



## After the Buyout: HR's Rising Equity

The private equity boom may have peaked, but one of its legacies is that investors recognize the value of human resources execs who know their financials and can help overhaul the workforce, revamp compensation and act as a mediator between unions and the company's new owners.

**By Jessica Marquez**

Suzanne Perry has heard the horror stories about private equity buyouts. She has read the headlines about these firms swooping in and slashing workforces and listened as fellow HR executives talked of micromanaging investors running the company with an iron fist.

But in 2001, private equity deals were few and far between. So when Perry took the job that year as head of HR at CBS Personnel Holdings, a Cincinnati-based staffing company, just months after it was acquired by Westport, Connecticut-based private equity firm Compass Diversified Trust, she didn't know what was ahead. "I had never been in a situation where private equity had bought a company," says Perry, who has been in HR for 21 years. "I didn't really grasp the full context of what was going on."

Perry's ignorance turned out to be a blessing for her career. During the past seven years, she has worked closely with the CEO and private equity investors to revamp HR reporting, compensation practices and talent management to make sure the company's 850 employees emphasize the return on investment while maintaining CBS' corporate culture.

Private equity investors don't generally embrace HR the way Compass has with Perry, observers say. However, with the current market volatility, many such investors are realizing that HR executives can be key in honing the skills of the workforce and helping them to make a profit more quickly. "The guys driving these deals are numbers guys and they tend to be dismissive of HR, viewing it as softer and not as serious," says Ron Bloom, a former investment banker who is now the special assistant to the president of the United Steelworkers.

But that's changing, particularly as recent high-profile deals—like Cerberus Capital Management's acquisition of Chrysler Group, which was finalized in August—draw public scrutiny. The recent chaos in the subprime mortgage sector has only increased pressure on buyers to get a quick return on their investment. "Private equity firms are just now starting to say it's not enough to manage money and sniff out a good deal," says Gary Rich, president of Rich Leadership, a Pound Ridge, New York-based executive development consultant. "They are looking at how effectively they are managing their workforces."

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Even as some private equity firms slow the torrid pace of acquisitions because of the stock market's recent swings, experts say these deals aren't going to go away.\_

"There are a lot of factors, like Sarbanes-Oxley and other regulations, that are driving companies toward private equity," says Paul Platten, vice president and global practice director of the human capital group at Watson Wyatt Worldwide. "And there is still a lot of money around to be spent."

The trend could prove to be a huge opportunity for HR executives who understand financials and focus on business results, experts say. But it's not for the faint of heart, according to Mark Nadler, a partner at Oliver Wyman, a global development company and a subsidiary of Marsh & McLennan. "The new owners will turn to HR and ask for them to help figure out where they can trim the fat within the organization," he says. "HR can help them think through this, but also they can help investors map out a strategy beyond the budget cuts to more organizational design issues."

HR managers who view themselves as primarily employee advocates and little else don't have a place in this new corporate structure, says Jo-Anne Kruse, executive vice president of human resources at Travelport, a Parsippany, New Jersey-based travel services company that was bought by private equity investor Blackstone in August 2006. Over the past year, Travelport has laid off 841 people, or 10 percent of its workforce. The company has hired 1,600 employees during the same period. "The days of the blind employee advocate are long gone," Kruse says. "We are here to manage cost and productivity of labor."

**Balancing act** Striking a balance between being an employee advocate and working with new owners can prove challenging during a private equity buyout, Perry says.

When she started as head of HR at CBS, Perry entered an organization that was still adjusting to no longer having an owner down the hall who knew most employees by name. Not surprisingly, workers turned to Perry with concerns about their jobs.

For the first several weeks she was there, Perry didn't know what to tell them. "I didn't have the answers at the time since I was still learning," she says. "So in those first few one-on-one meetings with managers, I did a lot of listening and taking notes."

A couple months into her new job, Perry met with the Compass investors and got a sense of their vision. While there were no plans for layoffs, Perry didn't want employees to have a false sense of security. "The typical private equity firm holds an investment for three to five years and then sells it," she says. "So at the end of the day, you don't know what's going to happen. I told employees the best thing we could do was position the company and themselves as strong players in the market."

Being honest with employees while trying to alleviate their fears is one of the hardest parts of managing a workforce during a buyout, Kruse says. "It's always a balancing act because you want to be upfront about the future without creating a lot of anxiety," she says.

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Management at Travelport knew early on that layoffs, particularly in the technology group, were likely. Kruse decided to address that head-on. "If employees didn't bring it up to me, I would bring it up to them," she says.

By being proactive and focusing on the opportunities the buyout presented for Travelport, Kruse and the other managers tried to stem employee anxiety. "This was the opportunity for us to be our own company," she says.

Kruse and her team prepared scripts to help managers answer employee questions. Travelport CEO Jeff Clarke addressed the potential for layoffs in his blog to employees, and executives held town hall meetings at larger corporate sites as well as small-group meetings to field questions about the buyout.

Regardless of how much effort Kruse and her team put into the communications campaign, it was impossible to reach everyone, she says. "We are in 145 countries, so it's not like you can sit down in an auditorium with everyone," she says.

After months of planning and executing the communications campaign, Kruse was disappointed to see a July 27 front-page article in The Wall Street Journal quoting six Travelport workers discussing their surprise about being laid off. "I immediately called the people I knew at the site to find out if that's how more employees felt," she says.

It turned out that two of the six employees were temporary contract workers whose contracts were already up. Most employees felt that the situation was handled fairly, Kruse says. "That was a huge relief for me personally," she says. But the media coverage serves as a warning to all HR managers of one more issue they need to prepare for when a buyout occurs, experts say.

Employee morale issues can draw outside attention, particularly when there is a union involved.

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In recent months, unions have increased their public criticism of private equity buyouts and the implications for workers. In May, the Service Employees International Union, which has 1.8 million members, launched a Web site and published a paper called "Behind the Buyouts" that discusses examples of private equity buyouts where workers lost benefits, jobs or both.

HR executives with labor relations experience can help act as a mediator between labor and investors, experts say. "If HR has a good relationship with the union, that is incredibly valuable to the new owners," says William J. Morin, chairman and CEO of WJM Associates, a New York organizational consulting firm.

Yucaipa Cos., Los Angeles billionaire Ron Burkle's private equity firm, often works with unions to transform the companies it buys, and finds that HR is integral to that process, says Steve Sleight, a principal at Yucaipa. "We get a call a week from unions asking us to look into their companies," says Sleight, who is also the former director of strategic resources at the International Association of Machinists. Yucaipa currently owns stakes in Wild Oats, Pathmark and SuperValu.

When Yucaipa invests in or acquires a company, it works closely with HR to align everyone's interests, Sleight says. "HR is critical in getting everyone marching in the same direction and focused on the value of job security," he says.

**Creating change** HR also helps private equity buyers understand where to find the organization's key talent. This is important both when the investors are doing their due diligence before they agree to buy the company and after the deal closes.

Kruse gave presentations about the workforce management aspects of Travelport's business for several potential buyers before Blackstone, she says. These presentations included discussion of the company's culture, retention challenges and turnover.

But as the number of buyers narrowed, the discussions focused on specific talent management challenges, she says. "There were more pointed discussions around the status of our talent and where there were retention issues," she says.

After a deal closes, investors often will turn to HR to help them understand where they can cut and whom they should retain, says Chris Hagler, national managing director of strategic services at Resources Global Professionals, an international professional services firm.

Hagler says she didn't play a key role in determining who needed to be laid off. "That's really the decision of the line managers," she says.

However, she made sure managers followed termination compliance procedures, and in some cases contacted other local employers to inquire about openings for displaced employees.

At Travelport, Kruse put together financial incentives to retain key employees, which is standard procedure during any transition period, experts say.

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It's up to HR executives to inform the new owners which employees and executives need to be kept if the transition is going to succeed, says Lawrence Costello, senior vice president of human resources at American Standard Cos., a Piscataway, New Jersey-based manufacturer, which recently announced it is selling its bath and kitchen business to Boston-based private equity firm Bain Capital Partners. "The new buyers will want continuity, and that means putting good retention plans in place," Costello says. "As HR, we need to help them understand what this means and how to do it."

Private equity investors also turn to HR to help create a new employee compensation program aimed at quickly boosting company profits, observers say. Since these companies are no longer publicly traded, they often do away with stock option programs and find something new, Watson Wyatt's Platten says. "Private equity firms tend to believe less in high base pay and more in bonuses based on performance," he says. Since private equity firms often are looking to sell the company for a profit within three to five years, investors tend to favor incentive plans with short-term measures of generating cash, he says.

At CBS, Perry helped implement a performance-based compensation program throughout the company. Previously, employee compensation was determined on an individual basis, but Perry's new system provided a standard across the company for performance-based pay, she says. "In the past, it was much more individual-based since the owner knew everyone," she says. "Now there is more standardization, and compensation is better tied to people's job responsibilities and objectives."

Perry says an increased focus on return on investment requires her department to do more reporting. When Perry joined Compass, investors wanted more information about the company's health insurance plan. "They wanted details about the vendors we were

using, the brokerage fees and the plan designs as well as the details of how much employees were paying in health care at our company versus at other companies within the industry," she says.

Perry hired vendors to conduct compensation surveys and did a lot of networking to gather competitive data to provide the answers. "There is always a constant question of whether we are getting the return on investment on all the processes and software we use," she says.

Any HR executive entering a private equity situation should be prepared to speak in terms of return on investment, Kruse says. "The focus on ROI always comes up," she says.

As the markets continue their unpredictability, private equity firms will likely push harder than ever to quickly realize profit from their purchases.

And that means that more than ever before, HR executives entering these situations might have to take a hard-nosed approach to their jobs, Perry says.

It can be a challenging stance to take sometimes, but Perry's attitude has helped CBS reach many of its workforce management goals. Turnover today is slightly below the industry average of 45 percent, down from the low 60s when Perry joined the company, she says.

Seven years later, Compass has held on to CBS much longer than Perry and others anticipated, and shows no signs of selling it.

But if things should change and Compass does decide to sell the company, Perry says the workforce is ready. "My goal has always been to position ourselves so that we can be valuable to a new owner," she says. "As the HR manager, you have to be able to separate the personal and the business and look at the big picture."

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