aggressively manage their portfolio companies. But most private equity firms are more casual about avoiding human capital disasters and even more casual about ensuring the best results from human capital. Portfolio companies are generally left alone to manage their own leadership issues until problems show up – and they will.

Some larger firms have realized that ignoring human capital issues until there's a big problem is a strategy that leads bigger problems. Doing nothing and then having a problem 18 months later seems like a poor idea. In response, some larger firms have recently decided to use an outside consultant to deal with human capital or have hired an internal staff member to oversee management recruitment and to otherwise support portfolio companies on matters related to traditional human resources functions.

Investors responsible for leading deals to successful exits need to know what's happening with their key managers. Private equity firms can increase portfolio company returns by having someone who can properly analyze all the people who report to the CEO in a portfolio company and how they work together.

For a portfolio company CEO, it's not voluntary to give quarterly numbers, it's not voluntary to discuss the strategy, and it also should not be voluntary to talk intelligibly about the status of your top management teams. As an investor, your standard operating procedure should be to poke your nose into how your CEOs work with their management teams. Just as you don't stop assessing the leading indicators of profit and cash flow after the investment is made, you should not suspend ongoing diligence about key people after the deal is done.

Medium-size firms also need a methodology to monitor portfolio company talent, and they likely will need help in executing it.

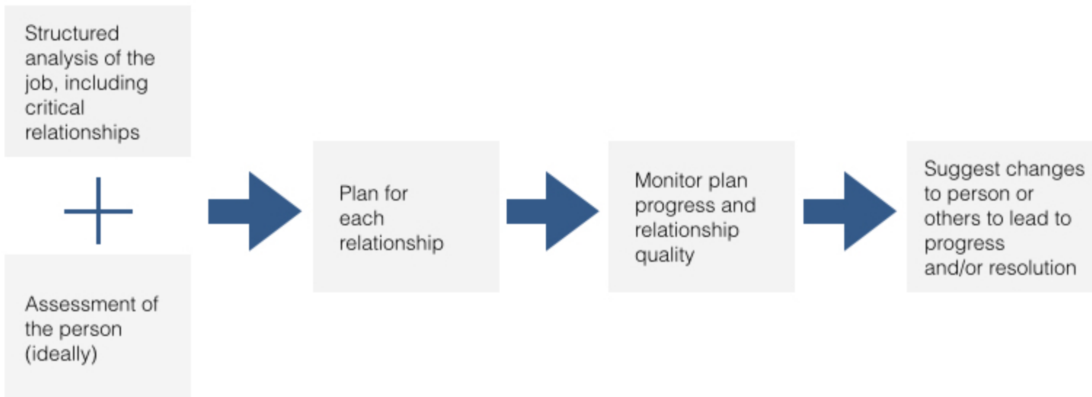
A PART-TIME HUMAN CAPITAL ADVISOR IS THE RIGHT SOLUTION FOR CERTAIN FIRMS

A part-time human capital advisor can track the status of management teams on an ongoing basis and also be a resource to address situations before they deteriorate and cause financial damage. A part-time human capital advisor may be the best answer for any medium-sized firm with aggressive timetables and financial goals, a history of surprise poor performance by CEOs, and/or little knowledge about the portfolio company management teams and what's happening in them. It can also be a great solution for some larger firms. It may be right for your firm if you are:

1. A medium-sized firm that makes control investments in growth companies, investments in distressed situations, or buyouts
2. A large buyout firm that does not do in-house assessments of CEO candidates
3. A firm with a history of replacing CEOs post-close and of being surprised by poor CEO performance
4. A firm that needs better knowledge about portfolio company management teams

Someone who has taken the time to know the investors' value creation plan can be positioned as management's advisor in a role designed to help the portfolio company management succeed in carrying out the strategy.

What a good human capital advisor actually does



A good human capital advisor gets to know the managers, and then working together with them, conducts a structured analysis of their jobs. As part of this analysis, the advisor, together with the manager, identifies key targets and metrics and documents the relationships that will be crucial for the manager's success. Together, the advisor and manager make plans for building and measuring the progress of those relationships, especially the manager's relationships with investors, Board members, key customers, and key team members. Having assessed the baseline of each relationship and developed a plan for each relationship, the advisor then monitors the manager's progress on the plan in the context of the business as it evolves.

If the advisor has done a thorough psychological assessment of the manager (typically as part of due diligence or just after the deal closes) the advisor starts with an enormous understanding of how the manager's mind functions and **how to be most effective in helping him or her change**. The advisor understands where and why resistance arises for that person and therefore has a better chance of avoiding it.

An advisor focuses on how people interact. But just as a good CFO assesses progress and thinks about the business with a focus on finance but does not limit him/ herself to finance, so **a good human capital advisor helps investors and CEOs assess progress and think about the business with a focus on key relationships and the functioning of its top managers but does not limit him/ herself to this perspective**.

An advisor works all sides of each relationship. **The advisor identifies a problem and then considers which behavior changes, by whom, and what would be the easiest route to the solution**. Sometimes it's the CEO who must change, but often the Board or investors can slightly adjust their own behavior and therefore remove or minimize the problem.

An advisor brings **independent judgment and experience to bear on the business situation as a whole** and to the challenges that the manager faces. The advisor's goal is the successful achievement of investors' goals. At the same time, though, the advisor facilitates the development of the manager's capabilities. In this role, the manager the advisor may feel or seem more like a coach to the manager.

WHY LESLIE PRATCH IS A GOOD CHOICE FOR YOUR PART-TIME HUMAN CAPITAL ADVISOR

Leslie has 20 years of experience in assessing and supporting management teams.

Assessment

Using the methodology that she has researched, developed, tested, and validated at the University of Chicago and in her practice, Leslie has been assessing portfolio company management for private equity for over 15 years. She has assessed over 450 portfolio-firm and corporate executives, and even 32 partners and other firm members at private equity firms. She knows what makes motivates and impedes business leaders and what it takes to make it in the world of private equity.

Her assessments have a documented predictive validity of 98%. That means that over all of the situations in which she's assessed executives and made recommendations, in 98% of cases, the client who observes the executive's subsequent performance says that her analysis and conclusions capture the key elements of the person's performance and of the challenges of working with that person.

In an assessment, Leslie learns what conscious and unconscious characteristics make the person succeed or fail – not just whether he succeeded in the past. She comes to understand how he approaches and manages (well or poorly) key relationships, and the challenges in how he leads that he will have to overcome, work around, or have other people work. When an equity sponsor has Leslie assess a CEO as part of due diligence pre- or post-close, then Leslie becomes a uniquely capable resource for also monitoring and coaching the company's most valuable human capital. Even without the added benefit that comes with a full psychological assessment, she is still an outstanding resource because she understands what makes leaders effective and because she focuses on relationships with others as the key human capital driver.

Monitoring experience

Leslie has monitored management teams for years for major automotive suppliers (e.g., ThyssenKrupp, Budd, Visteon), consumer services companies (e.g., McDonald's, AMF), and for various financial service firms (e.g., Merrill Lynch, JPMorgan Chase, Barclays, Janus). She worked with dozens of executives on their development.

Background and training

With a rare, perhaps unique, combination of business training and experience, clinical counseling skills and training, and psychological research, Leslie Pratch brings an ability to apply clinically-honed interpersonal skills to your business strategy and a unique perspective and framework based on her empirical psychological research into predicting leadership.

DELIVERABLES

The start-up phase of this service can include assessments, regular discussions with the CEO and/ or CEO and management team members, and then twice yearly Board updates with or without the CEO.

BENEFITS

This kind of advising/ human capital monitoring leads to better solutions and more successful execution. It avoids problems that otherwise would surprise investors when things appear on the surface to be going well. It leads to the advisor's being able to find problems as they arise and to spot patterns that are important for investors to know.