

Lead Story: [Fundamental Shift Underway in Private Equity Talent Acquisition Strategies](#) 1

Ranking: [Hunt Scanlon Private Equity Power 75](#) 6

Spotlight: [The Importance of CEO Performance At Portfolio Companies](#) 7

Fundamental Shift Underway in Private Equity Talent Acquisition Strategies



The past decade has been widely viewed as a golden era for private equity. As global markets recovered from the shock of the last financial crisis, private equity firms did not simply sit back and reap the rewards of improving market conditions, according to a report by **Spencer Stuart**. In fact, quite the opposite. The same could be at hand for the current pandemic crisis.

The report notes that as private equity firms have learned from past crises, they have placed greater emphasis on being more hands on with portfolio companies. More often, that means evaluating talent and finding new ways to unleash higher levels of leadership to boost results and enrich returns. Many firms now deploy a much wider range of capabilities to drive value, for example building operating partner teams and adding more specialized functional expertise.

Revolutionary Changes Afoot

According to PE talent chiefs, there is in fact a fundamental shift underway in private equity HR. According to Jason O'Briant, managing director of human resources at **Blackstone**, private equity firms are continually improving the process of talent management, moving beyond traditional views of human resources to something more transformative – with a heavy emphasis on talent management & development, culture and engagement. This dynamic transformation in focus, and how it will help to improve everything from talent acquisition and recruitment to engagement and retention strategies, is now at the forefront of the entire sector. Blackstone, **KKR** and others are in the vanguard of revolutionary changes afoot.

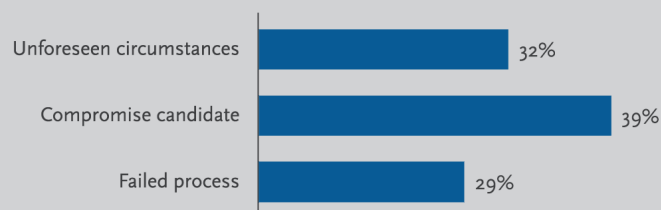
"A critical component of this approach has been to apply more rigorous assessment to the management team and especially the CEO," the Spencer Stuart report said. Private equity firms have been early, enthusiastic adopters and expert users of cutting-edge assessment methodologies in recent years, said the search firm.

"Many firms have institutionalized the assessment of management teams during the first 100 days following a deal, giving them deep insights into their new investment. This allows them to plan and shape the right support structure around the management team and apply the full range of the investor's new functional capabilities to position the team for success."

"Not only have we seen increased use of assessments by PE firms over the past several years, their use is increasingly sophisticated," said Scott Gregory, CEO of **Hogan Assessments**, a global provider of personality assessment and leadership development services. "Although a key focus remains on ensuring the right CEO is in place, there is a trend in using assessment to ensure the CEO and his or her team function well as a unit and increased interest in linking leader personality to financial metrics," he said. "We're also seeing assessment used earlier than in the past, even during the due diligence process, which enables deals to close with a clear plan in place for team support and succession."

PICKING CHIEF EXECUTIVES

Analysis of Why the First Unplanned CEO Change Failed



Source: SpencerStuart

Picking the Right CEO in the First Year

A challenge unique to private equity investors is ascertaining whether a CEO and management team can work openly and collaboratively with their new owners, according to the Spencer Stuart report. "Can they adapt to that private equity firm's particular approach and make full use of the support provided to them? Or will they maintain a distance to their owners and fail to maximize the value of the expertise available? If not, the incumbent CEO will underperform, regardless of their capabilities."

In a separate study, Spencer Stuart looked at the timing of, and reasons for, CEO changes in private equity portfolio companies. The report concluded that a great deal of value was being lost due to underperformance, with

(cont'd. to page 2)

WANT TO LEAVE YOUR FINGERPRINTS ON THE GLOBAL FIRM LEADING THE TRANSFORMATION OF THE EXECUTIVE SEARCH BUSINESS?



Come learn about:



ATHENA™



ACCOUNTABILITY • ACCURACY
TRANSPARENCY • VELOCITY



• Bogotá • Buenos Aires • Caracas • Cleveland • Dallas • Lima
• London • Los Angeles • Madrid • Mexico City • Miami • Moscow
• New Delhi • New York • Palm Beach • San Francisco • Santiago
• São Paulo • Singapore • Tel Aviv • Washington DC

kingsleygate.com

private equity investors forced into a large number of unplanned CEO changes. More than half of these occurred in the later years of the deal, i.e. from the third year onwards.

"Some research suggests that having the wrong CEO in situ after the first year is a major reason why deals underperform and typically leads to longer hold times and lower returns," Spencer Stuart said. "With all the new assessment capabilities and functional expertise at their disposal, private equity firms should be more successful than they have been at identifying the right CEO in the first year and supporting him or her to be a success."

BoardEx surveyed 15,000 portfolio companies and found that PE representatives on boards tend to be younger and are more likely to be male. In the surveyed universe, **10.4 percent** of all board members were women, while only **5.4 percent** of non-executive directors representing private equity firms on the boards were women.

Spencer Stuart has also witnessed a clear shift in private equity firms' ability to control the timing of CEO transitions, with only 35 percent of CEO changes unplanned at the time of the transaction. "It is equally encouraging that nearly half of all changes occurred within the first year, a growing trend since 2013," the firm said. "This is a strong indicator of rigorous assessment having a clear effect on the speed and quality of decision-making."

Course Correcting

One noticeable trend during the past decade according to Spencer Stuart has been the lengthening of average hold periods to around five years. "Private equity firms are now commonly facing the conundrum of CEOs completing four years in their role without seeing a successful exit," the firm said. "This has created a need for planned CEO successions in the later years of some deals (i.e. from the third year onwards)." Already, 12 percent of the CEO changes the search firm analyzed involved carefully planned succession processes from the third year onwards, despite this being a recent development. Spencer Stuart said it anticipates that as PE firms hold on to assets for longer periods, they will need to strengthen their succession planning later in the deal cycle and consider a more diverse pool of potential leaders.

Another trend that should give private equity investors pause for thought is that around 30 percent of all the CEOs hired were later replaced in unplanned changes; on this measure there has been no improvement since the search firm's original study.

This tendency for replacing the CEO more than once during the lifetime of a deal reflects PE firms' greater willingness to course correct. Although the second CEO change now tends to happen earlier, multiple changes of CEO can none-

(cont'd. to page 4)

Hunt Scanlon Media Presents

PRIVATE EQUITY RECRUITING

Driving Investment Returns Through Talent Management

NOVEMBER 10, 2020 | THE HARVARD CLUB | NEW YORK

PREMIER SPONSORS



BAIN & COMPANY

Join hundreds of PE leaders, chief talent officers and executive recruiters to learn how the private equity community is reimagining how they recruit, develop, manage, engage and retain 21st century talent.

LIVE STREAMING TICKETS ON SALE NOW!

Sponsors



BAIN & COMPANY



BoardEx.



JMSearch

WILTON & BAIN



Coulter:Partners



PierceGray



“Hunt Scanlon private equity conferences are a great opportunity to learn from other PE human capital experts in terms of what they are doing to support and advance the talent agendas at their firms and portfolio companies.”

Order Your Live Stream Pass TODAY!

theless be disruptive. Acting decisively to remove underperforming CEOs is important, but some question why it is so frequently required.

COVID-19 Effect

So, what's changed in 2020 in the current COVID-19 environment, and what can we expect as the year progresses? Executive search consultants who specialize in private equity recruiting have some thoughts.

"There are multiple transactions that have been cancelled or delayed due to the current economic environment," said John Marshall, co-founder and CEO of **JM Search**, a senior-level talent provider serving private equity investors, portfolio companies and Fortune 1000s. "This has enabled CEOs to reevaluate their current situation from a timing and economic standpoint," he said. "This uncertainty has encouraged them to be more open to new opportunities that have opened up in the industry."

"Collective management team assessment and performance are more important than ever," said Dan Hawkins, founder and CEO of **Summit Leadership Partners**. "Investors now realize it is not enough to assess and upgrade just individuals on the team. They must better understand the capacity of the team to solve complex business challenges, make rapid decisions, and effectively align the organization," he said. "Accelerating team performance for portco management is more powerful than simply focusing on the CEO alone."

Hardwired for Action

Heather Hammond, who co-leads the global banking and markets practice at **Russell Reynolds Associates**, said that the bar for portfolio company leadership is exceptionally high right now. "We build our assessments in several ways," she said. "One is by virtue of our own expertise and the way we compare their experience to that of their peers in the market. We look for patterns, such as continued sustained success in roles that they have had. We look for their success being tested in different environments. So, for example, if you take someone who has come out of a big conglomerate, have they had experiences along the way of perhaps testing that in a more entrepreneurial venture either after that experience or before that experience that you can look at their experience in different environments?" Also, you obviously speak to references. And you do psychometric assessments as well to understand how they are wired and what their DNA is all about."

Another consideration, especially with the specter of darker economic days on the horizon, is the question of just how well a leader handles tough times. "Obviously, we're at the end of an economic cycle," said Ms. Hammond. "Things can get more turbulent sooner rather than later depending on what's going in the macroeconomic sense or the political sense or what have you, and how does complexity and uncertainty test the quality of a portfolio company's leadership?" That's when the great leaders emerge, she noted. "They have to adapt and demonstrate decisiveness and judgement on what they're going to do."

A New Talent Blueprint

"Our clients seemed to go immediately in one of two directions when COVID-19 hit: self-preservation or oppor-

(cont'd. to page 5)



At ON Partners, we propel an organization's mission by building C-level and board leadership teams.

How? Founded in 2006 by like-minded partners as a values-driven alternative to the multi-service global firms they were leaving behind, ON focuses on delivering a better search experience.

better experience.
better results.
it's that simple.

onpartners.com



tunism,” said Andrew Thompson, founder and managing partner of **Notch Partners**. “If their portfolio companies were heavily impacted, they went into cost reduction and cash management mode. Suddenly, the important skill sets were more defensive than growth oriented.”

Now that the dust has settled from the initial pandemic shock, said Mr. Thompson, “most PE investors are declaring emphatically that they are open for business.” And, he noted, they are seeking to partner with CEOs who understand how to tactically manage through a crisis while maintaining the clarity of vision to see opportunities where others are just ducking for cover. “Expertise in hard-hit industries, such as travel, and growth industries, such as last-mile logistics, are at a premium,” he said.

“As one PE partner said in the middle of a search for a \$600 million company we were closing in March that we were in peacetime growth 30 days ago and now it’s wartime and hunker down,” said Keith Giarman, managing partner of the private equity practice at **DHR International**. “Specs for a lot of positions – CEO, COO, CFO and others – changed overnight depending on the upside growth and trajectory of the business,” due to the pandemic, he said. “If there is a way to reset appropriately, PE firms need to think carefully about the skill sets that will win the war right now.”

INSIGHT

Leading During a Crisis



While business leaders have years of experience managing and leading teams, the recent Odgers Berndtson Leadership Confidence Index revealed that 85 percent of senior leaders lack confidence in their leadership’s ability to manage disruption effectively.

One of the biggest barriers to managing disruption is a resistance to change, according to a report co-authored by Ali Palmer, partner and head of the consumer and telecoms practice at **Odgers Interim**, and Dominick Sutton, chief data officer of **BoardEx**.

Certain market segments are flourishing with the explosion in things like e-commerce and the transportation and logistics associated with keeping up with demand, Mr. Giarman said. “Companies that were rapidly digitizing are moving even faster now, from market-facing sales and customer acquisition all the way through the order to cash and fulfillment and customer service process,” he added.

Of course, private equity talent leaders themselves know first-hand how important human capital can be to driving strong returns. For them, aligning talent, capabilities and culture to a clearly defined value creation agenda are the best way to deliver the superior returns that are expected in a highly competitive market. For some, like Jim Hirshorn, partner - private equity and head of the portfolio management group at **Ares Management**, and his private equity team, institutionalizing a systematic approach to maximize value creation from portfolio companies begins and ends with connecting and integrating strategy with talent. The unique leadership demands of private equity are creating a new set of blueprints for every private equity leader, their talent acquisition teams and their executive recruiters.



LEADERSHIP FOUND A BETTER WAY

Finding the RIGHT talent is all in the approach.

In an industry saturated with experts who *search*, our approach to finding leadership is drastically different.

At ZRG, we prefer to **BUILD**. Careers. Companies and organizations. Long-term success stories.

Our experience, collaboration, and technology breed better outcomes while our platform enables us to access and measure REAL talent.

LOOKING FOR THE RIGHT SENIOR LEVEL TALENT?

Let us help find it so your organization can **STOP SEARCHING** and **START BUILDING**.

1.201.560.9900
ZRGpartners.com



Hunt Scanlon PE Recruiting Power 75

Acertitude

[Rick DeRose/Kevin O'Neil](#), Managing Partners, New York, NY

Amity Search Partners

[Susanna Nichols](#), Partner, New York, NY

Bay Street Advisors LLC

[Kevin Mahoney](#), Partner/Head of PE, New York, NY

Beecher Reagan

[Clark Beecher](#), Managing Partner, Houston, TX

Bellcast Partners*

[Alison Bellino Johnston](#), Managing Partner, New York, NY

Bespoke Partners*

[Kriste Nova](#), CEO, San Diego, CA

Boyden

[Anita Pouplard](#), Global Leader PE & VC Practice, Paris France

BrainWorks

[Andy Miller](#), President & CEO, New Providence, NJ

BridgeStreet Partners

[Dave Westberry/Matt Pierce](#), Managing Director, Dallas, TX

Caldwell

[Mercedes Chatfield-Taylor/Matt Comyns](#), Managing Partner, San Francisco, CA

CalibreOne

[Tom Barnes](#), Managing Partner, San Francisco, CA

Cameron Carmichael

[Rich Campbell](#), Managing Director, Charlotte, NC

Capitus Associates

[Burke St. John](#), Founding Partner, New York, NY

CarterBaldwin

[David Clapp](#), Managing Partner, Atlanta, GA

CBK Partners

[Julie Choi](#), Founder & CEO, New York, NY

Charles Aris

[Jim Etling](#), SVP PE & Accounting, Greensboro, NC

Clark Partnership

[Simon Clark](#), Founder & CEO, Montecarlo, Monaco

David Barrett Partners

[David Barrett](#), Managing Partner, New York, NY

DHR International

[Keith Giarman](#), Global Practice Leader, Chicago, IL

Diversified Search

[Dale Jones](#), President & CEO, Philadelphia, PA

DMC Partners

[David McCormack](#), Founder & CEO, New York, NY

Dynamic Search Partners*

[Keith Mann](#), Founder, New York, NY

Egon Zehnder

[Claude Shaw/Kenna Baudin](#), Global PE Lead/US PE Lead, New York, NY

Falcon*

[Rob Huxtable](#), Managing Partner, New York, NY

Frazer Jones

[Brad Law](#), Partner, New York, NY

GoBuySide

[Arjun Kapur](#), CEO, New York, NY

GQR Global Markets

[Hugo Sugden/Steven Talbot](#), Co-Founder, New York, NY

Hanold Associates

[Jason Hanold](#), Managing Partner, Evanston, IL

Heidrick & Struggles

[Todd R. Monti/Jonathan Goldstein](#), Global Managing Director PE, Chicago, IL

Henkel Search Partners*

[Eleni Henkel](#), Founder & CEO, New York, NY

Herbert Mines Associates

[Brenda Malloy](#), President, New York, NY

Hobbs & Towne

[Robert B. Hobbs](#), Managing Partner, San Francisco, CA

JM Search*

[John Marshall](#), CEO, King of Prussia, PA

JSB Partners*

[Joseph Barr](#), Managing Partner, New York, NY

Kensington International

[Rick George](#), Practice Lead, Oak Brook, IL

Kingsley Gate Partners

[Raj Kapoor/Alison Woodhead](#), Senior Partners, New York, NY / Los Angeles, CA

Korn Ferry

[Joseph Healey](#), Senior Client Partner PE Practice, New York, NY

The Lancer Group

[Scott Dunklee](#), Partner, La Jolla, CA

Lancor

[Scott Estill](#), Partner, New York, NY

LifeSci Search

[Matt Toner](#), Managing Director, New York, NY

McDermott + Bull

[Brandon Beigenzahn](#), President Executive Search Division, Irvine, CA

N2Growth

[Mike Myatt](#), Chairman, Philadelphia, PA

NGS Global

[David Nosal](#), Managing Partner, San Ramon, CA

Notch Partners, LLC *

[Andrew Thompson](#), Managing Partner, New York, NY

Odgers Berndtson

[Steve Potter](#), CEO, New York, NY

Odyssey Search Partners*

[Adam Kahn](#), Managing Partner, New York, NY

Omerta Group

[Michael Stover](#), Co-Head Americas, New York, NY

ONPartners

[Jeff Hocking](#), Partner, San Francisco, CA

Options Group

[Michael Karp](#), CEO & Co-Founder, New York, NY

Opus Advisors*

[Holly McCarthy](#), Managing Partner, New York, NY

The Oxbridge Group

[Nina Swift](#), President, New York, NY

PierceGray*

[David Allocco](#), Managing Director, Chicago, IL

Presidio Search Group, LLC

[Belinda Yan](#), Founder, San Francisco, CA

Ratio Advisors

[Vedica Jain Qalbani](#), Managing Partner, New York, NY

Reffett Associates

[Bill Reffett](#), Managing Partner, Seattle, WA

RM Nephew

[Robert Nephew](#), Managing Partner, Concord, MA

RSR Partners

[Brett Stephens](#), PE Practice Leader, New York, NY

Russell Reynolds Associates

[Jeffrey Warren](#), Managing Director, Los Angeles, CA / New York, NY

SearchOne Advisors*

[Michael Garmisa](#), Founder & CEO, New York, NY

SG Partners

[Sheri Gellman](#), Founder, New York, NY

Sheffield Haworth

[Chris Smailes](#), Managing Director, New York, NY

Signal Partners

[Kit Cooper](#), CEO, Santa Monica, CA

Slayton Search Partners

[John Nimesheim](#), Managing Partner, Chicago, IL

Solomon Page

[Scott Page/Lloyd Solomon](#), Managing Directors, New York, NY

Spencer Stuart

[Adam Kovach/Alexandra Ghashgaj](#), Co-Leaders PE Practice, New York, NY

Spire Search Partners*

[Dennis Grady](#), Director, Larchmont, NY

SPMB

[Kevin Barry](#), Managing Partner, San Francisco, CA

Stanton Chase

[Cathy Logue](#), Managing Director, Toronto, Canada

StevenDouglas

[Matt Shore](#), President, Sunrise, FL

The Tolan Group

[Tim Tolan](#), CEO & Managing Partner, St. Augustine, FL

TritonExec

[Ben Graham/Jonathan Morris](#), Partners, Atlanta, GA

True

[Joe Riggione](#), Partner, New York, NY

Vardis

[John Hoagland](#), Partner, New York, NY

Ventura Partners

[Bob Damon](#), Partner, Beverly Hills, CA

ZRG Partners

[Larry Hartmann](#), CEO, Rochelle Park, NJ

Note: *denotes the firm works primarily in the Private Equity sector

SPOTLIGHT

The Importance of CEO Performance at Portfolio Companies



Robert Hogan



Rob Kaiser

*Robert Hogan is the founder and president of **Hogan Assessment Systems**.*

He is an international authority on personality assessment, leadership, and organizational effectiveness.

His theory-based work in

*personality measurement has contributed to the development of Socioanalytic Theory, which maintains that the core of personality is based on evolutionary adaptations. Rob Kaiser is president of **Kaiser Leadership Solutions**. He is an advisor, author, and internationally recognized authority on leadership.*

The two sat down with Hunt Scanlon to discuss how PE firms can do a better job at reevaluating their leadership teams.

Successful private equity firms understand finance, but on average they tend to be less sophisticated about people issues. This makes sense: deal partners and analysts are trained in finance and are good at spotting undervalued assets. “But savvy private equity players also understand that reviving an underperforming business depends to a large degree on people issues – in particular, it depends on the leadership of the portfolio company and its working relationship with new ownership,” said Mr. Hogan.

Considerable evidence suggests that PE firms could do a better job evaluating the ability of the leadership team in their acquired companies. A survey by **Alix Partners** found that nearly three-quarters of portfolio company CEOs are removed during the investment life cycle. Over half are replaced in the first two years; but only 15 percent are replaced at the outset. These data suggest that, for four out of the five replaced CEOs, the decision takes too long, thereby delaying strategic milestones and prolonging the hold time.

“PE firms can more quickly realize returns on their investments if they analyze the leadership of the companies they acquire with the same rigor that they analyze the business fundamentals during the diligence phase,” said Mr. Kaiser. “The good news is that there is a science to analyzing people and the same discipline that is used to identify untapped business value can be used to evaluate the leadership potential of CEO candidates.”

Barking up the Wrong Tree

“In our experience working with PE firms, the conventional wisdom regarding what to look for in portfolio company CEOs can be misleading,” both agreed. “People assume that brains and experience are crucial. But it turns out that IQ and prior industry and CEO experience do not predict the ability to lead through a profitable exit. For instance, a recent survey of managing partners at 32 PE firms revealed that experience as a CEO in a publicly traded firm does not prepare people for success in the intense PE environment. The data also showed prior industry experience predicts the tendency to

run the same playbook rather than driving radical change typically required.”

The experience factors associated with successful leadership of a portfolio company include having worked in a PE environment and having previously performed a similar transformation. “This doesn’t necessarily mean having been a portfolio company CEO before; having held a big job in a PE environment is enough to appreciate the pace, the sense of urgency, and the need to be in close communication with ownership about everything from strategic direction to performance details,” said Mr. Hogan. “And a track record of having performed the same task successfully – whether that be cutting costs, growing revenues, managing debt, raising capital, going digital, expanding channels, or what have you – bodes well for doing it again and quickly.”

Soft Skills Make the Difference Beyond

“PE experience and task experience, the factors that best predict the ability of CEOs to lead to a successful exit are found more on the soft side than the hard side,” Mr. Kaiser said. “And this is where it can be challenging for financial experts: understanding people is different from understanding balance sheets. However, people differ in certain regular and quantifiable ways and research has shown which differences make a difference when leading a portfolio company.”

The first category the report points out contains the personal factors common to most successful PE CEOs. They include: The ability to build and lead a high-performing team, a tough-minded temperament with a sense of urgency, resilience, and the willingness to admit problems and face difficult realities without spinning or sugarcoating them.

“PE environments usually have limited resources, which points to the need for versatile chiefs with a broad range of expertise and skills,” said Mr. Hogan. “But versatility is a rare commodity. Less than 10 percent of senior leaders are able to consult with their staff in decision making while still being able to act acting decisively or pay attention to the big picture while also attending to the day-to-day details. Successful portfolio CEOs need to be able to recognize their limitations and staff accordingly; they also need humility in order to turn their staff loose. It’s a complex set of capabilities, which accounts for the staggering number of CEOs who are replaced.”

The second category of differences concerns the chemistry between the CEO and PE ownership. Mr. Kaiser says that the “big issue concerns compatibility: can the CEO and primary deal partner agree on performance expectations, communication cadence and content, and other, often unspoken, rules of engagement? This is about far more than liking each other; it more about mutual respect and trust. Establishing a short-hand vocabulary, sharing values, and minimizing surprises is very important in a fast-paced, pressure-cooker environment.”

(cont'd. to page 8)



ODGERS BERNDTSON

Attracting the best talent
and delivering world-
class executive search and
leadership advisory services

62 offices across **29** countries

300+ partners in **50+** sectors

50 years of experience

odgersberndtson.com

The Science of Personality

"Many people tend to think that personality tests are online questionnaires or magazine quizzes designed to tell them about their type, color, or the house at the Hogwarts School of Witchcraft and Wizardry into which they would best fit," Mr. Hogan says. "However, there is a science of personality assessment based on research going back over 100 years. It isn't rocket science, it's behavioral science—and it leads to solid, dependable results."

"The evidence is clear that personality assessment powerfully predicts real life behavior; hundreds of studies with hundreds of thousands of working adults show that competently constructed personality measures predict performance with surprising accuracy," Mr. Kaiser adds. "Properly validated personality measures predict job performance, career success, and leadership better than any known alternative, including IQ."

"The evidence is clear that personality assessment powerfully predicts real life behavior; hundreds of studies with hundreds of thousands of working adults show that competently constructed personality measures predict performance with surprising accuracy."

"Moreover, well-designed personality assessments can forecast an individual's ability to build a team, make tough calls, handle pressure, and be candid, flexible, and humble," he said. "Being able to penetrate the veil of self-presentation is important because sitting CEOs are likely to be on their best behavior during the courtship phase of an acquisition. There is a big difference between people at their best—what we call the bright side of personality—and people under sustained pressure when you see their dark side—the behavioral tendencies that derail teams and careers."

Managing Risk on the People Side

Assessing the personalities of CEOs and their leadership teams should be a routine part of doing diligence on a potential acquisition company. "On the one hand, evaluations of the leaders' work histories can indicate whether they understand the pressures of PE environments and if they know how to execute the sorts of changes needed to realize value," Mr. Hogan said. "This tells you whether people can do the job on paper. Similarly, personality assessment will provide a sense of what it would be like to work with them – how they will do the job once in office, what it will be like to have them in your life."

"It is interesting to note that most failures of leadership are less about a deficiency in what they know and more about how they prioritize time, focus attention, and interact with key people," said Mr. Kaiser. And the most important interaction of all is between the CEO and the primary deal partner; with so much at stake, it's best to understand how this relationship will work at the start, including how it could go wrong and how to manage it when things get tense."



Global Executive Recruiting

LifeSci Search is the global executive recruitment division of LifeSci Partners that operates exclusively in the biotechnology, pharmaceutical, and healthcare sectors.

Our team is passionate about partnering with clients. We spend time getting to know their science, business and culture.

OUR AREAS OF SPECIALIZATION IN

Venture Capital-backed Companies

Startups building out C-suite and direct reports to C-suite

Mid-sized biotech companies expanding their executive teams

Mid/large-sized biotech companies looking to restructure

C-suite Succession Planning

Diversity Pipelines of C-suite Talent

OUR NETWORK

CEOs, CFOs, CMOs, CBOs, and COOs

Board of Directors

Scientific Advisory Boards

Research, translational/pre-clinical, clinical development, and medical affairs

Commercial and Marketing

Regulatory Affairs and Manufacturing

Learn more at
www.lifescisearch.com

Impact on Talent: Private Equity's Upcoming Shift

How quickly things have changed. Just four months ago, Rob Tillman, president of **TillmanPartners** and managing partner at **DHR International**, noted that private equity investors were poised to win during the next downturn, but no one predicted the sudden shock to the economy related to the coronavirus crisis.

"At the end of 2019, it was widely believed we were entering the final stages of the longest recovery in U.S. history," Mr. Tillman said. "It appeared the bull market and economic strength would lead to a strong year in 2020, but a potential slowdown was widely predicted for 2021. This scenario would maintain a healthy environment for exits and create more attractive buying opportunities."

Adjustment Period

Fast forward to today; the situation is vastly different. Nevertheless, the most well-established firms with significant dry powder are likely to win big. Mr. Tillman pointed to a recent conversation he had with the leader of one of these firms. The partner said, "sponsor to sponsor exits will evaporate and GPs won't be in a rush to reset valuations on their investments."

As a result, holding periods will be stretched out, and private equity investors will likely invest in carve-outs and PIPES as public companies reset their businesses.

"While exit and investment activity will gradually return as earnings and valuations stabilize, this period of adjustment is going to take some time," said Mr. Tillman. "As a result, investors will sharpen their focus on their current investments, and portfolio company leadership teams will be tested. Given the focus on hiring growth-oriented CEOs and CFOs over the last several years, and in light of the belief that a V-shaped recovery is highly unlikely, investors will likely need to make some changes."

One Last Curtain Call

So, how will this upcoming shift in PE impact the market for talent? "First, baby boomers may get one last curtain call," Mr. Tillman said. "While boomers were poised to exit the market, the need for experienced leaders will likely keep them in the game. This will also result in fewer opportunities for unproven, first-time CEOs and CFOs which will relieve some of the pressure for academy companies to promote their best or lose them."

In addition to the emphasis on experienced hands, Mr. Tillman said that PE firms will no longer place the same level of emphasis on growth. "Unlike a classic turnaround business where the investor buys an underperforming business and hires a turnaround team, investors will find themselves with formerly solid businesses with growth-oriented CEOs forced to hunker down."

"As many PE investors will tell you, they have traditionally made the most money on the heels of some kind of economic upheaval or shift," Mr. Tillman said. "The largest and most well-established firms will have an advantage during this next cycle, and don't be surprised to see boomers staying in the game and investors shifting from growth to operating oriented leaders."

3 Qualities Private Equity Companies Seek When Picking Portfolio CEOs

Private equity firms conduct rigorous due diligence in assessing acquisition targets. Those with the best track records place high trust in their ability to size up a prospect's financials, operations and market position. But many mid-sized PE firms are less successful in choosing the CEOs who run their portfolio companies. One study of PE firms, in fact, found a little less than half had to change the CEOs who ran their portfolio companies.

Thinking, Building & Developing

How does this happen? According to a report by **FMG Leading**, a business and human capital advisory firm, "Investors can overlook three leadership skills that are crucial to rapid, profitable growth: thinking strategically and systemically; building alignment and commitment to the firm's strategy; and developing essential team members." PE firms with solid track records of turning around or accelerating already-growing businesses in a short period of time have a well-developed knack for choosing businesses with great growth or turnaround potential. "In short, they buy right," said the report.

'Buying right' has become more important in recent years for PE firms, yet also more difficult, said the study's authors, Matt Brubaker, FMG Leading's CEO, and principal MaryCay Durrant. In addition to facing increasing competition on deals, many PE firms struggle to determine whether they have the right CEO for the job.

"Whether or not a company is owned by a PE firm, its CEO has a massive impact on performance," said Dr. Brubaker. And a delay in replacing an underperforming or ill-equipped CEO can be costly. Larger PE firms are more likely to be prepared to evaluate CEOs and CEO candidates. "They have developed the infrastructure to employ seasoned HR experts, resources and processes to incisively size up their portfolio firm CEOs," said Ms. Durrant. "However, midsized PE firms typically lack the resources and don't have the time to develop proprietary tools in the human capital arena."

Both experts said they were not surprised that many midmarket PE firms struggle to assess the CEOs of their portfolio companies. "Good investors trust their instincts, and often those instincts are sound," said Dr. Brubaker. "But relying only on those instincts alone can be faulty, as the statistics on CEO turnover at PE-backed companies demonstrate."

The unique demands that PE firms place on their portfolio companies, they said, require CEOs who excel on three fronts:

1. Combining Strategic and Systems Thinking

PE firms need CEOs who can help them plot a new, faster-growth course for the companies they buy. "Strategic skills are a given," said Dr. Brubaker. "But CEOs must also be able to get beneath the bold strokes of a new growth strategy. They must be able to identify and orchestrate the process and people changes needed to pull it off – i.e., the larger system dynamics."

The top component of a strategic and systemic thinker is the ability to balance strategy and tactics – the big *(cont'd. to page 11)*



Diversified Search

ADVANCING LEADERS.
TRANSFORMING ORGANIZATIONS.

TURBULENT TIMES CALL FOR GREAT LEADERSHIP.

THAT'S WHY GREAT LEADERS CALL US.

1.800.732.6666

WWW.DIVERSIFIEDSEARCH.COM



**A MEMBER OF
ALTOPARTNERS**



The world's largest
HR specialist search
and recruitment firm.

Frazer Jones delivers not only
the most sought after HR talent,
but a true and unmatched
HR advisory experience.

Since 1985, we've partnered
with clients to deliver HR talent
at the top of their field to clients
across the globe.



Discover more at
www.frazerjones.com

and small picture. This is often missing in founder CEO who have successfully built and sold their firms to PE companies. The skills to scale that firm for rapid growth – a firm that will become far more complex to manage – are very different. “Those skills are about understanding how to make the key working parts of the organization function together like a well-oiled machine,” said Ms. Durrant.

2. Building Strategic Alignment and Commitment

Every company, PE-backed or not, needs the top team and the managers below them to be aligned on the firm's strategy and be clear on how to execute it. CEOs of PE-backed companies face even more urgency to ensure their management ranks are aligned on the strategy. The systems, processes and cultures of PE-owned companies must be clarified and scaled much faster for rapid growth in a five to seven-year timeframe.

“To accomplish that, the CEO must be able to communicate clearly, make sound decisions collaboratively, and be a solid business planner,” said Dr. Brubaker. “When a CEO is strong in these areas, he enables others to climb the mountain with him – to do the work and be committed to excellence.”

“The best CEOs know they have far more impact when they equip and empower others to execute successfully. Their thinking differs from the CEOs who believe they contribute most by focusing on the excellence and capacity of their own execution skills.”

“The best CEOs know they have far more impact when they equip and empower others to execute successfully,” said Dr. Brubaker. “Their thinking differs from the CEOs who believe they contribute most by focusing on the excellence and capacity of their own execution skills. This type of CEO often feels the need to continually demonstrate their competence. With an insatiable desire for personal recognition, they unconsciously discourage others from participation.”

3. Developing Others on the Team

PE-owned companies too often overlook talent development. Because of the short timeframe in which they hold their portfolio companies, investors may view time dedicated to executive development as a luxury. In addition, the investment required to truly develop talent can be hard to validate using short-term ROI metrics. PE firms frequently view hiring as the answer to talent shortages. Why take months or years to make an executive more effective when you can simply hire new talent?

“The best-run PE-owned firms we've worked with emphasize both talent development and recruitment,” said Dr. Brubaker. “When they develop talent, they do it wholeheartedly and strategically. They focus on skills they believe are crucial to their competitive advantage and not widely available in the marketplace. In other words, they are huge proponents of talent development – but are usually quite selective of which individuals and which skills they develop.”

Recruiting CFOs for PE Companies

Executive search firm **Caldwell** recently conducted a survey on the CFO role to fine-tune its understanding of the skills and experiences that define success today for a CFO of a PE-backed portfolio company and, equally importantly, which attributes may sound appealing but are not essential. More than 300 private equity CFOs shared candid responses on their backgrounds and how they landed in their current role. The results provided a clearer picture of who sits in the CFO chair at many PE-backed portfolio companies, and the skills and credentials that are truly impactful in their leadership role.

When asked to describe their previous experience, 10 percent of the participants said, "I was a divisional CFO or No. 2 finance executive in a PE-backed company," while 20 percent had the same status at a public company. Another 35 percent had been a CFO of a public or private company. And only 34 percent had been CFO of a PE-backed company. So just a third of the CFOs in the Caldwell survey had previously held a PE CFO role.

Hiring Factors

Among companies with less than \$25 million in revenue, only 15 percent of the CFOs had prior experience as CFO of a PE-backed company, while 56 percent of the companies with greater than \$500 million revenue hired a CFO with prior experience in a PE CFO role. In the three other revenue categories, the companies hired a CFO with prior PE CFO experience 40 percent of the time, or less. These findings would seem to indicate that hiring a CFO with prior PE CFO experience is a "nice to have," but not a must-have credential for all companies, said the firm.

Caldwell also asked the CFOs: "What were the key factors in your hiring?" and asked them to check all relevant factors. Among the total population of participants, the No. 1 factor was industry experience, and the second factor was PE experience. Tied for third were a previous successful exit and a prior role as a stand-alone PE CFO.

Looking at the responses by company revenue size, private equity experience was the first or second response in all revenue categories. Likewise, industry experience was first or second in the four lower revenue categories. Among companies with greater than \$500 million revenue, however, private equity experience was the top response, selected by 64 percent of the respondents, while a previous successful exit and experience as a stand-alone PE CFO were each chosen by 48 percent of respondents. Only in this largest revenue category did industry experience drop to the fourth answer, tied with public reporting experience. These responses would seem to reflect that among the largest companies, investors are more likely to be anticipating and hiring for an exit via a public offering.

By comparison, among companies with less than \$25 million in revenue, public reporting experience was cited as a hiring factor only eight percent of the time, while a previous successful exit was cited by 17 percent of respondents. Across all revenue categories, the CFO had Big Four experience a quarter of the time, or less.



Frederickson Partners

**The Largest
HR Executive Search Firm
in the Nation**

**Connect with
Frederickson.**

**Connect with
world-class
People Leaders.**

We place high-impact
human resources and
people leaders for
rapid-growth tech, non-tech
and transformational
companies.

LEARN MORE



HEALTHCARE+ BEHAVIORAL HEALTH TALENT

Software + Services | Hospital Healthcare
Behavioral Health | Substance Abuse
Family and Human Services
Non Profit
Single + Multiple Searches



TIM TOLAN

Chief Executive Officer
tjtolan@sanfordrose.com

www.thetolangroup.com
904.875.4787

The Tolan Group - A Member of
the Sanford Rose Associates Network of Offices

Private Equity Growth & Evolution

In order to adapt to the nuances of modern private equity recruiting, it is necessary to first understand how the industry has changed, according to recent insights report by Chicago-based executive search firm **Slayton Search Partners**.

The private equity environment has seen explosive growth in the 2000's. "Twenty years ago, there were perhaps only 20 private equity firms with over a billion dollars in assets," the search firm noted. "Today, there are over 1,000. Assets under private equity management are not just growing rapidly, but they represent larger and more sophisticated businesses. This type of evolution makes clear that the strategy of private equity firms is changing."

Talent Reengineering

Slayton points out that before, firms used to emphasize operational reengineering. "Firms could take portfolio companies that needed direction, streamline processes, and turn that business over for a healthy profit," the search firm said. "Today's private equity firm focus is on talent reengineering, emphasizing getting the right talent in the right seats at the private equity and portfolio levels. Not long ago, the tenure of executives in portfolio companies, once acquired, was one to two years."

"Hard skills and soft skills are both essential to private equity roles, and the talent management processes of today are better able to vet those areas."

Today, Slayton said prior to purchasing a business, a private equity firm will assess a company's executive team and make personnel changes that take effect immediately so that their strategy can be instantly employed and the company can hit the ground running. "In 2020, we have the luxury of analytics and data that can better support the vetting of talent," the search firm said. "Now, even before an interview, we can know what kind of person, leader, and developer of talent a candidate really is. Knowing the cultural fit of a candidate and how they respond to difficult situations sheds a new light on the evaluation process."

"Hard skills and soft skills are both essential to private equity roles, and the talent management processes of today are better able to vet those areas," Slayton said. "There's no question that it is a candidate's market in private equity. So much growth and focus on talent can only be sustained by steady hiring, and yet the pool of qualified talent is quite limited. It takes time and effort to capitalize on today's new strategic directions. Engaging with experienced recruiters is how many private equity firms are solving the difficulties that recruiting in the space brings."

Slayton Search Partners recognizes that to successfully infuse talent and capital into languishing portfolio companies, an innovative, client-focused search approach is crucial. "Our skilled search executives are highly cognizant of the nuances of the private equity industry, building wide networks of talented executives who can fulfill the unique cultural fit and exclusive demands of the sector," the firm said.