

March Blog- Organizational Health

I have been tracking my PE Client's portfolios to try and better understand a key factor for their success across the last several years....To get straight to the answer- I believe **its Organizational Vitality**...essentially how leaders run the place- how they make decisions, allocate resources, operate day to day, lead their teams to delivering high performance and are willing to both make tough decisions and innovate.

McKinsey has quantified this concept too by creating an Organizational Index- which has consistently shown that healthy organizations deliver 3X the total shareholder returns, regardless of industry. They also point to greater resiliency and higher financial performance.

Underlying organizational health, are **three main elements** that are consistent across all my high performing clients; specifically how well does the firm:

1. Rally around the company vision
2. Execute on its strategy
3. Innovate and renew themselves over time.

McKinsey claims in their research that organizational health is the STRONGEST predictor of value creation and a critical factor in sustained competitive advantage.

Leadership is also key...unhealthy cultures (and I have seen a few) often focus on what had made them successful in the past rather than on what may be required going forward. It's not an exaggeration to say **leadership is undergoing a generational transition**. They must be decisive and empowering at the same time. They must shift from controllers to coaches. They must use data to fuel innovation and listen to ideas from frontline employees who are closest to their customers. Lastly they need to fuel talent and deploy it wisely- which drives employee attraction and retention...How?

1. Sharpens employee skills and development
2. Provides avenues for growth and upskilling
3. Translates vision and strategy into actionable and measurable objectives
4. Removes layers of bureaucracy, makes it easy for employees to get things done!
5. Drives ownership internally
6. Analyze the competitive environment- to set priorities, make decisions and allocate resources

2024 Headlines in the world of Talent- Learnings from RxCel Partners' clients

-DEI and ESG are not dead, just less visible...Its still on the mind of every BOD member
-Superstars are still hard to find; as resignations have slowed-layoffs have grown; Orientations have become increasingly critical to help make business's personal and retain and grow fit for purpose teams

-Company's are focusing on both intrinsic and extrinsic rewards..read into this Mentorship, Development and career support

-The most successful companies amongst our clients are asking employees to come back to work-inorder to get to know the "boss better" in both formal and informal ways

-The focus has moved from the CEO to the CEO's team. These leaders need to swim in many lanes- multi-specialists who can anticipate and pivot as market conditions change to ensure their company's strategy is on track for success. I usually ask CEO's -who do you want in the foxhole with you? If it is not all of your current direct reports- why not and which ones should be changed out?

-My most successful private companies- also upgrade their BOD on a regular basis...it's a shame to think that of the Top 500 publicly traded companies- 115 of them have not added a new director in the past 5 years. How can these stewards of public or private companies be well equipped to face the technology challenges (AI, Cyber etc) of 2024?

Lastly, there is a uniqueness to PE backed companies- that requires CEO skills often NOT FOUND in Public CEOs. Specifically, lack of total autonomy in strategy decision making, the way their Boards operate, where and how to compete being more tightly defined because of the time-bound nature of investments and lastly EBITDA being the Central Theme of everything.

The end result, amongst my PE clients, over 90% believe company leadership contributes over 50% toward investment returns.

Reach out if you need help working through the changing requirements of leadership... I have attached our Capabilities PPT in both Executive Search and Human Capital Advisory Services....

All the best, Jim

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