The Rise of the Portfolio Company Chief People Officer

Over the last two and a half years, Chief People Officers (CPOs) have been infectious disease control experts, authors of return-to-work and hybrid policies, and facilitators of race relations in the US. Today, CPOs are leading organizations through a global labor shortage, and shepherding companies through macro-economic headwinds while trying to keep culture afloat. Additionally, global M&A volumes reached an all time high of $5.8 trillion in 2021, up 64% from 2020 and private capital markets have boomed, driving growth and the need for more sophisticated people leadership as a result.

Companies are taking note. In fact, **over 30% of the 100+ Chief People Officers Russell Reynolds Associates has placed over the last three and a half years are for organizations that never had a senior HR leader on their leadership team prior.**

In particular, private equity (PE) funds and portfolio companies now see CPOs as key value creators, enabling growth and leading change, as opposed to functional leaders who drive HR compliance.

"The recent rise in the importance of this role at portfolio companies is a function of the clear impact on financials and business growth by CPOs."
– Talent Partner, PE Fund

"Once companies see what strategic HR leadership looks like, it is hard to go back. I do not see the bar getting lower, even if the economy slows."
–Talent Partner, PE Fund

To better understand the uptick in portfolio company CPO appointments, and what makes them successful, RRA analyzed:

The past experiences of 104 CPOs we placed at portfolio companies across all industries since January 2019

The Leadership Span™ results of 42 CPOs at portfolio companies, comparing them to the profile of 247 public company CPOs to identify key differences

Interviews with 20 CEOs, CPOs and Talent Partners

In our report, we outline:

- **What leadership competencies make CPOs successful in a portfolio company environment**
- **What experiences these portfolio company CPOs have had that differentiate them from others**
- **How PE firms and portfolio companies can find - and keep - their next CPO**

Executives we interviewed, in addition to the hundreds we have worked with in the market, shared their perspective on what makes these CPOs successful, and noted that the recent rise in CPO appointments in portfolio companies reflects the enhanced value PE funds place on leadership, culture and engagement. As a result, the skillset and experiences required of recent hires have also evolved. We hope these findings help portfolio company CEOs, boards, and PE operating and talent partners identify exceptional CPOs and ensure their success.

What makes portfolio company Chief People Officers successful

In a fast-paced PE environment, having prior PE experience and a strong bias for action are obvious qualifiers. However, the savviest companies make smart trade-offs when hiring their CPO, instead of solely focusing on such criteria. Our conversations uncovered several differentiated skills and competencies of highly successful portfolio company CPOs. This, coupled with our data on past experiences CPOs have had to gain these skills, along with their Leadership Span™ results, provides a clear picture of what makes portfolio company CPOs successful. Successful CPOs have:

1. Change management experience

With rapid changes taking place in the PE environment, portfolio company CPOs need to be agile and able to support quick transformation efforts. Their focus on people analytics, along with HR technology and HR information systems to support change efforts, helps companies adapt and respond to changing talent needs. The best CPOs understand the end-goal of the transformation and then facilitate the change process by bringing others along, and in several cases, empowering them to drive change themselves.

> "Change management is a significant part of my job. We have monthly offsites where we explicitly talk about how much change the organization can handle." –CPO, Portfolio Company

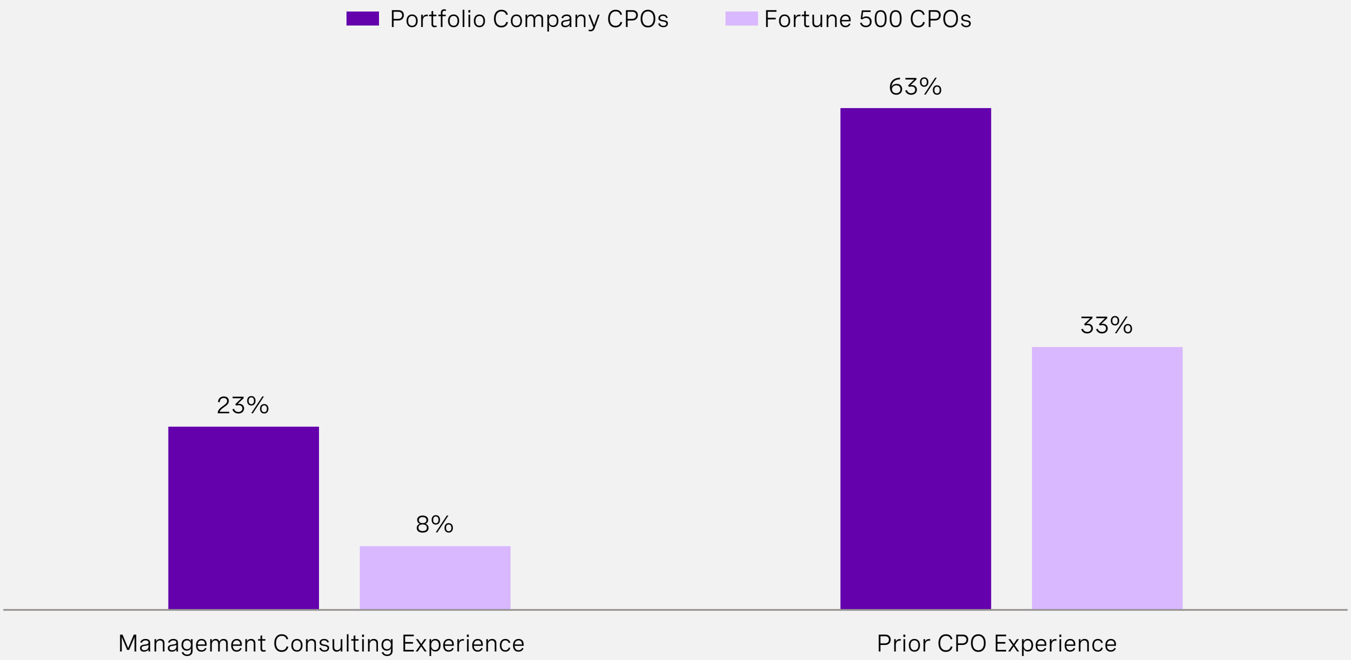
This requires exceptional influencing and communications skills, particularly as fast-growing companies bring two, three and sometime several companies together, often via M&A. Such companies go through systems, process and cultural integrations, and need leaders with a pragmatic and diligent approach to ensure that change is implemented with appropriate pace, precision and with a clear purpose.

> "A good CPO enlists other leaders, like the CEO and executive leadership team, to drive change, and gives them the tools to do this. They should also be good at the technical parts of change, which often need to be built in portfolio companies from scratch." –CEO, Portfolio Company

Our analysis of portfolio company CPOs' past experiences supports these findings. 23% of portfolio company CPOs have management consulting experience, which can be a proxy for the agility and adaptability needed in this role. 63% have been CPOs before, so have likely managed organizations and workforces through phases of change already.

"You should know how to leverage resources, and lead transformation at scale." –CPO, Portfolio Company

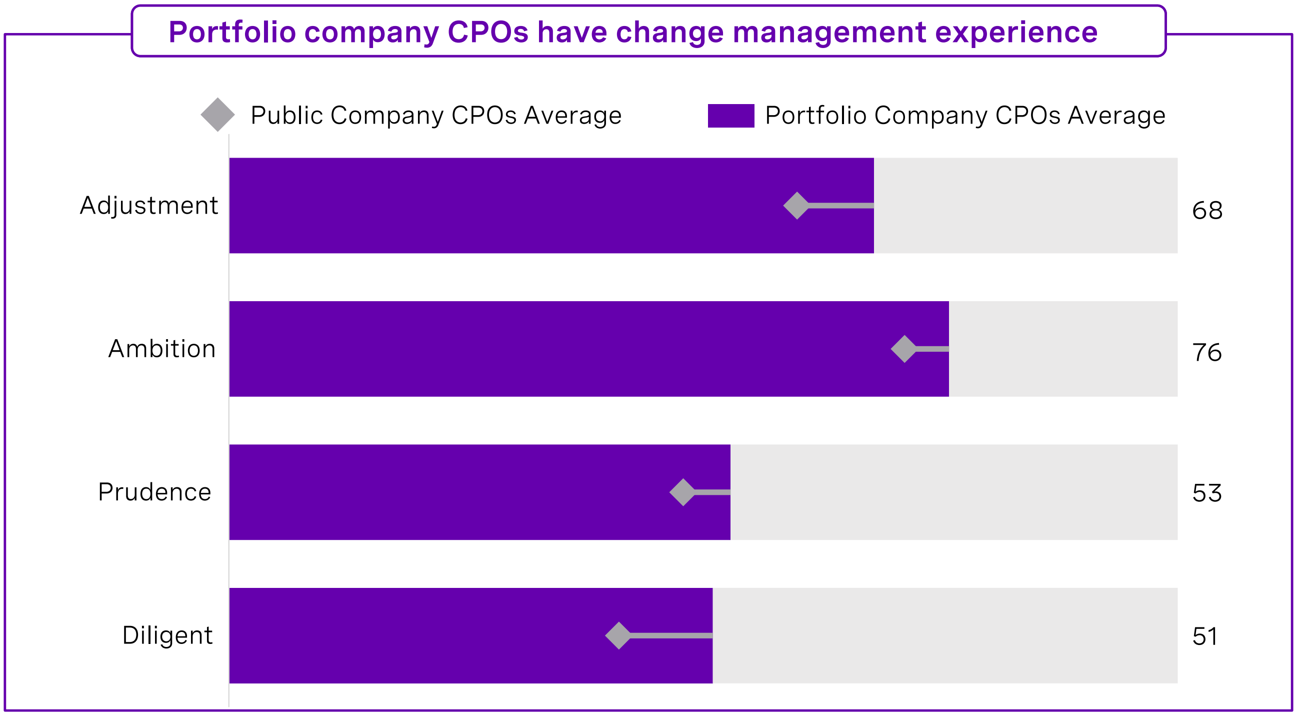
Portfolio company CPOs are seasoned people leaders with change management experience



Source: Russell Reynolds Associates analysis of portfolio company CPOs (N=104) and Fortune 500 CPOs (N=457)

Our Leadership Span™ data also supports these insights. We found that portfolio company CPOs are truly 'Change Agents,' in that they are goal-driven, competitive, and adaptable. They also are able to act tactically at the ground level and build solid execution plans with precision and detail. They have:

- Higher *Ambition* (measures competitive drive, perceived energy & goal-orientation) and *Adjustment* scores (measures stress-tolerance, resilience, optimism & composure) compared to public company CPOs, illustrating their tenacity and perseverance as they go about supporting an organization through transformation
- Higher *Prudence* (measures detail-orientation, organizational skills & dependability) and *Diligence* scores (concerns being hardworking, detail-oriented, & high standards of performance) than public company CPOs, thereby allowing for greater focus on the details related to setting and executing strategy for their organization



Source: RRA Database: Portfolio company Chief People Officers: N=42; Public company Chief People Officers: N=247 (2022)

2. The ability to flex from strategy to execution

The ultimate goal for a PE fund is to increase the value of a portfolio company with a return on their investment via a lucrative transaction in the future. Getting there requires fundamental and iterative improvements along the way, including commercial productivity, cost reduction, talent upgrades and financial engineering. Consequently, effective people leaders have a 10,000-foot view of the organization with an eye on long-term goals and, at the same time, can deep dive into the details to solve problems as they arise minute by minute.

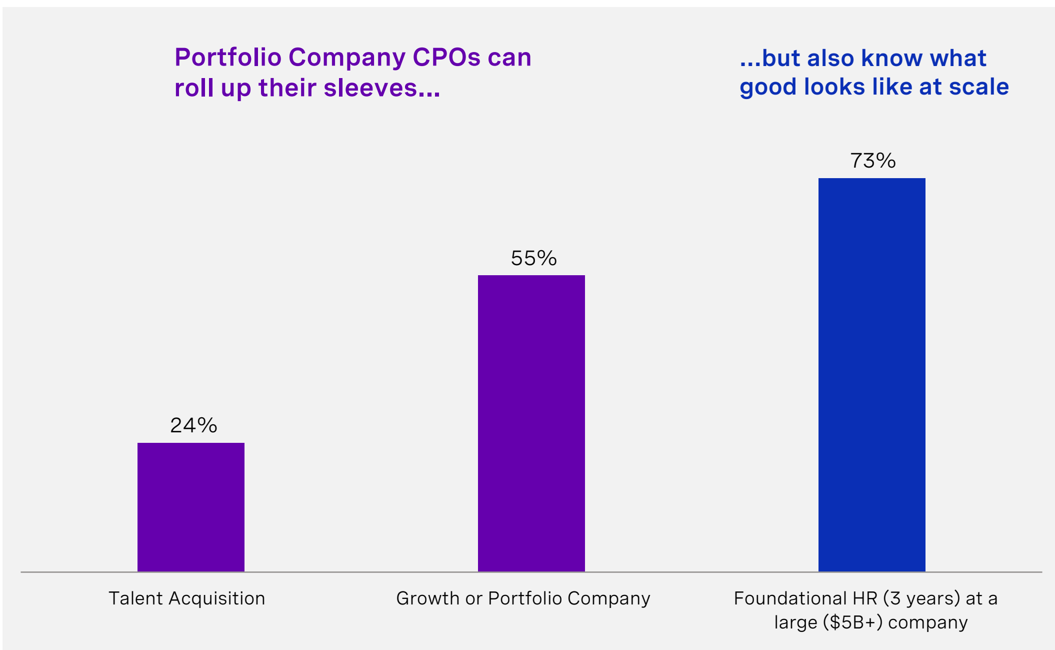
"The ability to pivot between thinking strategically, but also going away and getting it done, is important. Either one is not enough, it is the combination that resonates strongly." -Talent Partner, PE Fund

"They should have a low ego. While they should not get sucked into day-to-day chaos, they should also not think certain work is below them." -Talent Partner, PE Fund

"If you only have strategic bones, you will fail. You have to roll up your sleeves." –CPO, Portfolio Company

Our analysis of portfolio company CPOs' past experiences supports these findings. Our data shows that they are strong executors with a focus on measurable results, and are much more likely to have talent acquisition experience, compared to Fortune 500 CPOs. This is key for growth companies, which often do not have talent acquisition infrastructure in place to scale the business. In addition, over half of these CPOs have growth or portfolio company experience, pointing to success in a 'roll up your sleeves' environment. On the other hand, they also know what good looks like at scale, as 73% have foundational HR experience at large ($5B+) companies.

24% of portfolio company CPOs have talent acquisition experience, versus only 14% of Fortune 500 CPOs

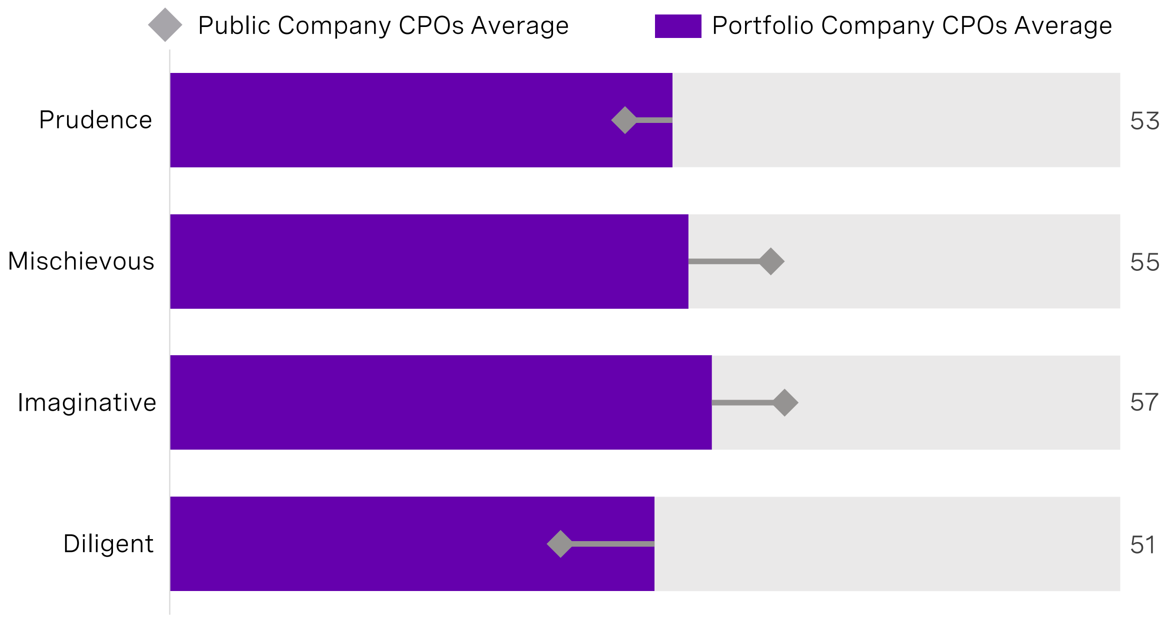


Source: Russell Reynolds Associates analysis of portfolio company CPOs (N=104) and Fortune 500 CPOs (N=457)

Our Leadership Span™ data also supports these insights. Our data shows that portfolio company CPOs are less disruptive in their thinking and take a more realistic approach to strategy creation and execution. They are dynamic and energetic leaders who work strategically and relentlessly towards the organization's goals, but do so in a more structured fashion. They have:

- Lower *Imaginative* (concerns seeming innovative, creative, possibly eccentric) and *Mischievous* (concerns seeming bright, adventurous, & risk-seeking) derailer scores than public company CPOs, indicating a more grounded frame of mind and the ability to take a more pragmatic approach to executing their strategies
- Higher *Prudence* (measures detail-orientation, organizational skills & dependability) and *Diligence* scores (concerns being hardworking, detail-oriented, & high standards of performance) than public company CPOs, thereby allowing for greater focus on the details related to setting strategy for their organization and demonstrating a zeal for getting the job done in a timely manner

Portfolio company CPOs have the ability to flex from strategy to execution



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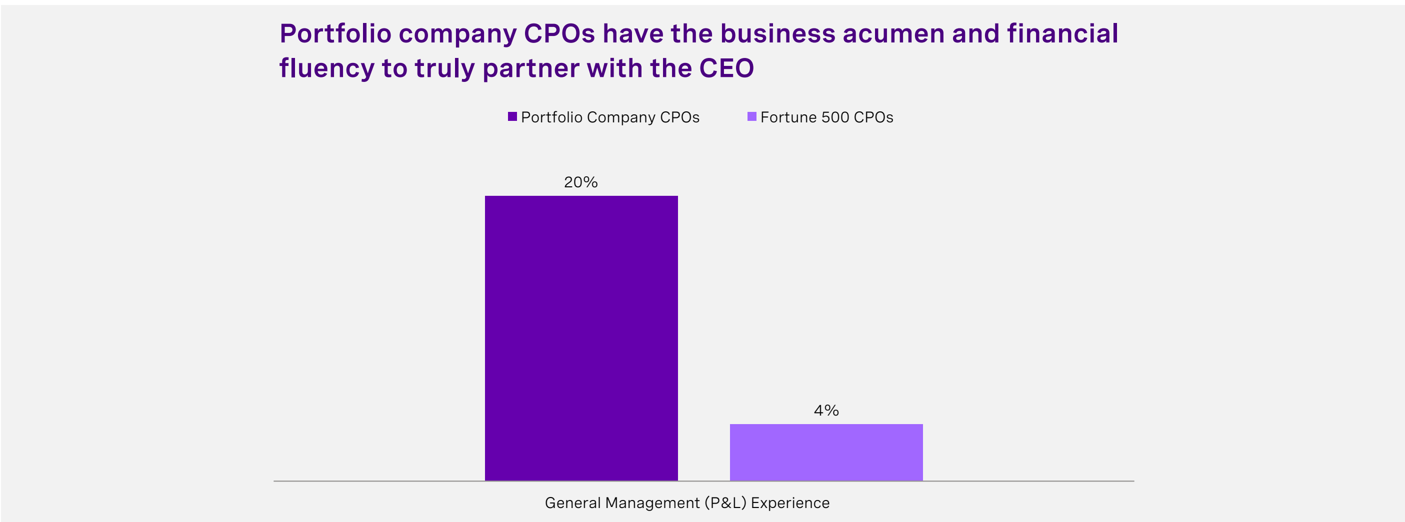
3. Exceptional Business Acumen and Financial Fluency

Impactful portfolio company CPOs are business leaders first, with expertise in identifying and leveraging appropriate human capital levers to drive company performance. They base their decisions on data and past experiences in both large/leading and smaller/growth organizations, and their financial grounding allows them to credibly partner with the CEO, CFO, leadership and operating partners on key business decisions.

"At PE firms, the first language is finance. It is valuable for HR leaders to have this skillset." –CEO, Portfolio Company

"It is a results-driven environment. My roadmap has to focus on core things that have direct financial impact, vs. those that are nice to have. I need to understand business drivers, and how people strategy enables them." –CPO, Portfolio Company

Our analysis of portfolio company CPOs' past experiences supports these findings. One in five have General Management (P&L) experience, so they can assess the financial health of the business in ways most HR leaders cannot. Additionally, one in four have MBAs, which points to their education in interpreting financial results to support business decisions.



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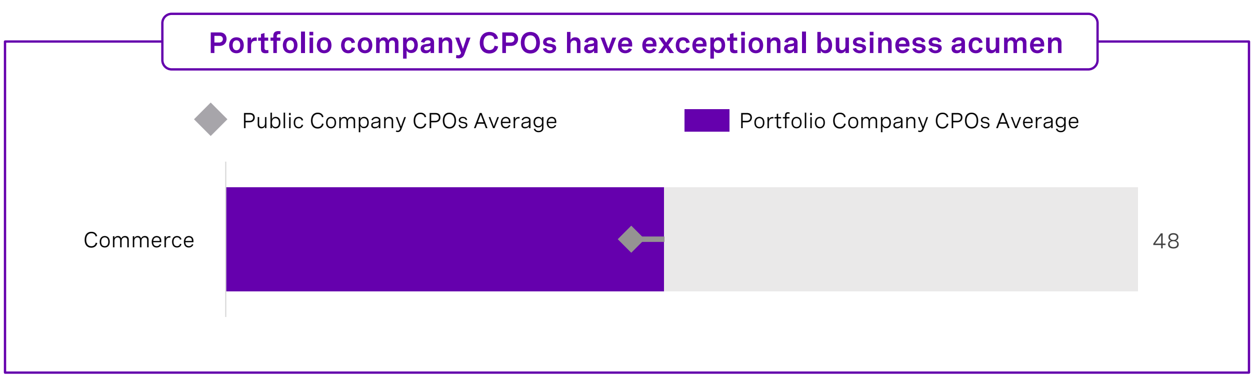
Our Leadership Span™ data also supports these insights. Our data shows that portfolio company CPOs are more wired to demonstrate business acumen, which translates into connecting the company's talent efforts to financial success. They have a higher *Commerce* score (reflects interest in earning money, investing & finding business opportunities) than public company CPOs, which indicates a stronger focus on how companies make money and a keen interest in the mechanics of achieving financial results.



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4. Data Centricity

Effective CPOs are data-driven and able to build sound business cases for investment in the people function. They are comfortable leveraging data from various sources to inform and influence business decisions and are astute at prioritizing investments that will have the greatest impact. Many have led data-centric strategic initiatives in their careers, or have developed such skills in management consulting roles or via P&L ownership.

"PE wants someone with rigor, a strong metrics focus, and data-orientation, who likely started in consulting." -Talent Partner, PE Firm

Such leaders also have more success communicating with stakeholders in a PE environment, as they lead with data and build credible business cases to support decision-making.

"Those who get to the point communicate better with PE sponsors. Some people do not have the speed, clarity of thought, and focus on value creation that is required to build credibility and trust in a PE environment." -Talent Partner, PE Firm

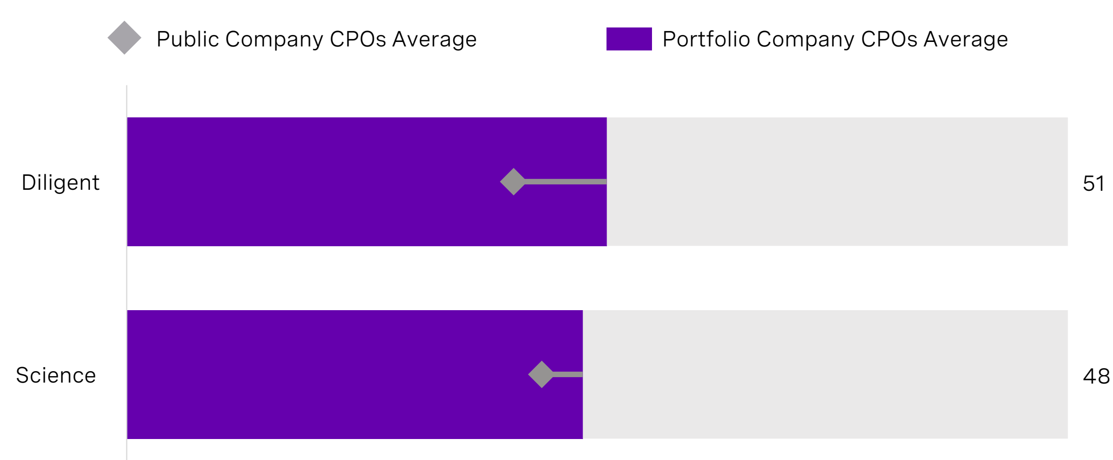
Our analysis of portfolio company CPOs' past experiences, along with Leadership Span™ data, supports these findings.

- 23% of portfolio company CPOs have management consulting experience, making them three times more likely to have this experience than Fortune 500 CPOs. Such CPOs are likely data-driven and strategic and, as a result, more credible with the board and PE investors
- Portfolio company CPOs have slightly higher *Science* scores (reflects interest in rationality, research, technology & innovation), suggesting they are more inclined to seek additional information to support their decisions
- Portfolio company CPOs have higher *Diligent* scores (concerns being hardworking, detail-oriented, and having high standards of performance) and thereby will be less likely to gloss over important pieces of data to make sound decisions

3x

Portfolio company CPOs are almost three times more likely to have management consulting experience compared to Fortune 500 CPOs

Portfolio company CPOs have data centricity



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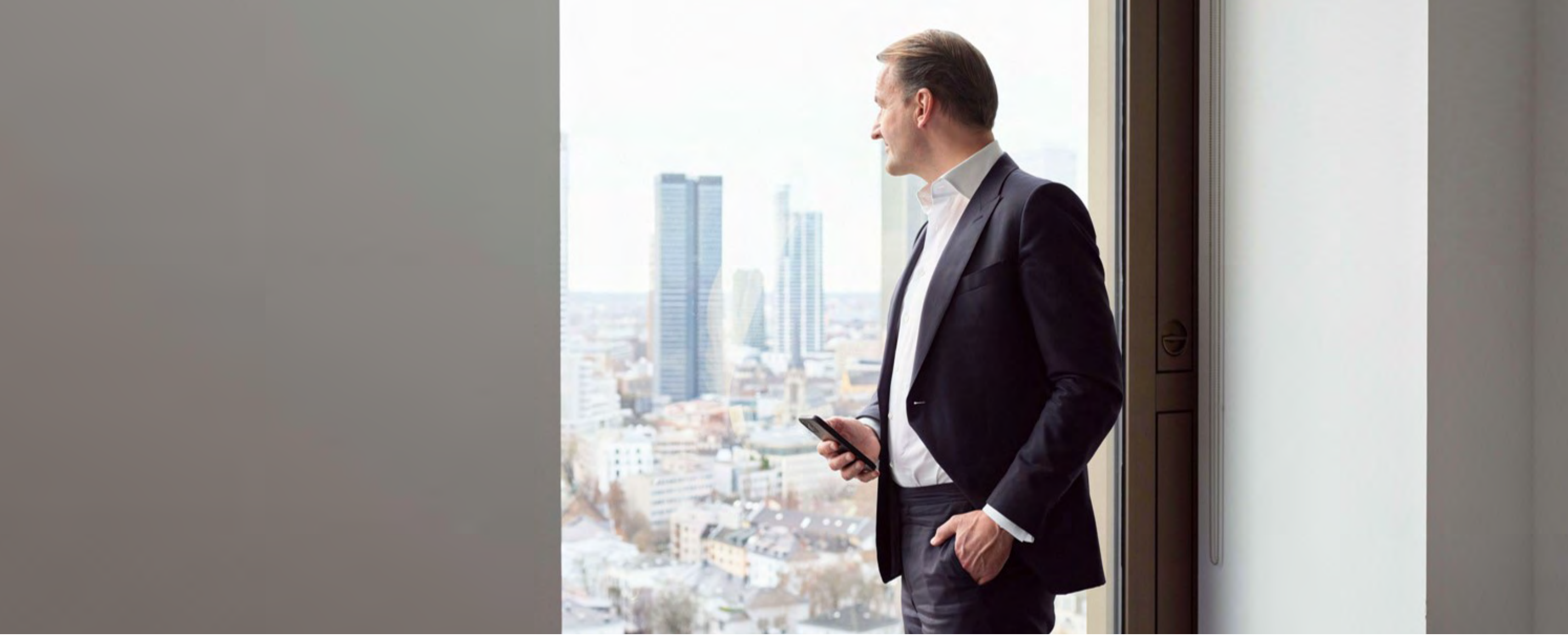


5. Intuition and Timely Judgment

As discussed above, data and impact measurement are essential components of successful leadership in a PE environment. However, portfolio companies are often immature in their systems, particularly in HR. Consequently, portfolio company CPOs are required to make important people decisions with little or imperfect information. The best ones recognize patterns, get to the root cause of issues, and make timely, pragmatic decisions that drive long term business value. People leaders who can navigate ambiguity well, lead with empathy, and thrive in this natural business tension, are able to rise to the top and earn the trust of their CEO and leadership teams.

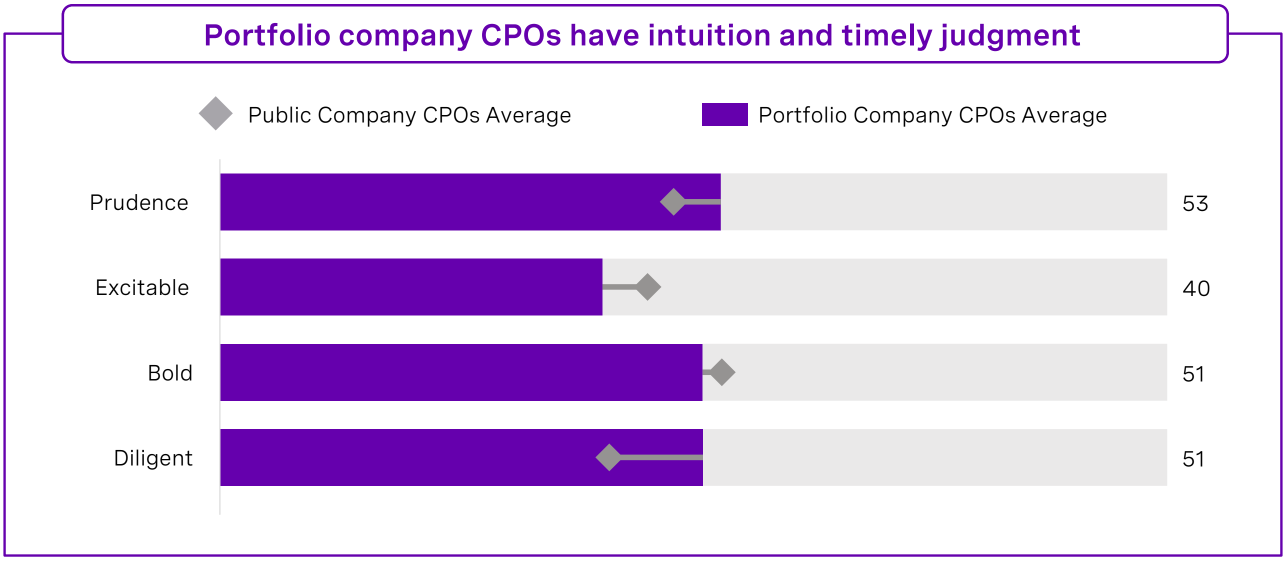
"HR leaders need to work in the grey, and make decisions even when they do not have all the information." -Talent Partner, PE Fund

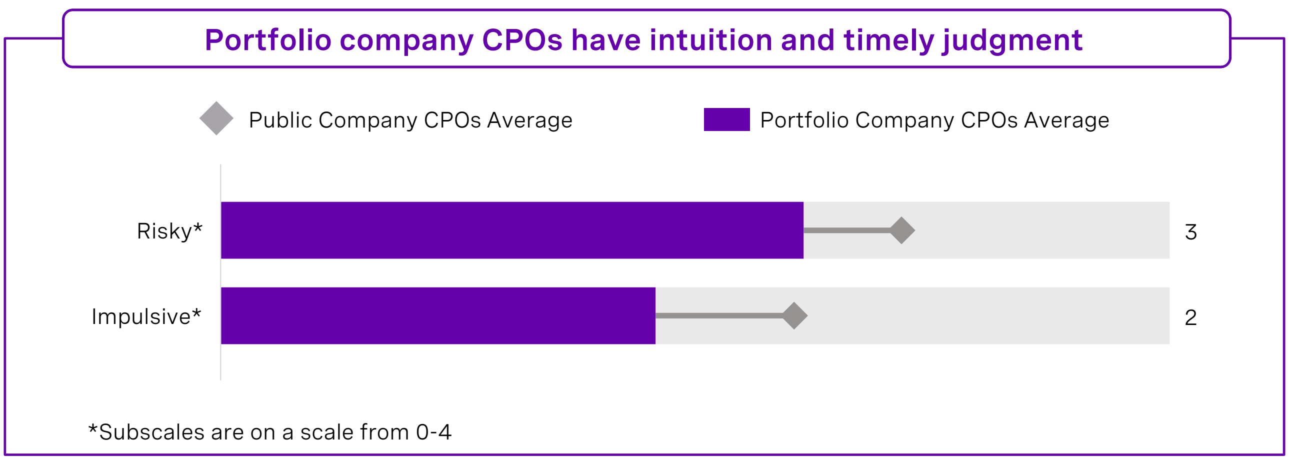
"They should have the ability to make intuitive and data-driven decisions." -Talent Partner, PE Fund

"The only mirror you have is your HR partner. If you are handling something incorrectly, or do not have the right pulse on the situation, they should tell you without fearing repercussion." –CEO, Portfolio Company

Our Leadership Span™ data supports these insights. We found that portfolio company CPOs are sound in judgment in that they are more prudent and diligent, less distractable, more inclusive in making decisions, and less impulsive. They have:

- Higher *Prudence* (measures detail-orientation, organizational skills & dependability) and *Diligence* (concerns being hardworking, detail-oriented, & high standards of performance) scores which enhances their ability to make sound, prudent decisions
- Lower *Excitable* (concerns working with passion & enthusiasm, versus getting frustrated or irritable) derailer scores also ensures that they are less distractable and can stay the course on seeing their decisions through
- Lower *Bold* (concerns seeming fearless, confident, and self-assured) derailer scores allow for greater consideration of other points of view which can lead to a more inclusive and thoughtful decision
- Lower *Impulsive* (tending to act impulsively without considering the long-term consequences of one's actions) and *Risky* (prone to taking risks and testing limits; deliberately bending or breaking inconvenient rules) subscale scores, preventing them from making rash decisions





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Best practices in finding and keeping your next portfolio company Chief People Officer

First, it's important have a point of view on what exceptional people leadership looks like in a portfolio company environment. Additionally, it's essential to have a toolkit for identifying these CPOs in the market, and ensuring their success in the organization post-appointment. There are a number of steps organizations can take to do this.

1. Assess the organization's maturity

Every organization reaches a point where a functional HR leader is not enough. When this happens, companies need a strategic CPO who functions as a true advisor to the CEO. Prior to embarking on a CPO search, an organization needs to assess if it is truly ready for this type of leader.

"Overall, companies are valuing the HR role more, but specific companies have to actually be ready for a true strategic people leader. We look at metrics like company size, international footprint, number of services, and upcoming M&A. Beyond this, it is more an art than a science." –Talent Partner, PE Fund

"Beyond $200M in revenue, we start talking about true HR leaders. This is less about the number of employees, and more about the complexity of the business and where they are in their lifecycle. " –Talent Partner, PE Fund

"If you bring in the right person, they will play back priorities and growth levers you did not think of, instead of being reactive to your needs." –Talent Partner, PE Fund

2. Get smart on what good people leadership looks like

The most common hurdle in finding the right CPO is the CEO's lack of awareness around what good people leadership looks like. If the CEO has not worked with a strategic HR leader in the past, their expectations will be low, which will ultimately limit what the CPO can deliver.

While PE operating and talent partners educate portfolio company CEOs on this topic, several discussed the need for credible search partners to reinforce this message. Ideally, search partners understand the PE sponsor, know the portfolio company's intended trajectory, and are imbedded in relevant talent markets, allowing them to identify the type of people leader who will be successful at a specific portfolio company.

"I like my CEOs to have very high expectations for their CPOs. If they do not, I insert myself in the search process to raise the bar for what they are looking for." -Talent Partner, PE Fund

"The CEO's job is to be clear on what good HR looks like. You get what you ask for. The search firm's job is to educate the CEO on this, and not all of them do this well." -CEO, Portfolio Company

"A lot of CEOs do not know what good HR looks like. We did not know either, and then our PE sponsor suggested we would benefit from a strategic CHRO. Now HR is a strength for us." -CEO, Portfolio Company

"The bigger question is, if the CEO does not understand what good HR looks like, do you have the right CEO?" -Talent Partner, PE Fund

3. Align on compensation early

Compensation for people leaders continues to increase, reflecting the value companies are now placing in HR. Organizations that are slow to grasp this are likely to lose out on top talent. Unsurprisingly, executives we spoke with advised on aligning on CPO compensation early, in order to gain access to the right talent.

Due to this increase in compensation, CPOs are savvier about asking for meaningful equity and long term incentives. Some talent partners suggested that compensation packages for well skilled CPOs are now on par with those of CFOs. In our experience, CPOs care more about equitable compensation across the executive leadership team than securing the highest compensation for themselves. Transparency around how a CPO's compensation package aligns with that of other portfolio company C-suite leaders can be a useful lever to hiring a top candidate.

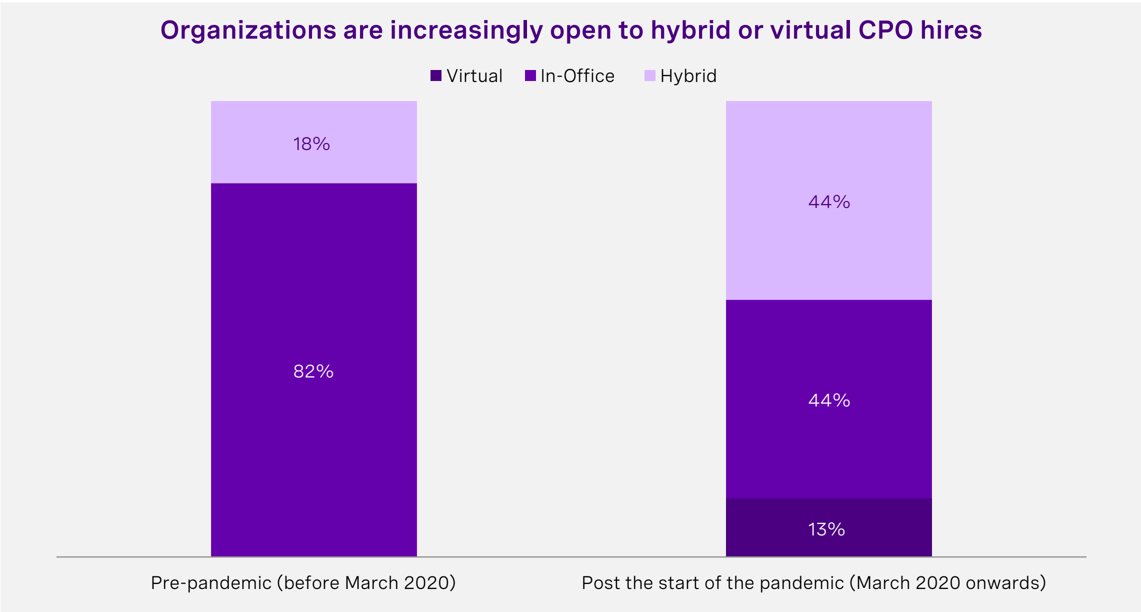
"CPOs are finally being paid commensurate with the value they provide to the organization. The past salaries have never matched the espoused value of "people are our greatest asset" and have always lagged behind CFO and CIO." -Advisor, PE Fund

"The rise in compensation points to the fact that organizations now understand the value of great HR. Compensation structures are also getting more creative." -Talent Partner, PE Fund

4. Set up an inclusive and equitable search process

The Covid-19 pandemic changed where and how work gets done. CPOs are being asked to relocate less often and, given the hot job market, they also have the luxury of turning down roles that require a move or have inflexible work environments. As such, companies looking to attract the broadest pool of talent should consider candidates in other locations, as well as flexible or remote-working candidates.

Our analysis of portfolio company CPOs' past experiences supports these findings. After March of 2020, CPOs became far less likely to relocate, and the role has also sharply shifted from in-office to flexible working, with a minority of CPOs adopting a fully virtual workstyle.



Source: Russell Reynolds Associates analysis of portfolio company CPOs (N=104) and Fortune 500 CPOs (N=457)

PE firms should also consider step-up candidates who are ready to be in a CPO role. Our data shows that step-up people leaders bring highly relevant skills to the table - they are more likely to have talent management, management consulting, and general management (P&L) experience, which point to their ability to thrive in fast-paced, results-driven environments that often do not have basic infrastructure in place. Step-up candidates also happen to be a more gender diverse talent pool - 66% of step-up CPOs in our dataset were women, vs. 55% of CPOs who moved laterally into the role.

5. Ensure your new chief people officer's success

"When the person joins, they should know who they need to talk to and develop deeper relationships with." -Talent Partner, PE Fund

Transitioning into executive level roles is challenging, stressful, and has a high rate of failure. A new leader is often managing a complex role while also trying to understand their new organization's culture and norms, and building their own internal support network for guidance and coaching as they go. Our data shows that 37% of portfolio company CPOs are in the top HR job for the first time, which can be especially challenging in a fast-paced PE environment.

In this competitive talent market, savvy companies know that running an efficient search process is key to attracting top talent. When that happens, new leaders often join organizations without having met the whole leadership team. In such cases, CPOs who go through an immersive onboarding period with exposure to key stakeholders tend to hit the ground running, as noted in our research on CPO transitions. This includes establishing an effective relationship with the CEO, gaining a better understanding of the C-suite's culture, setting expectations with internal and external stakeholders, and evaluating the performance standards of direct reports.

Looking ahead

As the New York Times reported in February, 2021, "Work will never be the same." This continues to ring true across the business, leadership, and human capital landscape today. Alongside this massive workforce shift, the role of people leaders in portfolio companies has also permanently changed.

CPOs with change management experience, the ability to flex between strategy and execution, exceptional business acumen, data centricity, and a natural intuition will thrive in the fast-paced world of private equity, and firms that understand how to identify and retain these people leaders will reap the benefits across their portfolio for years to come.

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About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

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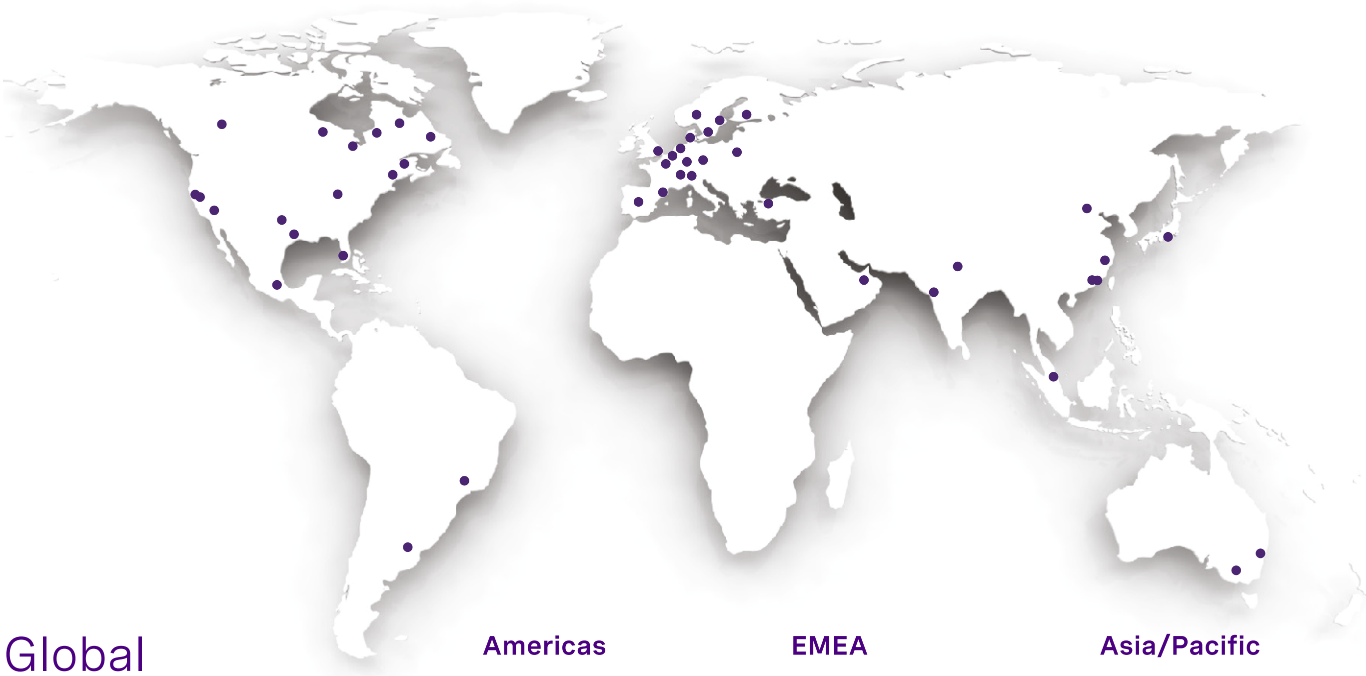

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