

THE IMPACT OF OPERATING PARTNERS IN PRIVATE EQUITY

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Within private equity (PE) firms, Operating Partners are key players in driving portfolio-wide success. They come with various styles and functions, from the hands-off supervisors and strategic mentors to the hands-on interventionist experts. Everyone I speak to wants this role but what does it really look like? Who are they and what do they do?

This article will explore the different types of Operating Partner, what they do, how to hire them and what makes them a valuable addition to a PE firm and portfolio.

OPERATING PARTNER ARCHETYPES

From my experience, there are six different types of Operating Partner, each with their own responsibilities and backgrounds. Even though they have unique characteristics, these categories are pretty fluid. PE firms often try out different approaches and usually go for a hybrid model to set up their Operating Partner roles. The choice of partner generally depends on the size of the sponsor and their investments.

The core focus of an Operating Partner is the effective execution of value creation plans. In my experience, their success depends entirely on the buy-in and support from managing and lead partners within the fund. Since Operating Partners are not direct revenue generators, a comprehensive, well-supported plan is crucial for them to be an effective proposition within a fund. I've seen Operating Partner models fail where firms do not take a strategic approach to building this function, bringing in experts who end up performing basic tasks and doing the heavy lifting rather than leveraging their previous experience to provide valuable insights.

Bigger firms will often have a large matrix of varying individuals. Smaller firms will need to start with generalists and good all around operators.

SUPERVISOR

This supervisory role is focused on monitoring and reporting and typically oversees 5+ different portfolio companies, maintaining a more hands-off approach while always being available. Supervisors provide oversight on strategy and metrics, offering guidance on executing strategic initiatives.

They regularly track and review the performance of portfolio companies and serve as a key link between investors and their assets, helping to maintain alignment and ensure that strategic objectives are achieved.

MENTOR

Mentor Operating Partners support value creation planning, business prioritisation and operational strategy. Mentors are best used where there is a solid management team that can function independently but would benefit from an experienced advisor to show them the ropes, particularly where they are new to PE.

They act as a sounding board for ideas and can also offer hands-on support when needed. They are often former operators or consultants.

CONSULTANT

Consultant-style Operating Partners function like internal tactical consultants for portfolio companies. They typically have a structured team setup with senior partners and mid-level managers, bringing a methodical approach to value creation, managing multiple projects, and driving significant operational improvements across diverse portfolio companies.

These partners, often former consultants or operators, assist in strategic planning, tactical execution, and comprehensive business reviews. This approach is ideal for larger firms like KKR whose value creation function, KKR Capstone, features this style of Operating Partner. However, their structured approach can be costly, and integrating them with existing management teams requires careful planning.

INTERVENTIONIST

Interventionists are operators deployed by the PE firm to assume CEO or senior executive roles, taking on decision-making authority for major issues. They set operational priorities and are deeply involved in running the business.

These partners are seasoned growth agents and operations practitioners with a proven track record of leading organisations through transformations and crises. This role is less about coaching and more about leading decisively, with a clear directive: "This is the direction we're taking; join us on the journey."

BUILDING THE OPERATING PARTNER FUNCTION

The optimal timing for bringing in an Operating Partner depends on the fund's investor profile and the nature of the assets being invested in.

For our clients with a more 'interventionist' style, many of their investors will be experienced operators who are actively involved in portfolio companies and often act as de facto Operating Partners as well as investors. They not only look at deals but also spend significant time within the portfolio companies; as a result specific Operating Partners might be hired later.

In these interventionist cases, initial value creation hires are often generalists with consulting backgrounds from firms like OC&C and experience working on PE projects for the firm, who can contribute to market mapping and due diligence, offering a solid foundation for their career.

For early-stage firms with investors lacking operational experience, it's advisable to bring in a former CEO, CFO, or CRO as an Operating Partner once initial investments are made. This approach allows fund managers to focus on new deals rather than the daily management of existing portfolio companies. In this case it is important to hire an expert from the key business type in your investment thesis.

GENERALIST

Generalists help define priorities and value creation planning, providing crucial external support where needed to ensure effective implementation. They can be former operators but are more commonly strategic consultants with broad skill sets that equip them to handle diverse challenges.

They are relatively hands-on, developing plans, bringing in additional resources, and ensuring structured planning and financial management. These individuals tend to be the busiest in the business, juggling multiple projects simultaneously. This style is particularly effective in middle-market companies with strong executive teams and vision but needing hands-on assistance to translate ideas into action.

EXPERT

Expert Operating Partners are highly prescriptive and specialised, leveraging years of experience across multiple PE cycles. They are particularly valuable in primary investments where a specific area for development has been identified to significantly increase enterprise value.

Acting as the C-suite for their respective functions, these experts deploy playbooks and lead in-house teams of functional specialists who actively manage day-to-day operations. They refine their strategies within individual portfolio companies and subsequently roll out these improvements across the entire portfolio, driving consistent and targeted value creation.

The type of assets you invest in also influences the timing. Acquiring healthy businesses with strong management teams generally requires fewer Operating Partners. However, if the businesses are in need of significant improvement, such as carve-outs or founder-led companies, deploying Operating Partners early to drive essential changes and improvements is crucial.

Once the initial Operating Partners are onboard, many firms look to scale these functions by segmenting business lines such as technology, HR, sales, and finance to better support their portfolio companies.

HOW TO UTILISE OPERATING PARTNERS**MENTORSHIP**

They can provide mentorship and development opportunities for senior management teams, helping to build on leadership capabilities and preparing the next generation of leaders within the company. By offering coaching and facilitating leadership training programs, they enhance executive skills and generate a capable leadership pipeline to drive long-term success.

CEO & FOUNDER GUIDE TO GROWTH

Operating Partners provide essential support and guidance to CEOs in growth-stage or founder-led companies, using their experience to help build and scale infrastructure, including systems, processes, and physical assets, to navigate the challenges of scaling and professionalising the organisation.

MERGERS & ACQUISITIONS

Playing a crucial role in M&A activities, they oversee due diligence, manage integration efforts, and coordinate across departments to ensure synergy realisation, streamline operations, and ensure that the acquisition adds maximum value to the business. This is especially critical when acquiring a business with limited M&A experience, but is to be used as a platform for buy-and-build strategy.

EXIT SUPPORT

An Operating Partner can be instrumental in executing a business exit strategy, ensuring that the company is optimally positioned for sale, preparing comprehensive financial documentation, and managing negotiations to secure optimal terms. They ensure a smooth transition by overseeing the due diligence process, identifying suitable buyers, and facilitating a seamless handover or integration post-sale.

TURNAROUND

In turnaround situations, an Operating Partner's expertise is critical in stabilising and revitalising underperforming businesses, identifying root causes and implementing a comprehensive recovery plan. This often involves restructuring operations, streamlining processes, and improving leadership and cash flow management to drive necessary change and achieve sustainable growth.

ASSET OPTIMISATION

While Operating Partners are often called upon to turn around struggling businesses, they also play a vital role in enhancing already strong performers. They can be used to ensure that the portfolio's top-performing assets reach their full potential and become fund-defining.

MANAGING COMPLEXITY

An Operating Partner provides crucial support to businesses experiencing complexity that they haven't encountered before, such as large-scale transformations or rapid growth. Their role is to help them to manage and overcome these challenges effectively by developing actionable solutions, and guiding the management team.



COMPENSATION

Competitive Salary: Operating Partners typically receive a base salary comparable to C-suite executives including a competitive annual cash salary, often paid directly by the fund.

Carried Interest: They earn a share of the fund's carried interest, aligning their incentives with the overall performance of the fund rather than individual portfolio companies.

Performance Bonuses: Compensation can also include performance-based bonuses linked to specific milestones, revenue growth, or operational improvements within the portfolio companies.

Flexible Contracts: Some firms use roaming contracts for Operating Partners, which might not be paid for directly but are utilised by the fund.

Company-Specific Adjustments: If an Operating Partner takes on a permanent, full-time role within a portfolio company, their compensation structure may shift to include equity or profit-sharing incentives tied directly to the business's performance.

ADVANTAGES

DE-RISK ASSETS

Operating Partners help mitigate risks by enhancing governance and addressing potential issues before they escalate. Their oversight and proactive management contribute to a more secure investment portfolio.

VALUE AT PACE

They help to accelerate the realisation of value from investments by swiftly identifying and implementing initiatives that drive performance improvements with a focus on rapid and strategic execution.

ENHANCE DEAL EXECUTION

Providing hands-on support throughout the deal lifecycle, from sourcing and due diligence to post-acquisition integration, maximising the value of each deal.

COLLABORATION

A collaborative approach from Operating Partners creates strong relationships with management teams. This is particularly relevant in hands-on roles, where building trust and alignment is essential.

EXPERT KNOWLEDGE

Leveraging their deep industry and operational expertise, their knowledge helps navigate complex challenges and optimises the performance of portfolio companies.

RELATIONSHIPS

They bring valuable networks and relationships to the table, which can be crucial for deal sourcing, due diligence, and integration support. Their established connections can facilitate smoother transactions and successful business integrations.

BOOST CREDIBILITY

The presence of experienced Operating Partners enhances the credibility of the PE firm. Their expertise and track record reinforce the fund's reputation and attract potential co-investors.

PLAYBOOK

Without an Operating Partner or a dedicated value creation team, interactions can become ad hoc and unstructured, which can throw off management teams and lead to inefficiencies and straying from the playbook.

CONSIDERATIONS

COST

Retaining an active Operating Partner can be costly, especially if their presence doesn't yield a clear return on investment. It's important to evaluate whether maintaining their involvement is cost-effective and if their contribution justifies their compensation.

DEPENDENCY

Relying heavily on Operating Partners can sometimes lead to a diminished focus on developing internal talent and capabilities within the portfolio companies which can stifle the growth of existing management teams.

TRANSFERABILITY

Single industry experts may face challenges in transferring knowledge and best practices across diverse industries and business functions. Depending on the variety among assets, PE firms

BOARDROOM INFLUENCE

Depending on the type of Operating Partner required, ensuring they have the appropriate level of authority and involvement in decision-making processes is crucial for their effectiveness and the overall success of their role.

CULTURE

Assessing whether the Operating Partner's values, work style, and approach align with the culture of both the PE firm and the portfolio companies is essential for a smooth integration and collaboration with existing teams.

COMING NEXT

The next article will be a continuation of the value creation mini-series, focusing on what good looks like as an Operating Partner, how to become one, and what makes this position so great.

Executive Edge is Camino Search's bi-weekly column, showcasing our insights on the market, talent acquisition and business strategy authored by Founder and Managing Director Harry Hewson.





About Us

TALENT THAT TRANSFORMS BUSINESSES

Camino Search is your trusted partner and advocate in the market. Your success is our priority, and we're here to support you every step of the way.

From advising start-ups and SMEs on their first finance hires through to full team builds, we source the industry's leading talent through our extensive network, cutting-edge software and data-led market analysis.

We are committed to working at pace without compromising on quality, consistently maintaining efficient yet thorough processes, leveraging our international and regional networks.

More than just recruiters; we are true talent partners and trusted advisors, guiding both individuals and organisations towards their goals, dedicated to making a meaningful impact.

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