BLUE RIDGE PARTNERS MANAGEMENT CONSULTING

7 Behaviors of the World's Best Operating Partners

Background

Every year, Blue Ridge Partners is selected as the Knowledge Capital Sponsor for the PEI Operating Partner Forum held in both London and New York.

This year, we decided to build on our 2018 work on Type 2 Friction; The Unproductive Friction that Exists Between CEOs and Operating Partners.

We wanted to better understand the Behaviors of the world's best operating partners, hoping others could learn from the best in this industry — what do they do that makes them uniquely effective?

We spoke with some of the world's most respected operating partners (35 in total), whose firms collectively manage more than $1T of assets. Some generalists, some industry sector generalists and some functional specialists... all working in widely different models.

To find these people, we started with some of the most experienced operating partners and then added suggestions from others.

We interviewed them, asking two primary questions:

1 What has made you successful in this role and what hasn't worked that you've learned from?

2 What advice would you give to someone entering this profession for the first time?

The 35 individuals we interviewed:

Advent International, Selim Loukil

AEA Investors, Jeff Nagel

American Securities, Jerry Hughes

Apollo Global Management, Aaron Miller

Ares Management, Jim Hirshorn

Aurora Capital, Jim Lindner

BC Partners, Jerome Losson

Berkshire Partners, Greg Pappas

The Carlyle Group, Antonio Capo

Cinven, Paul Vega

CPPIB, Jesko Frommeyer

CVC Capital Partners, Suzanne Pappas

CVC Capital Partners, Alan Roux

Dunes Point Capital, James Potter

Francisco Partners, Bruce Grainger

General Atlantic, Cory Eaves

Graphite Capital, James Markham

Hellman & Friedman, Greg Why

L Catterton, Karen Gordon

Morgan Stanley, Jim Howland

OMERS, Mike Lank

OTPP, Richard Thomas

OTPP, Tricia Witty

Partners Group, Fredrik Henzler

Permira, Riccardo Basile

The Vistria Group, Tory Ramaker

THL Partners, Hank Boye

THL Partners, Dan Jones

Warburg Pincus, Raj Kushwaha

Other Representatives of Large Cap Firms

What we learned...

During these interviews, we learned this is a tough job, with no user manual and very few role models. Every firm is so different that it's hard to share better practices between firms. However, we discovered 7 common Behaviors that seem to underpin the success of the world's best operating partners. These learnings seem helpful, not just to operating partners, but to operating partner team leaders, managing partners of PE firms and investment partners.

The 7 Common Behaviors

1 They Thoughtfully Formulate Their Operating Partner Model Based on 15 Key Variables

We spoke with 35 people at 30 different PE firms and no two operating partner models are identical. There are three main drivers that determine a firm's operating partner model, the skill sets required, and the size of the operating team.

PE firm's investment strategy

- ☐ Control investments vs. minority positions?
- ☐ Single industry (e.g., tech) vs. multiple industries?
- ☐ Investing in founder-led businesses?
- ☐ Strong companies with strong leadership vs. distressed situations?

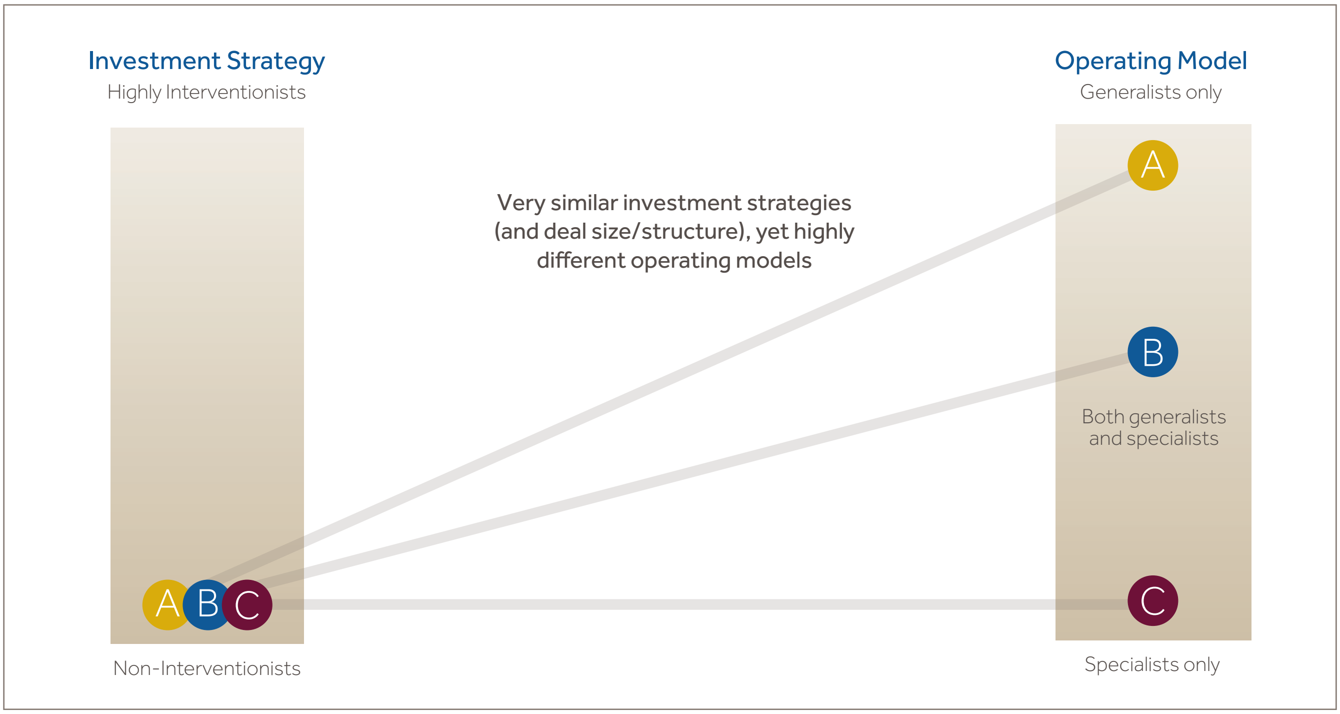
Culture and style of the fund

- ☐ Does the PE firm believe in leaving management teams alone so long as they are performing against the Value Creation Plan (VCP)?
- ☐ Is the firm's style to be highly interventionist, laissez-faire or something in between?
- ☐ Does the PE firm use standard playbooks or bespoke actions?

Beliefs of the senior investment partners

- ☐ Are they true believers in the value delivered by the operating partners?
- ☐ Have they seen value delivered from the operating partners and do management teams say positive things about the contribution of the operating partners?
- ☐ Are the operating partners viewed as being worth the cost of carry?

It seems clear that operating partner models are influenced by more than the PE firm's investment strategy. We studied three PE firms with nearly identical investment strategies but very different operating models.



PE Firm A	PE Firm B	PE Firm C
"Generalists only — Be a force multiplier by introducing others"	*"Combination of generalists and specialists"*	*"Specialists only — Avoid friction with management"*
Organization • Generalists only, sector focused. • No functional specialists.	**Organization** • Generalists, sector focused. • Plus functional specialists.	**Organization** • All functional specialists. • No generalists (no threat to CEOs).
Talent • Only hire senior executives with broad industry/executive experience.	**Talent** • Mix of ex-consultants and ex-operators. • Target experience in very matrixed Organizations.	**Talent** • Largely ex-operators (not ex-consultants). • Comp identical with investment partners.
Engagement • Dedicated to portcos but ramp up/down involvement depending on company stage. • Functional expertise sourced externally as needed.	**Engagement** • Generalists dedicated to portcos in their sector throughout investment period. • Functional specialists work on initiatives when needed.	**Engagement** • Work with functional leaders across all portcos. • Chief Transformation Officers hired by each company to lead the overall change effort.

The 15 Operating Model Design Considerations

We discovered there is significant variability between PE firms around 15 design considerations:

Organization

1 **What is the optimal mix of generalists and functional specialists?**

- Some firms have zero specialists while others have zero generalists.
- Larger firms have dozens of specialists for areas such as supply chain, talent, IT, go-to-market, pricing, and other topics — the key questions are around the optimal head count and the ratio of generalists to specialists. Some of the larger firms are at a ratio of one generalist to 5 specialists.

2 **Should the generalists be organized by industry segment?**

- Only relevant for larger firms.
- If deal teams are organized by industry, operating teams should mirror this structure.

3 **If you have functional specialists, which functional skills are required internally vs. sourced externally?**

- There is some debate about whether these functional specialists can maintain sharp skills equal to external consulting specialists.
- Some firms once had a large group of functional specialists and then decided to eliminate this group entirely, while others are finding their functional specialists to be highly impactful.

4 **Do generalist operating partners need junior support (i.e., junior generalists) to provide them with leverage?**

- These junior team members are used at some PE firms.
- They are typically mid-career former consultants and provide leverage to the senior generalists.

5 **Should there be a separate operating partner team focused on diligence (vs. having the same people serve the company from diligence through exit)?**

- This is rarely done but it is used by some PE firms.
- Their argument is that diligence requires a different skill set than post-close and they accept the lack of transition from diligence to post-close relationships.

6 **How should these models differ in Europe and Asia?**

- European teams are often structured by country.
- In Asia, operating partners are often interim executives because of the talent shortage.

Which functional specialists are required internally *(vs. obtained from third parties)?*

- ☐ Talent and Organizational effectiveness?
- ☐ Operations?
- ☐ Financial?
- ☐ Commercial?
- ☐ Data and advanced analytics?
- ☐ Technology and digital transformation/ product?
- ☐ Environment, social and governance (ESG)?
- ☐ Innovation?
- ☐ Legal support?
- ☐ M&A support?

Talent

7 What is the ideal background of the operating partners?

- Approximately 50% of operating teams prefer a combination of line executive experience with top-tier consulting experience (combination of operating pragmatism and strong EQ).
- About 25% prefer just line executive experience, particularly in heavily matrixed Organizations where they learned to achieve results by influencing others.
- The other 25% see value in people with either profile.

8 Should the operating partners receive carry across the entire fund or just the assets they work with? What is the implication of this decision on Behaviors and motivations?

- Most believe that operating partners should receive carry across the entire fund because their ultimate objective is to optimize IRR across the fund, not a single asset.
- If operating partners are incentivized by a single asset, they might sub-optimize their time allocation.

Engagement

9 Should generalists be assigned to several assets on a continuous basis or only called upon by the deal teams for specific projects?

- There are different views on this topic. Most operating partners believe continuous relationships with the management team are essential.
- A minority believe that operating partners should be on call by the deal teams and engage when needed—this allows them to allocate attention in the portfolio where it's most needed.

10 Who should serve as Board Chair?

- Some middle-market PE firms designate the operating partner as the Board Chair.
- These operating partners are typically former CEOs at successful companies, often larger than the portfolio companies. This adds to their credibility with CEOs and minimizes CEO concern about whether the Board Chair is interested in taking their job.

11 How much responsibility should be delegated to operating partners and what rests with the investment team/Board?

- Most deal teams designate significant responsibility to operating partners. They often have the closest relationship with the management team.
- However, there are different views on how far these operating partner responsibilities should go and where

the Board's responsibilities should begin. For example, if the operating partner believes that the Chief Growth Officer should be replaced, some firms believe the operating partner should make this recommendation directly to the CEO while others believe this is a Board responsibility. Firms need to be clear about who should address delicate topics regarding gaps in performance with the CEO.

12 In what, if any, circumstances should operating partners serve on Boards?

- From our interviewees, we heard approximately 25% say "always", 50% say "never" and 25% say "it depends on the circumstances".
- The argument for a Board seat is that it gives the operating partner greater stature, and the management team will take their role more seriously.
- The argument against a Board seat is that trust-based relationships become more difficult with the CEO because the operating partner is now more like a boss than a partner. Also, Board membership makes operating partner reallocation more difficult.

13 How should decisions be made about the "coverage model" for the operating partners — the number of portfolio companies to cover and time to spend with each?

- Most operating partners told us their coverage varies over time, but generally they are assigned to 2-4 companies at once.
- Their time allocation between these companies varies based on need.
- Interviewees reported trying to not be involved in more than two substantive issues at a single company at any time.

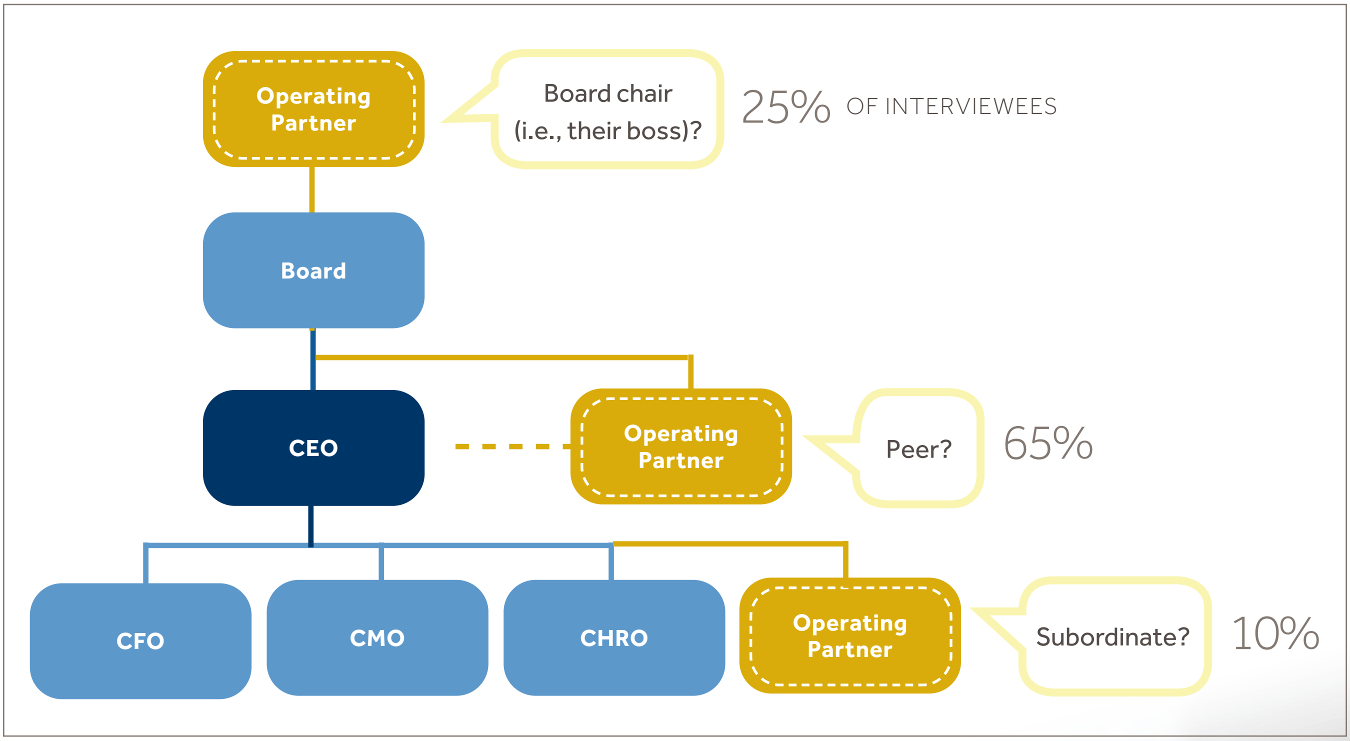
14 Should portfolio companies be charged for work done by the operating team, charged an annual allocation or not charged at all?

- There are many divergent views on this topic. Approximately 65% of the interviewees don't charge for operating partner support, 10% do charge based on usage and 25% have an annual allocation.
- The majority believe that usage charges are detrimental to building the proper relationships with CEOs (they allow CEOs to become "your boss" since they are paying for your time).

15 Should CEOs view the generalist operating partner as a peer, a subordinate, or as part of the deal team (their boss)?

- We asked most interviewees whether their CEOs would draw them on an Organization chart above them, beside them or below them. For most, that was a thought-provoking question.
- Most answered "beside them" but about 25% said above them and 10% said below them (including the functional specialists we interviewed).

We asked our interviewees, "If the CEO of a portfolio company drew a picture of their own Organization chart, where would they place the operating partner? Is this where the operating partner *should* be?"



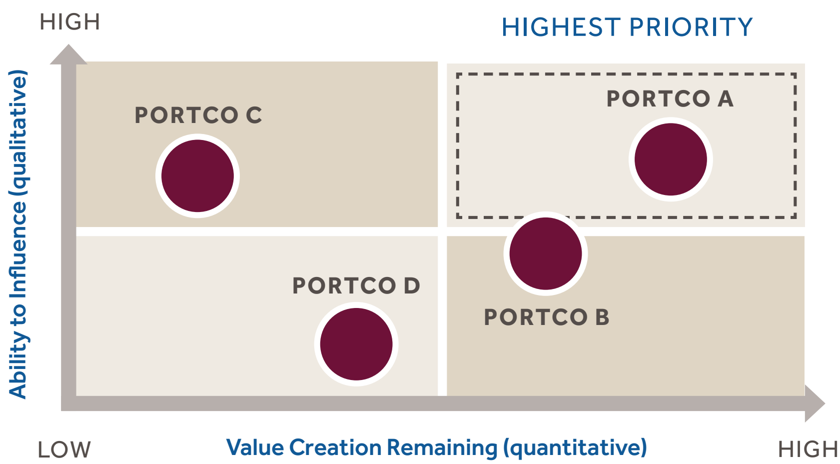
2 They Use a Framework For Setting Priorities and Allocating Resources Across the Portfolio –"Picking Their Spots"

The objective of the operating partner team is to maximize IRR of the fund — this is what LPs care about. Given this, the leader of the operating team, in conjunction with the investment partners, needs to set priorities and allocate operating partner resources.

The goal of operating teams is to have more demand than capacity. This creates a "pull not push" culture but necessitates prioritization and resource allocation. We heard many different approaches to this, but all the operating partner leaders we interviewed could describe a methodology they use for this resource allocation. One operating partner leader described the 2x2 framework below, which they use to communicate to CEOs, deal teams, and the value creation team members why resources are assigned to certain portfolio companies and not others.

Sample Operating Team Resource Planning Framework

- **Structure of the deal** (e.g., control vs. minority).
- **Investment size.**
- **Quality of the CEO and management team** (e.g., how much help do they need? How is their performance trending?)
- **Nature of relationship with the CEO** (e.g., degree of engagement with PE firm).
- **Qualitative view of the value creation agenda** (e.g., entirely from M&A or internal change?)



Many different frameworks were described to us with similarities but important differences.

Another framework used is based on three factors:

- Importance of the investment.
- Value to go.
- Ability to influence the situation.

Another operating team leader said they consider three factors in setting priorities:

- "Tonnage" — investment size.
- Size of the prize available from operating partner assistance.
- The time horizon — year 1-2 are best and years 4-5 of the holding period are less attractive.

Yet another operating partner said they set priorities based on the following considerations:

- Degree of investment difficulty.
- Number of things that need to go right (in years 1-2).
- Intricacy of value creation plan.

These operating partners suggested there are four questions to be asked about every potential involvement with a portfolio company.

It's important to avoid placing operating partner resources into small, troubled companies where the "screaming need" might be greatest. These frameworks help avoid that situation. Everything the operating team spends meaningful time addressing should deliver valuable impact. This is "the social currency" in private equity firms; it's what builds credibility.

1 Is the effort consistent with the framework for cross portfolio resource allocation?

2 Is the effort consistent with the company's VCP?

3 Can the value creation team make a material difference in performance that is significantly better than the management team?

4 Does the operating team have the skills and time available to make a material impact?

3 They Live According to David Maister's Trusted Advisor Formula

David Maister is a former Harvard Business School professor and the inventor of the Trusted Advisor Formula.*

This formula says that trust is a function of Credibility + Reliability + Intimacy divided by Self-Orientation — the more self-oriented you are, the weaker your trust rating becomes.

The most experienced operating partners work hard building the numerator — credibility, reliability and intimacy — and work equally hard to make sure they minimize any self-orientation.

- They believe that many operating partners fail in this role because they can't get this equation right in their relationship with management teams and investment partners.
- The less successful operating partners seem to define their role too narrowly and immediately get focused on making the investment team happy, and justifying their own existence.
- Sometimes they get consumed with their own fears and ego, which cause them to overly focus on their own success and reputation.
- Instead, the best operating partners believe they should focus on building credibility, reliability and intimacy while avoiding any perception of self-orientation.

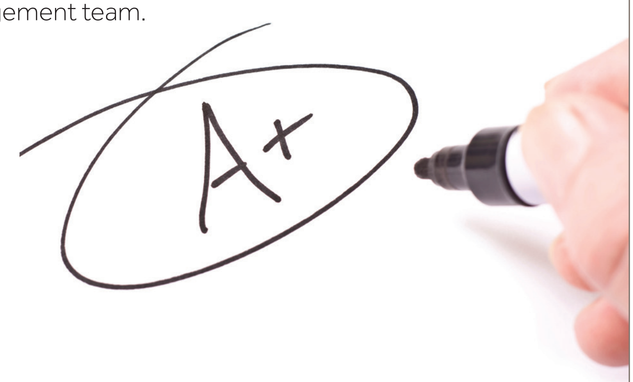
* Maister, D. H., Galford, R., & Green, C. (2001). *The Trusted Advisor.* Simon & Schuster.

Successful operating partners tend to have three skill sets that help them in building trust-based relationships with management teams and investment teams — these three capabilities are rarely found in the same person which makes this role so very difficult.

A Super strong EQ.

One operating partner called these "the ninja skills" of operating partners. Most of the high performing operating partners say these are their most important skills.

- ☐ Be humble/low ego.
- ☐ Be selfless — don't take credit.
- ☐ Use active listening skills.
- ☐ Playback what you hear to confirm understanding.
- ☐ Ask meaningful questions — they are better than declarative statements.
- ☐ Be apolitical.
- ☐ Be available to the company (don't let your calendar be an inhibitor).
- ☐ Lean in and be the last one to turn the lights out periodically.
- ☐ Show empathy — management team jobs are difficult.
- ☐ Avoid actions that destroy trust, like violating the CEO's confidence or giving direct guidance to a mid-level manager at the company.
- ☐ Don't be a time drag on the company, e.g., "send me tons of data."
- ☐ Be concise in communications.
- ☐ Be comfortable working with the Board in one moment and working with an HR analyst the next.
- ☐ Find personal connections with the management team.
- ☐ Don't be overzealous, trying to move too fast for everyone's comfort — the "crawl, walk, run" concept is helpful for avoiding this.
- ☐ Have business maturity and don't overact to bumps in the road.
- ☐ Play the long game. Function with grace.
- ☐ Don't spread yourself too thin — wide and shallow is the killer of an operating partner's reputation.



B Pragmatic operating style.

- ☐ Keep eyes on impact and the value creation plan — don't just focus on strategy, Board meetings and communications… make sure you are driving impact.
- ☐ Be responsible for outcomes not processes — there are many ways for a management team to get to the same outcome; your concern is with the outcome.
- ☐ Bring diagnostic capabilities — ability to gather data, do some analysis and draw conclusions.
- ☐ Think in frameworks to visually explain your ideas.
- ☐ Be fact-based and tough minded — have a point of view.
- ☐ Be independent and objective.
- ☐ Don't let great be the enemy of good.
- ☐ Don't be a watcher or just a facilitator, be a contributor to the impact.
- ☐ Functional specialists need to be really good at their craft.
- ☐ Understand the challenge associated with change management in the company.
- ☐ Remember it's not about being right but driving management teams into action.

C Corporate psychologist that can get a highly diverse group of humans to work together against a common aspiration.

INVESTMENT PARTNERS who are transaction experts but have little operating experience.

MANAGEMENT TEAMS who often don't have experience working with investment partners that are sometimes half their age.

CHAIRPERSON who often knows the industry and has run businesses at scale.

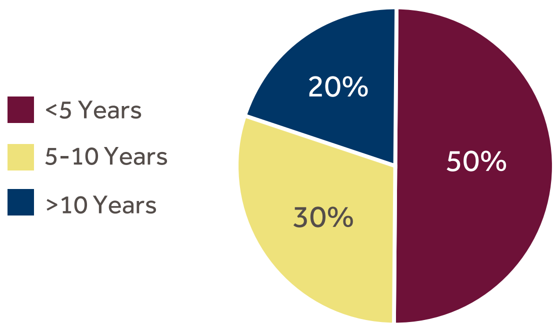
OPERATING PARTNERS are at the center of all three. They need to create "alignment"/serve as the glue.

In order to be successful in this role, operating partners must be very clear and very comfortable with the fact they are not the CEO — they don't decide; they are not in the driver's seat. They must use a palette of influencing skills to ensure that management team delivers on the VCP. Operating partners who struggle with this are usually less effective.

This raised the observation that you don't see many operating partners stay in this role for more than 10 years. For some, the desire to run a business "where they can push the buttons themselves" is strong.

Tenure as a Operating Partner

We looked at more than 100 operating partners across top private equity firms and discovered the following about their tenure in this role.



4 They are Excellent at Building Trust-Based Relationships with Management Teams

All of the operating partners we interviewed believe they need to build trust-based relationships with the entire management team, not just the CEO.

Trust is built differently with each management team but there are two primary reasons why these teams might not fully embrace the operating partners:

FEAR

Fear of having an operating partner replace them or fear of being called out for something that's broken in the company

EGO

Ego comes from being a successful business leader and being reluctant to ask for help or appear in less than full control

Most of these operating partners described the critical role of the lead deal partner in setting up the operating partner for success.

- The deal partner should describe the role of the operating partner during diligence.
- This description should include something like "we engage operating talent to bring supporting muscle to every portfolio company, not because we think something is broken." The roles of the generalist operating partner and specialists (if any) should be well described, including the fact that "the generalist operating partner will attend all our weekly calls and is an important member of our deal team."
- What doesn't work is "CEO, see if you like (operating partner) and perhaps they can add some value to your team." This is not the right introduction. Many operating partners believe these introductions from the deal team are done improperly more than 50% of the time.

What are their "go to" techniques for building trust-based relationships?

The most important aspect of building trust is making yourself relevant and impactful — you need to have a nose for value and recognize that "speed to impact" matters. Here are some techniques we heard from some of the world's best operating partners:

Start early — relationships begin during diligence.

It's essential to attend the very first management meeting during diligence. This is when strong relationships can be built.

Don't describe your CV in this meeting. Let your questions and interaction speak for your experience and maturity.

You should demonstrate value to the management team by asking meaningful questions about the business (using your operating experience to go beyond the numbers) — for example, if you were trying to better understand their commercial function, you might ask questions such:

- Who are your most feared competitors?
- Why do you win/lose in the market?
- Do you see more pricing opportunity this year?
- What was your growth strategy three years ago and how has it changed? What worked well, just okay and not at all?

> **The key to success is building trust with the CEO, full stop.**

Take the right steps immediately post-close.

- ☐ **Meet the management team in-person rather than over video** — trust is hard to build over Zoom.
- ☐ **Be a great listener** — most CEOs don't have someone to talk with and are pretty alone with their thoughts.
- ☐ **Get to know the company and its business** — understand the core processes of the business. PE firms might spend $2m in diligence getting to know the company and it shouldn't stop the day the deal closes.
- ☐ **Make sure the management team understands and owns the VCP** — the approach to creating this ownership will vary by portfolio company and the management team's prior involvement in shaping the VCP. The VCP should be the primary focus of early discussions with the management team.

- ☐ **Operating partners should think of themselves as the architects of change but not the builders of the house** — that's the management team's role.
- ☐ **Don't appear to be saying "everything is broken."** — a better tone is "everyone can get better."
- ☐ **Speak to the elephants in the room.**
  - "I'm not here to take anyone's job."
  - "My role is to add value, not be a spy for the Board."
  - "I will always share my thoughts and not share anything with the Board before sharing it with you first, no surprises.
  - " I will know when I have earned your trust when you are willing to share delicate topics with me."
  - "My personal success is on the line with this investment so I very much want to help you be successful."
- ☐ **Set up rules of engagement with the management team** — meetings to attend, communication process, etc.
- ☐ **Functional specialists should spend time explaining the value creation plan to the CRO, CTO, CHRO, etc.** These people are sometimes overlooked and may not fully understand the value creation plan.
- ☐ **Hold periodic CxO workshops to build community and share better practices.**
- ☐ **One way to build trust and add value is to conduct an "alignment survey"** — this is a great tool to engage with the company. Questions on the survey might include:
  - Where are the biggest opportunities to create new value in the business?
  - What cultural change might be required?
  - What is the company's greatest competitive threat?
- ☐ **Another technique used by these top operating partners is a self-assessment survey, followed by a management workshop.** Questions on the survey might include:
  - How good are we at capturing full value in our pricing?
  - How effective are we in cross selling to existing customers?
  - What are the greatest risks to the business? Greatest opportunities?
- ☐ **One operating partner described creating a fact page about something they have recently come to understand about the business** — the CEO or CxO might use this page with the Board to explain this same topic to them.
- ☐ **Choose your battles** — know when to push and when to stand down.

Despite all these steps immediately post-close, remember that building trust doesn't come from just talking about it. It might take 6-12 months to build a true trust-based relationship. Here are some other techniques that might help.

Help the management team build a productive relationship with the Board.

- CEOs value help in getting aligned with their Board — "help me not repeat others' mistakes."
- Also, they value help in anticipating problems with the Board.
- Be hyper explicit about how the CEO should engage with the Board — e.g., you're going to have a very engaged Board; you should control the agenda as much as possible; the goal is to get the Board to work for you; facts and economics are your friends at Board meetings.
- Remind the CEO that Board members have short memories so reframing the company's position and key initiatives is a good thing; CEOs are in the business every day but Board members are not.
- The operating partner might add value to the CEO (and CxOs) by reviewing their presentation materials in advance of Board meetings and helping them anticipate questions.
- Operating partners should attend all board meetings (regardless of being a voting member or an observer). To understand the business, to deepen relationships and to know where to lean in
- While at the Board meeting, never ask tough questions of the CEO.
- Give the CEO feedback after the meeting.

> **I knew I was someone the CEO could rely on when, in a meeting with the Board, a senior partner asked a very tough question to the CEO and he turned to me to ask what I thought. He knew I wasn't going to take the limelight away from him.**

Follow these guidelines related to conversations with the management team.

Never give direct guidance or express strong opinions to the management team — refer people to the CEO.

Put the CEO "on copy" of all emails summarizing any conversations had outside the presence of the CEO.

It's never about "we own you" — that is not the source of your influence or impact.

Some operating partners have developed a communication structure for messages given to management teams:

1 is a thought, question or idea

2 is a recommendation

3 is a strong recommendation

4 is a mandate

Some operating partners believe in "meeting the management team where they are" while others raised a caution about not being too accommodating if the management team isn't properly positioned to execute against the VCP.

> You listen, you learn, you have humility. Don't start with the impression that you know it all and understand the business better than they do.

> When I need to engage, it's not about me — it's about the mission.

Finding ways to add value

Trust can be earned by finding something on the CEO's top ten list and getting it addressed for them. Also, CEOs often need help in realizing it's time to exit a non-performing member of the leadership team — many CEOs are slow on this and need some assistance.

Finding spots to add value.

The best operating partners are willing to own a topic when asked by the CEO. They tend to focus their energy on topics not familiar to the CEO or things the company can't easily do themselves.

Examples include:

- Helping the CEO hire new members of the leadership team.
- Helping onboard new executives.
- Helping them improve their strategic planning process
- Helping the company with talent assessments.
- Helping identify potential acquisition targets.
- Helping with data analytics or digital issues where the company might not be strong.
- Rolling up your sleeves to help crack a specific question.
- Documenting perspectives for management teams that they might present to the Board.

Giving feedback on members of the leadership team.

Operating partners will often be asked for feedback on a member of the leadership team. For this purpose, it's useful to have a framework for organizing your thoughts. For example, a Chief Revenue Officer can be evaluated against these 12 capabilities:

1. Consistently delivers on performance commitments.
2. Demonstrates strong personal leadership.
3. Has strong communication skills.
4. Has good judgment and integrity.
5. Has a strong, top-of-mind command of key commercial unit economics.
6. Makes data-based decisions and is data fluent.
7. Remains market focused.
8. Is forward thinking/anticipates issues.
9. Is technologically savvy.
10. Creates a disciplined and process-oriented Organization.
11. Maintains a high-performance, well-balanced team.
12. Has a strong EQ.

> You have to be so laser-focused on value. If you don't stay focused, you'll lose the CEOs.

5 They Create Effective Relationships with Their Investment Partners

There is so much focus on building relationships with management teams that relationships with the firm's investment partners are often underdeveloped.

These relationships are equally important and require different skills to manage than required with management teams.

To be effective, operating partners need to be fully endorsed by investment partners when first introduced to a company. As investments progress, bottlenecks with the value creation plan can sometimes come from the Board — operating partners can help by engaging effectively with investment partners to remove these obstacles.

Spending time with deal teams also allows operating partners to increase their knowledge of deal structuring. Understanding the investment mind can help operating partners communicate more effectively with deal partners.

The best operating partners have figured this out and spend significant time on cultural aspects with investment partners. Most investment partners have banking backgrounds that are very different from the backgrounds of operating partners.

Deal teams might minimize bad news in the hopes that companies can overcome any short-term obstacles or they might become complacent if a company is exceeding the underwriting case. In these cases, an operating partner needs to be willing to challenge their colleagues and push for earlier interventions.

Operating partners develop relationships with deal partners by formulating answers to key questions:

- How should I communicate with the deal team? Weekly calls? Weekly emails? Ad hoc updates? What should be covered?
- How can I make sure there are no surprises to the investment team and there is full alignment between the investment partners, the management team and the operating partners?
- How can the deal team empower the operating partners and reinforce their role with the management team?
- When there are tough topics to discuss with the management team, how should they be handled?
- How can the relationship with deal partners be one of "capability exchange" where we learn from each other? Operating partners learn from investment partners but the reverse is also true (e.g., when not to overact to an operational hiccup).
- How can the investment team get maximum value from the value creation teams, including generalists and functional specialists?

6 They Act as a Force Multiplier

The most experienced operating partners have learned not to position themselves as the answer to everything — each operating partner has specific skills which should be applied but not stretched. Be ready to say "I know someone who can help you with this" — be a dot connector.

Operating partners should strive to bring expertise from others:

- Other members of the value creation team.
- Other portfolio companies that have been down a similar road.
- Capability from third parties/ consulting firms.

These introductions can open up their network for immediate purposes and long term relationships.

Bring new, fresh ideas from outside the firm that the management team isn't thinking about that aid their efforts in achieving their VCP.

When leveraging talent from outside the company, it needs to be done while building internal capabilities so the company can carry on when the third parties withdraw — a key objective of every operating partner should be the sustainability of programs within the company.

> "Early in my career I was trying to be the answer for everything. Now I think 'who do I know?' and how else I can help. I don't need to know everything."

7 They Measure and Communicate the Value They are Adding

Nearly every interviewee said they have a way of assessing their impact but also said they need to get better at this.

The operating partners are supposed to be selfless, giving credit to the management teams, yet, there needs to be some objective answer to whether the operating partners are adding value.

The key seems to be describing impact in terms of "WE" (with the management team) not "I".

If the operating partners aren't good at impact assessment, they are at risk of getting very little credit when things go well yet much of the blame when things go poorly.

Most of the operating partners we interviewed set the "success goals" at the beginning of the year or at the outset of an initiative. This creates a meeting of the minds between investment partners, the CEO and the operating partner.

One operating partner suggested that at the end of each year, there are three questions to ask to assess the value of an operating partner:

- Is the company better off because the operating partners were involved? If so, how?
- Did the operating partners help the investment team do their job more effectively? If so, how?
- Would CEOs say good things to target CEOs about the value added by the value creation team ("tough-minded but effective")? Does this enhance the PE firm's brand because of the work done by the value creation team?

Summary & Key Takeaways

This document is relevant to all operating partners and perhaps to all management teams who might benefit from learning how world-class operating partners function. However, others might benefit from this information as well.

1

For new operating partners:

Use this document as orientation to learn from some of the world's best operating partners. It took many of these operating partners 10+ years to become highly effective in this role and they are sharing their learnings with you.

Ask yourself these four yes/no questions, as suggested by a highly effective operating partner, as a way to evaluate your position in the PE firm:

- Is there a pathway for you to become a full equity partner?
- Do you have the ability to weigh in on investment decisions with the Investment Committee?
- Does the firm provide you with professional development opportunities, such as meeting with Boards, perhaps being a Board member, assuming interim roles where that's appropriate, and building your exposure to diverse operational challenges?
- Is your comp structure the same as the investment partners, although commonly smaller in size?

Consider the three critical skills described as being required for successful operating partners:

- Super strong EQ.
- Pragmatic operating style.
- Corporate psychologist who can get a highly diverse group of humans to work together.

2

For operating partner team leaders and managing partners of PE firms:

Evaluate the design of your operating partner model against the 15 variables outlined in this document. Might there be useful learnings on these 15 topics from other PE firms that have adopted different approaches?

Find a better way to measure and report the impact of the operating partner team. This is widely viewed as an area for significant improvement even by some of the world's best operating partners. There are both hard and soft impacts from their efforts but these are not well measured in most PE firms. In addition to quantifying the impact of specific initiatives, the following questions might be answered each year:

- Is the company better off because the operating partners were involved? If so, how?
- Did the operating partners help the investment team do their job more effectively? If so, how?
- Would CEOs say good things to target CEOs about the value added by the value creation team ("tough-minded but effective")? Does this enhance the PE firm's brand because of the work done by the value creation team?

Formalize the method for prioritizing and allocating operating partner personnel across the portfolio. There are many approaches across PE firms with some similarities and many differences. Also, some PE firms effectively use their priority setting framework as a communication tool with the operating partner team, with the investment team and with management teams to explain the rationale for resource allocations.

Consider using an alignment survey or self-assessment survey immediately post-close on every investment. These seem to be useful tools for creating engagement and alignment between the management team, operating partner and investment partners.

3

For investment partners:

Make sure to set up the operating partners for success.

- Get them involved early, starting with the very first management meeting during diligence.
- Be sure to describe the role of the operating partner properly to the management team — "the operating partner is a critical part of every deal team and they will participate in all our weekly calls" but not "please meet with this operating partner to see if you like them and if they can add value." Many operating partners say this introduction is done incorrectly more than half the time.

Establish a communication cadence between the operating partner and investment team, e.g., weekly written emails describing the key issues/initiatives at the company.

Consider adopting a clearer communication structure for messages given to management teams.

1 is a thought, question or idea

2 is a recommendation

3 is a strong recommendation

4 is a mandate

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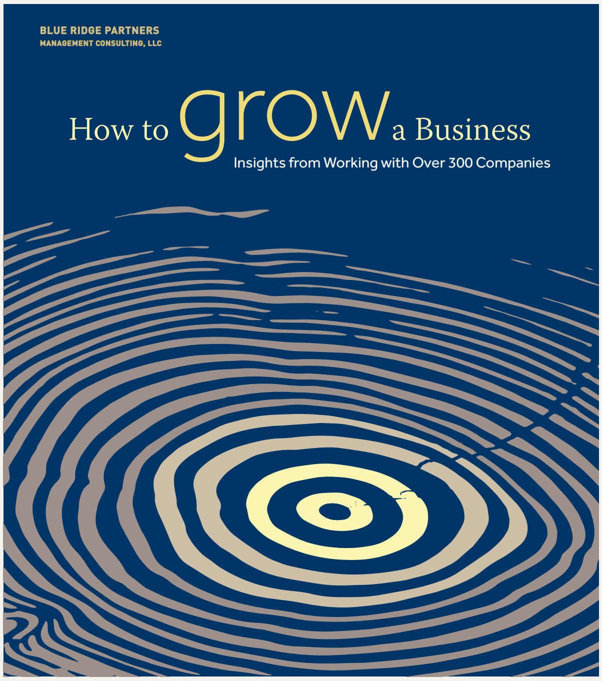

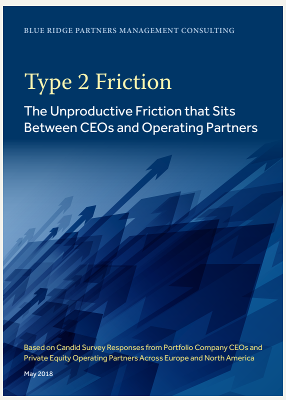

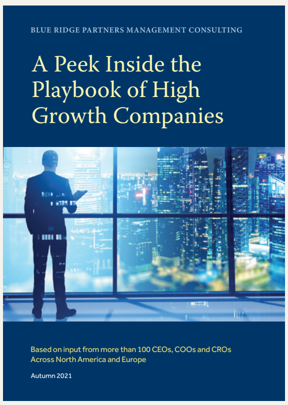

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