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HR operating partners: who needs them?

There's been a rapid increase in the appointment of "HR operating partners" in the past two years. Terra Firma, HgCapital, Nordic Capital and Montagu are just a few of the funds who have taken the step. What is the role, and why are funds taking interest in it right now?

The underlying driver is clear. In a full-priced deal environment, investment managers have long embraced operational excellence as the key to Ebitda and value growth. They are, however, now beginning to understand that sustained operational excellence is grounded in organisational excellence – that is, the collective ability of the portfolio company to respond to market and competitive shifts. Deal makers have realised that financial arbitrage is closely linked with behavioural arbitrage. The question of "How fast can we implement the value creation plan?" has morphed into "How fast can we change behavior?"

Also, from a fundraising perspective, HR operating partners are a factor. LPs understand the new reality and are increasingly pushing for concrete answers on who the GPs look to for sustainability topics including ESG and, with it, "organisation".

However, implementing an effective HR operating partner role is difficult. In particular, clarity of expectations is the challenge. As such, the role has been implemented in vastly different ways.

At one extreme, they are responsible for internal fund HR topics, including recruiting and compensation. They may also be engaged for specific portfolio company issues, but this is limited to executive assessment and recruiting. The operating partners for this "transaction engagement" model often come from an HR or executive recruiting background.

At the other extreme are HR operating partners who work exclusively with the portfolio company leadership both pre- and post-deal. They are engaged to assess organisational strengths and bottlenecks pre-deal, and assist executive leadership with broad talent management and culture issues afterwards. Operating partners for this "deep engagement" model generally have a senior executive leadership experience with some HR functional expertise.

There is no one right answer. The best approach depends on the type of deals being done, deal team competence in organisational topics and a fund's culture. What is clear is that there are wrong answers. If a senior person with deep line leadership experience is brought in to run a "transactional engagement" model, they will not last. On the other hand, bringing in a candidate with a pure HR or recruiting background, and expecting them to partner with the CEO on intimate leadership issues, is also a challenge.

HR operating partners are here to stay. As the PE industry matures and fund manager roles become more specialised, we expect to see more appointments. If well selected, HR operating partners contribute greatly to financial returns. They enable better pricing of organisational risks pre-deal and facilitate behavioural change thereafter. As always, the key to success is explicit clarity on expectations.

Advent International to enter the debt business

The firm is said to be building out a dedicated debt team.

Advent International is planning to launch a debt business, according to *Bloomberg*. The firm is reported to be forming a team, following which it will raise a fund.

Record amounts of dry powder, competition for buyout targets, and demand in the market for credit following the post-financial crisis banking retreat have led a number of large private equity firms to become lenders in recent years. EQT Partners moved into credit back in 2010, while BC Partners did so earlier this year.

At the same time, a significant number of new banks and credit-only firms have entered the market.

Advent closed its latest equity fund, a $13bn (€11.1bn) buyout vehicle, in spring 2016.

Advent declined to comment.

JC Flowers eyes NIBC Bank exit

The Dutch lender, backed by JC Flowers since 2005, is assessing an IPO.

JC Flowers, the financial services specialist buyout firm, has set the wheels in motion for an exit of Dutch lender NIBC Bank.

Amid its Q2 results released in August, NIBC chief executive Paulus de Wilt stated that the company has started "a review of our strategic alternatives, which may include a potential initial public offering".

JC Flowers led a consortium of investors to acquire NIBC in 2005. It looked set to seal a swift exit two years later after agreeing a €3bn sale to Icelandic bank Kaupthing. However, Kaupthing pulled out of the deal at the onset of the crisis and subsequently collapsed.

NIBC operates primarily in The Netherlands, Germany and the UK. Last year it reported net profit of €102m and a return on equity of 5.4 per cent.

In its latest results the bank reported €87m of profit for H12017, nearly double the same period for 2016. It will pay a dividend of €30m.