



PRIVATE EQUITY VALUE CREATION: PORTFOLIO COMPANY PERFORMANCE ENHANCEMENT STRATEGIES

PRIVATE EQUITY OPERATING PARTNERS: FROM COST-CUTTERS TO VALUE CREATORS

Private equity's path to value creation has undergone a fundamental shift over the past decade. While financial engineering once dominated returns, contributing 51% of value creation in the 1980s, operational improvements now drive nearly half of all private equity results. This transformation reflects not merely changing strategies, but a complete reimagining of how private equity firms build and deploy their expertise across portfolio companies.

The data tells a compelling story about this evolution. Today, 78% of private equity firms employ operating partners, a dramatic increase from just 25% in 2010. These specialists have become central to the PE model—the average firm now maintains a team of 4.2 operating partners, nearly triple the number from 2015. Most significantly, firms with well-integrated operating partner programs generate 2.3x higher returns than those without such programs.

Despite the clear value proposition, implementation challenges remain. A striking 57% of PE firms struggle to quantify the specific impact of their operating partner programs on investment returns. The challenge lies not in recognizing the need for operational expertise but in effectively deploying it across four critical value drivers: CEO guidance, technology transformation, sales effectiveness, and financial management. These four areas represent the core domains where investors, working with domain or functional specialists, can add substantial value to their portfolio companies, as our experiences demonstrate in the following sections.

CEO GUIDANCE: ARCHITECTING SUCCESS THROUGH LEADERSHIP

The relationship between PE investors and portfolio company leadership is fundamental to success. In most instances, PE investors hire new CEOs to manage their portfolio companies, though in some cases—particularly with founder-led businesses—current CEOs continue to operate the company. These continuing CEOs often face unique challenges adapting to new governance models. Data underscores this leadership dependency: 71% of private equity-backed companies hired new CEOs under PE ownership, with companies led by external CEOs showing a median return of 2.5 times on equity investment.

Operating partners must strike a delicate balance in this leadership equation. While ensuring proper governance and oversight, excessive control can stifle the innovation and agility essential for value creation. This tension becomes

particularly acute as portfolio companies pursue complex transformation initiatives. Founder CEOs must adapt to formalized governance reporting processes while balancing short-term KPIs against long-term value drivers.

OPCO partners have successfully navigated this tension by serving as independent Board Directors/Advisors, simultaneously fulfilling governance roles while adding deep operational value. This success stems from building genuine trust and credibility with both the CEO and the broader team. Rather than leveraging our governance authority, we deliberately downplay our Board function and emphasize value-adding activities between Board meetings. Instead of the common playbook of "challenging" management with generic advice, we engage through regular interaction—rolling up our sleeves alongside the team whether as strategic sounding boards, working through people issues, opening doors for business development, or simply being a trusted confidant.

The CEO position is inherently isolating; leaders must project confidence to both investors and employees regardless of underlying stress, and no single playbook defines their journey. OPCO's approach centers on partnership: applying our skills to each CEO's unique situation and bridging the gap between board-level strategy and execution. Our track record of successful outcomes confirms that combining structured approaches with a partnership mindset creates a winning formula across diverse CEO personalities—from charismatic visionaries to technologists to commercially-minded leaders.

A recent example illustrates this approach: following an investment in a data services provider, NEXT Investors leveraged their relationship with OPCO to advise the company's board. OPCO partner Rishi Nangalia proved ideally suited to advise the management team. As Talal Khan, Managing Director at NEXT Investors, noted, "The ability to efficiently leverage market data enterprise-wide is clearly becoming more and more critical each day, and we believed Rishi, with his background, was incredibly well-positioned to help firms across the capital markets modernize their infrastructure to meet these challenges." This partnership culminated in a successful exit in 2022 when a large exchange group acquired the company.

TECHNOLOGY TRANSFORMATION: THE DIGITAL IMPERATIVE

Technology has become critical to company strategy, continuously evolving with enterprise data lifecycle management now serving as the foundation for implementing AI strategies, analytics tools, and workflow automation solutions. While internal technology teams possess the skills to evaluate vendor solutions, an operating advisor who bridges commercial and technology functions can provide invaluable translation, driving pragmatic solutions to complex technology challenges.

BUY VERSUS BUILD: The tension between standardization and customization reaches its peak in technology transformation initiatives. PE-backed companies typically increase IT budgets by 14% post-acquisition, yet these investments often underdeliver due to fragmented implementation and unclear value frameworks. We addressed this challenge with a large financial institution seeking to re-platform its workflow solutions by developing a strategic decision-making framework for buy, build, or partner decisions. This comprehensive framework incorporated multiple dimensions (commercial needs, criticality, risk, IP, etc.), bringing much-needed clarity and consensus to decision-makers.

TECHNOLOGY AND ORGANIZATIONAL MODEL ALIGNMENT: Many enterprises struggle with technology transformations because they fail to align their organizational and operating models with technological changes. In one instance, we evaluated an enterprise technology project aimed at achieving faster throughput and improved engagement

between commercial and technology groups. Despite sponsorship from both departments, our assessment revealed not only weak data management and technology strategies but, more fundamentally, a lack of organizational alignment necessary to effectively implement a new technology plan.

Another valuable approach for PE firms involves establishing systematic processes for engaging emerging technology providers as a portfolio-wide service. Many portfolio companies lack well-defined methodologies for identifying, engaging, and partnering with emerging technology providers who could help differentiate offerings, enable growth, or drive operational efficiencies. A centralized process at the PE level could provide significant value to portfolio companies. We regularly serve as sounding boards for corporate development units of financial services firms and institutional cohorts (asset managers, wealth managers, brokerage firms) seeking engagement with emerging technology providers.

SALES EFFECTIVENESS: BUILDING SCALABLE REVENUE ENGINES

Successful operating partners approach sales challenges through a balanced combination of process standardization, technology enablement, and product/market fit optimization, all supported by a client-focused sales culture.

RETHINKING VALUE PROPOSITION AND POSITIONING: In one illustrative case, while leading a broker-dealer in a senior capacity, we needed to fundamentally rethink our product/market fit and client value proposition despite having an established client base. Our broker-dealer, a subsidiary of a large software firm, found that clients valued our agency brokerage model and analytics but preferred developing algorithmic strategies independently. We reimaged our value proposition by leveraging our analytics to optimize client algo strategies (both proprietary and third-party) and aligned our pricing model accordingly. Additionally, we repositioned our sales strategy to partner with other agency brokers—effectively turning competitors into collaborators and promoting our analytics capabilities. This strategic pivot created a new revenue model, delivered cost efficiencies, and reduced overall business risk.

DRIVING SALES CULTURE CHANGE: Another example involved a trading technology provider enabling options trading for institutional clients. Despite being a growth business, it maintained an 'entrenched' sales culture focused on maintaining existing clients with little incentive for expansion. This founder-led, profitable business showed a limited appetite for changing team dynamics. Compensation structures were subjective and failed to direct top salespeople toward new business acquisitions. Tasked with driving growth, we comprehensively revised the sales process, beginning with culture transformation. The resistance stemmed from fears about existing client reactions to changes and reluctance to cross-sell new offerings. To overcome this inertia, we engineered a compensation model balancing 'maintenance' versus new revenues, with premium incentives for market-adjusted growth. Simultaneously, we drove cultural change by introducing new talent to model desired behaviors while repurposing existing talent to service the legacy business.

FINANCIAL MANAGEMENT: BEYOND TRADITIONAL CONTROLS

Portfolio companies require efficient financial functions with appropriately scaled teams and technology to deliver accurate, timely information to management and investors. Proactive planning, modeling, and prudent cash management are essential to avoid liquidity shortfalls. The entire customer financial cycle—from contract to cash—must be analyzed

and optimized to improve speed and predictability. Professional management of auditors and accounting practices ensures desired financial reporting quality.

CASH AND TREASURY MANAGEMENT: We help companies understand their cash runway, allocate resources effectively, and structure their capital base optimally. For an EMS provider, we aligned their operating plan to extend their cash runway and direct capital toward the highest near-term revenue opportunities while balancing longer-term goals like onboarding automation and systems enhancement. Our collaborative approach extended their cash runway from 14 to 20 months while securing a bank credit facility that provided an additional 6-month buffer if needed.

EFFECTIVE GOVERNANCE REPORTING: Working with a quantitative trading services company struggling with governance reporting and KPI challenges, we developed standardized board materials (agenda, presentation, KPIs) designed to enhance governance efficiency and help management navigate complex requirements. By implementing a structured reporting framework supported by data and establishing an effective operating cadence, we significantly reduced meeting times while improving management/board communication, resulting in more productive working sessions.

MODERNIZING THE FINANCE FUNCTION: We have collaborated with clients to enhance KPI reporting and accelerate sales cycle cash conversions through data extraction and workflow automation technologies. In one instance, we analyzed historical sales pipeline data to identify key friction points in the customer journey and recommended targeted changes to sales agreements, CRM systems, and existing ERP infrastructure. These interventions reduced customer onboarding time and accelerated cash conversion by 20%.

THE FUTURE OF OPERATING PARTNER PROGRAMS: AN INTEGRATED FRAMEWORK WITH SPECIALIZED CAPABILITIES

In our view, the traditional operating partner model needs to evolve in three critical dimensions:

- An integrated value-creation framework to comprehensively assist portfolio companies
- A balance between specialist and generalist expertise to support this framework
- A bundled/shared services model to assist multiple portfolio companies with common support functions, driving efficiencies and allowing portfolio companies to focus on growth

The evolution of private equity operating partner programs reveals a fundamental truth: success depends not on excellence in any single area but on effectively integrating all four value drivers. This integration creates a powerful multiplier effect—when technology enables sales transformation, which informs financial management and guides leadership decisions, the impact far exceeds the sum of individual improvements.

The path forward requires a perspective shift. Rather than viewing technology transformation, sales effectiveness, financial management, and CEO guidance as separate challenges, firms must approach them as interconnected elements of a unified value creation system.

A significant limitation in traditional operating partner models is their failure to adapt to evolving value creation requirements. Today's portfolio companies need specialized expertise across technology modernization, data analytics, automated workflows, and regulatory compliance. The conventional model of pairing companies with generalist operating partners, while valuable for high-level guidance, cannot provide the depth and breadth of capabilities modern portfolio companies require.

In response, forward-thinking PE firms are moving beyond traditional operating partner approaches toward shared services and centers of excellence. The potential impact is substantial: centralized shared services typically reduce back-office costs by 25-40% while improving EBITDA margins by 15-20% through enhanced operational efficiency.

Without this evolution, portfolio companies continue maintaining redundant systems and processes, creating unnecessary complexity and cost. The absence of standardized platforms and workflows makes risk management and compliance more challenging and expensive. Most critically, the ability to rapidly implement operational improvements—essential within PE's compressed investment timelines—is hampered by repeatedly solving similar problems across the portfolio rather than leveraging shared expertise and proven solutions.

This article was co-authored by members of the OPCO Advisory Inc. team - [Nilesh Nanavati](#), [Rishi Nangalia](#), [Glenn Lesko](#), and [Bruce Cooperman](#).