HUNT SCANLON MEDIA

# Private Equity & Venture Capital Recruiting

## The Widening War for Leadership

### Linking Talent to Growth

Leadership is the new bottom line for private equity operating executives seeking top talent for their portfolio businesses. Here's why.

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# SECTION 1

## Executive Summary

SECTION 1

# Executive Summary

Private equity and venture capital firms share many common disciplines and approaches. Both sectors are highly-charged and their portfolio investments are measured by returns in the millions or often even in the billions of dollars.

But while PE and VC have much in common, the nuances of portfolio company talent evaluation, acquisition and retention can be quite different, in large part simply because of the differences in asset class. Venture capital start-ups, in short, require a different breed of talent than companies moving forward under PE ownership.

These days both continue to thrive. Together, VC and PE are driving growth at recruitment firms across the U.S. Last year, records continued to be broken as upwards of 40,000 deals involving venture capital or private equity financing, mergers or acquisitions were consummated across the country, according to research group **PitchBook**. Let's go inside both sectors, with an eye on talent.

Last year, the venture industry broke all records with the deployment of $130.9 billion in start-ups across the U.S. VC dry powder hit $75.7 billion, making for more and bigger deals across the sector, according to PitchBook. Meanwhile, venture capital firms raised over $55.5 billion across 256 vehicles, a new high water mark for total capital raised.

Among the most eye-popping funding rounds of 2018 were: Epic Games, $1.25 billion at $15 billion valuation from **KKR**, Iconiq Capital, Smash Ventures, Vulcan Capital, **Kleiner Perkins** and **Lightspeed Venture Partners**; Uber's $1.2 billion investment from **SoftBank** (which carried over from 2017 but officially closed this past January); and e-cigarette developer Juul's $1.2 billion investment from Tiger Global, Fidelity and others. That was followed late in the year by a $12.8 billion investment from Altria, makers of Marlboro cigarettes, bringing Juul's valuation (at the time) to $38 billion.

Not to be undone, the private equity market has seen even more breathtaking overall numbers. Last year, PE firms in the U.S. enjoyed a total deal value of $713 billion from a record 4,828 deals, up 17.2 percent and 5.5 percent respectively from 2017. In the last seven years, PE firms have raised $3 trillion, according to industry data provider **Preqin**. For better or worse, $1.14 trillion in dry powder waits to be deployed.

One hardly needs to look beyond **Blackstone Group**'s latest buyout fund to get a sense for just how sold investors continue to be on private equity. Blackstone's eighth buyout fund hit $22 billion this spring, and with no set target seems certain to soon break **Apollo Global Management**'s $24.6 billion fund record, set in 2017. More mega-funds – from **Vista Equity Partners**, Advent International, **TPG** and **Warburg Pincus** – seem to be in the offing, according to Preqin.

Yet beneath the unflagging optimism that investment firms will continue to produce stellar returns lurks a growing pressure to deliver the goods. Raising the heat is a constant murmur about an imminent decline in the economy (not all bad, admittedly, for an industry that thrives on cheap deals). Many professionals, meanwhile, are uneasy about the mounting stockpiles of unused capital. And though competition grows ever more fierce there are fewer deals to go around, especially at good prices.

**The Search for Talent**

At the same time, massive societal change is underway. Technology is reshaping the face of work, and forces like artificial intelligence (AI) and machine learning are poised to bring about even greater disruption. "The resulting job displacement could be massive – think Industrial Revolution massive – affecting as many as 800 million people globally by 2030 and requiring up to 375 million of them to switch occupational categories and learn new skills," says a recent report by **McKinsey & Company**.

Companies are already feeling the heat. Fully 60 percent of global executives in a recent McKinsey survey expect that up to half of their organization's workforce will need retraining or replacing within five years. An additional 28 percent of executives expect that more than half of their workforce will need retraining or replacing. More than one-third of the survey respondents said their organizations are unprepared to address the skill gaps they anticipate, reports the consultant.

To overcome such obstacles and to continue to provide value for their investors, private equity firms are looking to top talent more than ever before. These days, and for the indefinite future, finding the best leaders for their portfolio companies is not just important – it is imperative.

Finding those individuals who can create value is growing increasingly challenging – and it has given

# Hunt Scanlon PE Recruiting Power 75

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Note: *denotes the firm works primarily in the Private Equity sector rise to the executive search industry's recent explosive growth across the sector. One need look no further than **Hunt Scanlon Media**'s PE Recruiting Power 75 to see the breadth of the industry's still-growing reach. With Baby Boomers retiring, the talent pool only grows smaller. Near-full employment is also making finding good people a much more difficult task.

"I don't know if it's a crisis," says George Davis, CEO and founder of advisory firm **Davis Partners Group**. "But the demands are higher than ever. The stakes are higher than ever. Because there's so much money at play right now and the deal valuations are so high, it's really going to take performance to get the returns, and that means leadership."

"There are a record number of funds," says Mr. Davis. "Not only are the sums themselves huge, but they haven't spent it yet. With so much dry powder, when you buy something the prices are incredibly high. And once they're incredibly high you've got to create a multiple to really get something that you paid a lot of money for, and you've got to make so much in increased revenues just to break even on your deal. That puts a real strain on the talent equation."

The challenges of turning an investment, be it through venture capital or private equity, into multiples of value and growth have never been small. These days, however, investors have reached a clarity of thinking about top talent's role in helping them achieve their investment thesis and benchmarks all along the way.

In today's high octane market for talent, that tends to mean that investors are paying more than ever before for great leaders, and not just on the back end.

"I would say they are much more likely to invest more money in their hiring of these people than they have in the past," says Alan Guarino, vice chairman in the CEO and board services practice at **Korn Ferry**. "Before they were very light on the cash compensation and heavy on the equity. Now because of the competitive nature of the talent market they're willing to pay far more cash than they used to — and they have to pay more than they use to — and still give significant equity if they're going to attract the right people. It's no longer a dollar and a dream for the candidates that they're trying to recruit."

### THE PEOPLE DIMENSION

#### New Leadership for Portfolio Value Creation

Korn Ferry's global PE practice works with clients to grow and proactively manage people and organizational risks. The firm draws on its knowledge in leadership and organizational consulting, global reach, and deep industry and functional expertise.

Along with that, **Korn Ferry** brings predictive research-based intellectual property across key disciplines, including executive assessment, top-team composition and effectiveness, organization design and restructuring, CEO and executive leadership development, succession, and talent management.

As a result, Korn Ferry plays an integral part in ensuring value-creating transactions for its clients. In addition to advising PE firms on talent pre-acquisition, the firm also works with PE firms' portfolio companies on all people and organization dimensions of their growth plans, across the investment lifecycle.

**Leadership Offerings:**

- Due Diligence Leadership Assessment
- Post-Investment CEO and Top-Team Effectiveness
- Organizing for Growth
- Talent Strategy

Source: Korn Ferry

When it comes to talent, especially when it comes to key roles like chief financial officer or chief marketing officer, everyone agrees that it is largely a candidate's market. "I don't think it comes as any surprise to say that there's a dearth of talent relative to the amount of money that's being invested in really cool companies," says Tom Nieman, co-founder and partner of **Signal Partners**, a Santa Monica, CA-based search firm.

### CASE STUDY

**Partnering with Clients to Facilitate Transformation**

A private equity client was in the midst of executing on an M&A roll-up strategy. Several of the assets were underperforming many years into ownership. The client engaged **Korn Ferry** to diagnose the organization to them make critical leadership decisions, design the organization, and improve effectiveness of a new leadership team.

Korn Ferry conducted in-depth, multi-method leadership assessments and an organization and culture review. As a result, the client was positioned to make decisions based upon reliable and predictive data and redesign the organization for growth and performance.

Based on results and high sensitivity to organization dynamics, the client engaged Korn Ferry to apply these successful methods across other growth and turnaround situations.

Learn more about Korn Ferry's PE Center of Expertise

Source: Korn Ferry

"If there's an early stage Silicon Valley company that's trying to find a chief marketing officer, there's only a handful of people that meet what the investors are looking for," he says. "And those candidates are getting 28 calls a week with very similar opportunities. It's just very hard. There's just a dearth of talent."

Jean-Marc Laouchez, president of the **Korn Ferry Institute**, says that having the right talent in place matters for all companies, but with private equity firms, in particular, the pressure to deliver results is greatly amplified.

"Typically they're in it for five to seven years, and because they have a shorter timeframe the challenge of having the right people in the right place with the ability to learn, the concept of learning agility, is going to be higher than for other organizations," he says. A big driver of big opportunity: How do they apply to leadership and talent the same operational discipline that they have for finance or their business operations. "So I think that PE and VC firms have an opportunity, given the data explosion and the availability of competing capacity, to address the question of, 'How can we manage our people in a more scientific, engineering-like way as we do any other part of our business?'"

Of course, you can never escape the human element. How much it comes into play for any company depends on the type of business in question. "If it's a law firm or a communications company the human factor is almost 90 percent," says Mr. Laouchez. "If the company is a tech firm like **Amazon** or a mining company, the human factor might be closer to 50 or 60 percent because there are other assets that come into play that contribute to the value of the company."



"I suspect that in the past, the non-human factors were more important for many of these (investment) firms," says Mr. Laouchez. "One of our big clients, a global Fortune top 10 or top 20 client, says, 'Oh, we can send almost anyone to lead China, and China is going to work because the market is there, we have good channels, we know what we have to do and it doesn't really rely on people, though of course they have to do the work, etc.' But let's say they want to develop

### PRIORITIES AT PRIVATE EQUITY FIRMS

**Five Reasons Strong Talent Management is Key**

1. **Portfolio companies benefit when PE firms are involved in recruiting**
   A survey of more than 200 mid-market portfolio companies revealed that 20 percent of firms got help from PE investors when sourcing talent for key leadership roles; 88 percent of those companies found the assistance helpful
2. **PE firms can build a deeper talent pool by recruiting their various portfolio companies**
   PE firms will have contacts with a number of different portfolio companies in addition to their other contacts, and they can access all of these contacts to deepen their talent pool when recruiting. All of the companies with which they invest can benefit from this combined, deeper talent pool.
3. **Bad leadership is a fast way to destroy value**
   Most PE firms may not get to make final decisions about who will lead the companies in which they invest, but they can serve in an important advisory role and add value to the process of sourcing leaders in many cases.
4. **Private equity firms can be more bold and creative than their portfolio companies**
   Equity firms tend to see the big picture better and may be able to put together pieces with which companies themselves are too close and familiar to handle effectively.
5. **PE firms need a system for managing talent to be most effective**
   It's nearly impossible for a PE firm to keep track of talent pools while recruiting which is why they need an effective tool to get them to their objective

Source: Thrive

engineering and robotics, which is a pretty significant step to their core business. For that, the importance of talent is going to be 90 percent. If you don't have the right people in place you'll fail. If you have the right people you will succeed. So there is acknowledgement that in the new economy for new innovation it is not only your brand, for example, or your financial acumen; you need to have the right people."

### Newfound Focus on Talent

Jeffrey Warren, managing director for **Russell Reynolds Associates**, says that the newfound focus on talent is in many ways a natural evolution for the private equity industry.

"When people were first doing buyouts in growth investments, there was oftentimes just a natural arbitrage; either the product or service had such market share or there was an ability to drive costs out of the business; there was an ability to create synergies through combinations of companies through M&A," says Mr. Warren.

"But a lot of that low hanging fruit has already been had. And at this point if you don't have the best people you will lose. The market has become too efficient, prices are dear, and debt capital is still relatively cheap compared to historical standards. So you have got to get the human capital side right and think of creative ways to drive enterprise value and create alpha for your limited partners."

Paula Judge, VP of talent at venture capital firm **Accel**, says that the investment environment has greatly changed from just five years ago, and certainly from 10 years ago. A decade ago, cash was scarce, so early stage talent would receive shares as compensation. Cash salaries were low and equity was the lever.

"I think that equity is still the lever nowadays but the environment that we're operating in is different in that while on one hand you hear that companies are staying private longer, they are growing faster while private and reaching extremely high valuations," says Ms. Judge. "And private companies are raising a ton of cash. And so whereas five or 10 years ago they didn't have a lot of cash to pay cash compensation; cash compensation was really compressed. Nowadays there is more cash but equity is the consideration."

If you are going to be private, she notes, for 10 years or if you are going to reach a $1 billion, $3 billion, $5 billion, $35 billion valuation before you actually go public, "managing that equity pool to manage dilution, to make sure that everybody who has a stake in the company actually benefits from that at the end of the day," she says.

"I think that when you think about managing the equity pool, that's where all the interests are aligned – founders, investors, employees. You want to manage dilution so that everybody is pleased with the outcome," she notes. "So that is what we mean by the change; it's that the environment is a little different: There is more cash. There is potentially longer time to exit. There are certainly much higher valuations. And companies are growing large. So there are higher valuations but they also might go public with 1000, 2000, or 5000 employees. That's a very different scenario than how things used to be."

As a result, companies have become more thoughtful about their equity strategy much earlier than in the past. "For example, we have a company that raised a Series A and they were formulating their board and the question was, 'Why don't we have a comp committee?'" says Ms. Judge. "And we all kind of looked at each other and said, 'Yes, a comp committee, as soon as possible.' I don't think people

## Q&A

### The Race to Success

*At **DeWinter Group**, a San Francisco Bay Area based recruitment firm, 80 percent of the retained searches we are asked to assist with are for VC-backed companies. That said, this figure is going down given the amount of "dry powder" in the private equity space. "We are seeing a greater appreciation for private equity than ever before," said CEO Derek DeWinter "While it still pales in comparison to the number of investments from venture firms in the area, there have been significant and very noteworthy PE investments the past few years that have made heads turn." In the following interview, Mr. DeWinter ruminates on several recent trends in the field.*

**How do responsibilities differ for chief financial officers of VC vs. PE-backed companies?**

It is implied that if you're a CFO at a company with private equity investment you're making money. Furthermore, there's an emphasis on EBITDA and growing EBITDA for a defined period of time prior to another transaction (three to five years). The CFO at a venture-backed company could be there long before revenue and most likely before they're close to a positive EBITDA. This company's runway is oriented around a product being developed in a competitive landscape, customer acquisition, and top-line revenue growth leading to a liquidity event.

Both will report to the CEO and both will regularly report on financial results – but the information and expectations of each are different. It is safe to say that the board and management of a VC backed company is usually made up of two co-founders and two investors – they're looking for information on how they can scale quicker, spend money to acquire more talent, customers, market share, and manage the business model. It's a race to success.

The board and management of a PE-backed company are generally more mature, they've built a company to a level of success and are now looking to add efficiencies, find ways to scale revenue but not spend like drunken sailors on leave. They will ask more detailed questions about items on the P&L, be more inquisitive about small changes in a budget and forecast knowing that there is a window to increase EBITDA to another transaction.

**How do compensation structures differ for C-suite executives at PE vs. VC-backed companies?**

In areas such as the San Francisco Bay Area there is a much larger percentage of companies with venture backing than PE investment. That certainly impacts the way employees outside of the C-suite compare these different situations as there is a greater familiarity with compensation structures with equity upside. Almost every VC-backed company will have a compensation package that includes a base salary, a bonus, and equity. PE-firm's compensation packages commonly include only a base salary and a bonus unless you're in a select pool of senior leadership. That can be quite attractive to those in the C-suite as there is already value in the equity and a follow-on transaction is almost certain to come in the near term.

At the C-suite level, CFOs are far more open to exploring options at PE-backed companies. This holds especially true when a PE-backed company has an established revenue stream and a near-guaranteed liquidity event within the coming two to five year horizon.

### INSIGHT

**Private Equity Growth & Evolution**

In order to adapt to the nuances of modern private equity recruiting, it's necessary to first understand how the industry has changed. 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. Today, there are over 1,000. Assets under PE 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. 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. 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. Today, 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 2019 we have the luxury of analytics and data that can better support the vetting of talent. 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.

There's no question that it's 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.

Source: Slayton Search Partners

were talking about comp committees immediately after raising their Series A in the past. Maybe they were, but those are some of the questions that we're working on with our companies right now."

At issue now, according to Ms. Judge, is that people are being paid over a long period of time. "So how do you get the right mix? How do you retain your key

## SPOTLIGHT

### Using Compensation to Secure the Right Talent

At **Accel Partners**, Paula Judge has noticed an intriguing trend which is impacting how the firm values talent. Venture-backed portfolio companies are staying private longer – and that is completely altering the way talent is being valued and paid. But as companies scale over longer periods of time, equity management strategies that enable attracting and retaining talent – while aligning the interests of investors, founders, and employees – are leading portfolio companies to develop a compensation philosophy that will secure the right C-level talent at the right time, based on their unique value proposition.

Ms. Judge joined Accel Partners in 2018 to focus on talent efforts across the firm's wide range of portfolio companies. Prior to Accel, she led the Americas sector go-to-market recruiting efforts at Palo Alto Networks during a period of significant revenue and headcount growth. She joined Palo Alto Networks from Heidrick and Struggles where she conducted executive level searches for the technology practice. She began her career in the non-profit sector, holding a number of fundraising and programmatic roles with San Francisco Ballet and the Toigo Foundation.

employees? How do you talk about equity when the upside is ultimately long term? And then what are all the other factors that go into play?"

Whether it is venture capital or private equity, the basic demands on recruiters is much the same. "They both want speed," says Lisa Peacock-Edwards, managing partner at **Wilton & Bain**. "They want depth of assessments. They want to feel like they've got a good deal so they're not paying through the nose for what they're getting. But speed is really important to them."

Leah Scanlan, an operating partner at venture capital firm **Khosla Ventures** in Menlo Park, CA, says that these days much of what separates venture capital and private equity firms has narrowed. "Traditional PE firms are spending a lot more time in companies and deals that they're investing in, and VC firms are having

## INSIGHT

### Gene Pool Engineering

**Step 1: Identify 5 largest risks**

Systematically identify risky components and their multiple failure modes. Risks fall into the category of technical risk, where the failure of interdependent modules could result in the collapse of the product as a whole or general business risk or marketing risk, which encompasses everything else that is required to take the product to market.

**Step 2: Define the skill-set necessary to address those risks**

The more varied the company background of the engineers, the more failures and solutions at disruption they will have seen. Whereas, the more inexperienced team members lack the breadth of knowledge provided by the veterans, they can offer a corresponding lack of industry biases and a fresh perspective on a problem.

**Step 3: For each risk, locate the centers of excellence**

The third step of gene pool engineering involves identifying the organizations across academia, the corporate world, and any other top institutions that make use of the relevant skill sets for a particular risk.

**Step 4: List the top three or more experts at each center of excellence with relevant skill sets and recruit them**

Recruiters will often place a cursory "feeler" out to one or two individuals within an organization before checking the box and moving on to another firm.

**Step 5: Pursuing and recruiting candidates within that "gene pool" for recruiting**

By addressing a company's largest risk factors with proven problem solvers and creating a team that welcomes the exchange of ideas and best practices and experience from different areas, a team lead is engineering an organization that has the highest probability of mitigating risk and taking advantage of upside opportunities in the face of change, innovation, risk and lack of clarity into the future.

Source: Khosla Ventures

to write larger checks because companies are raising more money and staying private longer," she says. "So I think there is probably a bit more overlap than you have seen in the past."

"The biggest difference is probably the type of person you're cultivating relationships with or the type of person that you are likely targeting or thinking about targeting," says Ms. Scanlan. "The PE firms tend in invest in companies that are a little bit further along." So the types of roles and people that those companies are going to need are likely more commercially facing executives who can take a company from $50 or $100 million to a billion dollars.

"We on the other hand invest in companies that are often just two people, two scientists. We incubate companies. We also do later stage but Kholsa is very big on building companies. So we come in and invest in companies very early. So the type of a person you're looking for has to be a seasoned executive who can also bring operational expertise and experience. The person also has to be able to roll up their sleeves and actually build something from the ground up."

PE firms, she says, don't usually invest in businesses that early so they spend less time likely speaking to those types of individuals. In the end, she notes, "most of the difference is likely between the types of profiles."

The very nature of the asset classes is different, says Mr. Nieman, of Signal Partners. As a result, the approach to recruiting differs as well. What's more, the types of candidates one can recruit for those roles tend to self-select based on that asset class.

"The mindset of a venture investor is one that is more like swinging for the fences," says Mr. Nieman. "And so they don't mind holding out and trying to find the person who is going to make that company into the next Google or the next Facebook or the next Twitter. That's what the nature of venture investing is like."

On the private equity side, he says, it's a little bit more sober. "Private equity investors have a little bit more of a financial engineering aspect to them, which is: 'I'm going to buy for X and I'm going to have a hold period that could be two, three, four years and at the end of that period I am going to sell it for a multiple of X, hopefully two, three, four, five X,'" says Mr. Nieman.

## Q&A

### Compensation: A Cautionary Tail

*Tom Nieman is a co-founder of **Signal Partners** – a search firm purpose-build to help private companies and their sponsors on both executive and mission critical top level searches.*

*He has led searches for companies such as: Houzz (VP Finance, VP Global Sales; VP Industry Solutions; VP Partnerships), Wealthfront (CFO; Chief Data Science Officer), Chegg (CEO), LifeLock (CMO), Rival (Head of People; Head of Finance), Telesign (CEO), Tastemade (CFO), RuffaloNoelLevitz (CEO), Acxiom (Board Members), and Invoice Cloud (President), among others.*

**You spend a lot of time recruiting executives. How important is compensation up front in the recruiting process?**

Not very. In fact, I rarely discuss compensation. At least not until the very end. In terms of what I'm trying to discover or learn, it's just not very high on the list.

**Why is that?**

Look, the most important part of what we do is, first and foremost, to help our clients find awesome people. And to make that happen we need to figure out what it is they're looking for, what they're looking for in a trade, and to determine whether or not such a trade is feasible. And, frankly, if the base and bonus are factored heavily and front-loaded in that conversation, then we're focused on the wrong things. Don't get me wrong, compensation is ultimately a very important part of the equation. But I find it only starts to matter once we're well down the path.

**What happens when an offer is not in line with "market"?**

I think it's misguided to rely on "average comp" studies as a negotiating tactic. One must consider the package holistically - both cash and equity - to make an informed decision. Doing so is super-subjective. Nobody knows the actual future value, so it often comes down to your own internal calculus. I know a guy who declined an offer to join Google as employee No. 17, to join a bigger company that could pay him better. I know that's an extreme example, but it's a cautionary tale for anybody using "average comp" numbers as anything more than a signpost.

He said the means to that end are more grounded than it is on the venture side. "Whereas the venture investor is always looking for the next Sheryl Sandburg or the next take your pick of great Silicon Valley executives, that's what they think they deserve, because that's what that company needs to be worth a couple billion dollars. It just seems to me that the private equity investor mindset is a little bit different, which is: 'I'm purchasing an asset, I'm going to sell the asset for a multiple, and I need someone who has been there and done that, and if I see that person I'm going to hire him or her to get me there.'"

Teri McFadden, vice president of talent for **Norwest Venture Partners** in Palo Alto, CA, says that her firm, which invests in early- to late-stage companies across a wide range of sectors, gets a taste of private equity companies along with its growth equity investments. These tend to be later-stage investments that are already EBITDA positive, not quite as big as private equity and with more of a focus on growth as opposed to turnaround or wringing EBITDA out of the company. "We're still focused on growth with these, but they are later stage, they tend to be outside the Bay area and we're often the first institutional money in," she says.

"With venture clearly, the need is always 'hair on fire, needed the executive yesterday because I waited until the last possible minute to go look for them,'" says Ms. McFadden. "They don't have the luxury of time to do long searches. They have to be very fast, very targeted, very efficient. Growth equity tends to be a little more stable. Their hair is not on fire. So we have the luxury of taking a little bit longer to do the searches, maybe doing a broader base search, maybe looking at relocating people, because sometimes the talent is not in Atlanta or Ohio or Florida or wherever the company happens to be. We also get to look a little bit more at diversity and things like that."

**SPOTLIGHT**

### Cultivating a Network of Influencers

Teri McFadden brings more than 20 years of experience in management recruiting and human resources development to **Norwest Venture Partners**. During her career, Ms. McFadden has cultivated a robust network of entrepreneurs, executives and key industry influencers to help grow portfolio companies with the best possible management teams and boards of directors. At Norwest,she works closely with the firm's investment professionals, co-investors and board members, as well as portfolio company founders and CEOs, to evaluate new investment opportunities and grow existing portfolio companies.

Before joining Norwest, Ms. McFadden served as human capital partner at ComVentures. During her seven year tenure there, she worked closely with the investment partners and personally built out executive teams, including several CEOs, for high impact portfolio companies. Prior to ComVentures, she established the senior recruiting partner role at venture capital firm, Accel Partners, in 1999. She also helped with the formation of Accel-KKR in building its team and working with the firm's portfolio companies. Prior to her work with venture capital firms, Ms. McFadden spent more than a decade in retained executive search with global search firms Spencer Stuart and Heidrick & Struggles.

Valerie Fredrickson, founder and CEO of Silicon Valley-based HR recruitment firm **Fredrickson Partners**, says that oftentimes she and her team must change up everything from their search processes to the kinds of candidates they seek to how those candidates are screened depending on whether they are for a venture capital or private equity company.

Both types of investment portfolio companies pose their own challenges for placing top HR talent. "On the VC side, if they're relatively early stage, maybe they have anywhere from 50 to 400 employees and they want that first-time head of people, first-time head of HR," says Ms. Fredrickson.

"And with that usually once the introduction has been made by the talent partner at the VC firm we work

## SPOTLIGHT

### Recruiting High Impact HR Leaders

Fredrickson Partners
HR Executive Search & Consulting

**Frederickson Partners**, headquartered in Menlo Park, recruits high impact HR leaders for a multitude of innovative, blue chip companies. Frederickson matches growth-stage startups, thought-leading non-profits and think tanks, tech unicorns, and the Fortune 500 with world-class, full-time and project-based talent.

Valerie Frederickson, the firm's founder and CEO, actively develops and nourishes meaningful, long-term relationships with rising and established people operations and HR executives worldwide. Her extensive network and unparalleled reputation has earned her firm the role of trusted career advisor and leading talent scout for even the most out-of-reach candidates.

Frederickson Partners unites technology and business leaders with people executives capable of shaping culture and attracting & retaining talent in dynamic, ultra-competitive marketplaces. These leaders know how to scale high-growth businesses, transform corporate culture, prepare for public offerings, manage public company compliance and provide trusted counsel to board members and senior leaders.

Frederickson's venture capital & private equity clients include: Francisco Partners, Khosla Ventures, Growthpoint Structures, Summit Venture Partners, Woodside Capital Partners, Procore, Sophos, Draper Fisher Jurvetson, Procore, GE Digital, Mozilla, and Intuit, among others.

directly with the CEO and we have the chance to train that person and to open their eyes as to what they really need in that HR people function and put in a leader who is going to be able to make a difference and handle high growth and handle culture. Usually those searches go extremely prickly."

On the PE side, she finds that CEOs want an HR executive who has more experience. "They want somebody who has done extensive M&A, who has done extensive turnarounds," says Ms. Frederickson.

"They want somebody who maybe has an additional 10 or 20 years of experience. But often with the PE firms it's such an equity play (that it's more difficult) to find a candidate who is willing to go somewhere where they're going to have a budget. With the venture capital-backed firms frankly there's often not that much of a budget. They can afford to pay well; they can practically offer doggy daycare. But with the PE-backed ones, those are the companies where they're already in business and the play is to keep the expenses moderate while doing the growth, and so it's a lot harder to find HR executives for those. And it's harder to explain to the HR executives what the potential upside is of the equity. The PE firms tend to be a lot more close to the vest on what they're anticipating might happen with the equity," she notes.

Kevin Kernan, a Seattle-based partner with **JM Search**, says that essentially it comes down to different dynamics at work: Venture capital tends to be more growth driven while private equity or growth equity is more EBITDA focused. That, in turn, influences the type of talent that each is seeking.

"A private equity firm is going to prefer an executive that's had private equity experience, has been exposed to the emphasis on EBITDA, and has operated at a level of scale consistent with whichever portfolio they're seeking to place executives in," says Mr. Kernan. "Venture will tend to focus on someone that's got the growth experience and has been engaged with venture-backed businesses. Not that they're inter-exclusive to one another, but I would say that in today's market venture works for venture and private equity works for private equity."

And while such insights are indeed revealing, they raise one big question: Where does one find such talent, especially in a competitive marketplace, especially since many of those you might like to sign up are tied up with their current equity endeavor? "That's a trade secret," says one recruiter, deadpan. And though he was joshing, the truth remains that

### THE TALENT GAME

**Maximizing Shareholder Value**

JMSearch

For over three decades, private equity investors have relied on **JM Search** to identify, evaluate, and attract executives for their portfolio companies who will maximize shareholder value. Through assessing tens of thousands of executives for portfolio company positions, this search firm has honed the ability to determine if an individual is capable of thriving in a given role.

Its expertise in critically assessing portfolio company executives, combined with extensive networks of leaders who have realized success across industries, positions JM Search as one of the premier executive search firms for private equity, growth equity, and venture capital backed companies.

| 100+ | 700+ | 700+ |
|---|---|---|
| PE/VC firms that have partnered with us on multiple portfolio company searches since 2012 | Searches executed for private equity and venture capital portfolio companies since 2012 | Successful exits by portfolio companies that we have recruited executive for since 2012 |

Source: JM Search

if there was a can't-miss formula for finding top-flight talent for investment firms and their portfolio companies, the line of those willing to pay dearly for it would be long indeed.

"Look, there's no one size fits all," says Brian Kasser, talent partner for the technology team at **Welsh, Carson, Anderson & Stowe**. "What you try to do is a really careful job of figuring out what you need for your specific situation and going out there and finding people that have a skill-set that aligns to it. But there's no cookie cutter approach to finding talent. The most important thing to do is understand exactly what your needs are, be very clear about what your priority list is, know that you can't have everything in a candidate because the market is tight and folks aren't perfect and not everybody has everything."

The idea is to prioritize, says Mr. Kasser. "You pick the things that are the must-haves versus the nice-to-haves and then in your specific situation go out there and work really closely with your network, your sources, your executive recruiters, anyone out there that you can help assess and identify the right market that aligns with your position spec and your priority list."

## BY THE NUMBERS

### The Struggle to Retain Talent

Between **40%** and **45%** of private equity firms say talent attrition was the top risk to their organization, ahead of even regulatory risk and changing investor demands.

**92%** of CFOs surveyed do not have confidence in employees from the millennial generation to stay more than five years, a dramatic shift from the past when many employees sought to build a career at one organization.

Source: EY

Jon Weber, head of portfolio company management at **BlueMountain Capital Management**, says his firm begins its search for talent by looking within the organization's companies themselves. "Sometimes people are in the wrong roles or they haven't been able to fulfill their opportunity for reasons that we can change," says Mr. Weber. "We also look, of course, depending on the role, at industry peers, and we go through a scorecarding exercise and say, in effect: 'Write the person's evaluation at the end of the first year,' and say, 'Well what is it we're looking for this person to have had accomplished,' and then hold that up against candidates, even if they're not available, to at least in our mind's eye understand what good looks like and the kind of individual that we wish to hire."

"It's easy to come up with a list of 10 things we want to see in a candidate," says Mr. Weber. "But the more things you put on the list the smaller the talent pool is, and we need to be cognizant that if we are insisting on a very narrow set of qualifications we're fishing in a shallow pond and that is going to weigh against the success of the search or potentially the number

## Q&A

### We're Looking for Player/Coaches

**Tony de Nicola**
Co-President
**Welsh, Carson, Anderson & Stowe**

*Following are excerpts from a recent discussion.*

**How do private equity firms think about CEO hires compared with how equity companies think about them?**

Public company CEOs have to sell the company's story to different constituencies, including investors. Charisma and confidence are very important. And they often have large staffs; they're delegating and have less responsibility for day-to-day operations. In the private equity model, we're looking for "player-coaches" who will lead a smaller team and collaborate very closely with owners to create value.

**Has your hiring philosophy changed during you career?**

Definitely – over 25 years, I've seen what's worked and what hasn't. I used to hire a resume – someone with the skills and experience that fit the specs. We usually reverted to someone who went to the right schools and grew up in the industry. Today I worry less about the right pedigree of industry. I'm more interested in who someone is as a person and a leader and how good the candidate is at identifying talent, motivating a team, and building a culture of excellence.

**Is your hiring more data-driven?**

Like everything in business, it's become more analytical, quantifiable, and metric-driven. We use scorecards and ratings. We have the same set of people conduct interviews, using the same set of questions. It's disciplined and rigorous. I think we're very good at it, but it's hard to get it right: Our success rate is still only about 60 percent.

**Why so many failures?**

Sometimes the person lacks a sense of urgency, which can be hard to judge in interviews. Or the team dynamics don't gel. This is a team game; executives won't succeed by themselves.

Source: Harvard Business Review; Green Peak Partners; Welsh, Carson, Anderson, & Stowe of excellent candidates that we have. So we try to be realistic upfront."

Yes, he says, he prefers people that have worked with PE but he also acknowledges that for some positons it's less important. "I don't think there are fixed personal traits that are important to us across the portfolio other than integrity and work ethic and cognitive ability; I guess those things always come in handy. But otherwise it very much depends on the job at hand and the culture of the portfolio company and the nature of the task."

For Ryan Greene, an operating partner with **Francisco Partners** in San Francisco, a private equity firm in the technology space, the most rock solid indicator of a candidate's future success is what they have done in the past. "We have no better tool than to rely on past experience as a predictor of future performance," he says.

"So we spend a lot of time on that, looking at scorecards for the role, what the person has to deliver on in the course of our investment to be a homerun success and deliver the returns. We spend a lot of time on whether their past experience gives us hope, confidence and conviction around whether they can deliver against that scorecard. Maybe they've done it or done something similar in the past or you can put two and two together and assume they can deliver in this space. We predicate that on their past experience and a lot of reference checks to try to ferret that out."

Carissa Clark is founding partner of **Assembly Search** in Austin, TX, which focuses on recruitment for software and technology for private equity and venture capital-backed companies. Typically, when seeking a key executive for a role at a software company, for instance, she and her team will look at prospects who have been through a similar growth trajectory.

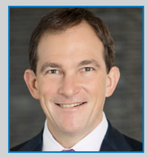
"So for example, I'll use CFOs," she says. "There are very few operationally-focused CFOs who have taken companies backed by private equity from $50 million to $100 million in one specific market. With private equity they're looking to mitigate risk by all means possible, so they're typically looking for someone who has done the exact same thing before. But the person who took a company from $50 million to 100 million doesn't for the most part want to go back to a $50 million company and do it again. They want to go to a $150 million dollar company and take it to $250 million."

And so it is that fine balance between finding someone who has the experience that is going to make the private equity company comfortable and finding someone who will actually be excited about the job and the challenge at hand.

Keith Giarman, managing partner, private equity, for **DHR International**, says that individuals who have

### SPOTLIGHT

#### Talent Management as the Value Creation Lever



According to Jon Weber, institutional investors increasingly see portfolio company talent management as a crucial lever for value creation and risk mitigation. Mr. Weber heads portfolio company management at **BlueMountain Capital Management**, where his team oversees recruitment, assessment and management of board members and executives. Having served as an executive, board member or board level advisor for more than 100 investor-controlled companies, Mr. Weber shares a talent focused approach to improving outcomes and investment returns along with pitfalls to be avoided and lessons learned.

Prior to joining BlueMountain, Mr. Weber headed groups at Anchorage Capital Group, Goldman Sachs Special Situations Group and Icahn Enterprises, where he was responsible for operational oversight, governance and value enhancement of portfolio companies. In those capacities, he has served as a board member, senior executive, and board-level advisor for companies in a broad range of industries over 15 years.

## Q&A

### Cultural Compatibility

**Gary Landes**
Managing Partner
**Wilton & Bain**

*Gary Landes has worked for Wilton & Bain since 2007. He has been a partner in the firm's executive search practice since 2012. He works across the professional services industry, with deep specialization in management consulting, technology services and financial advisory.*

**How important is hiring the perfect candidate for private equity firms and their portfolio companies?**

At the heart of all PE firms and their portfolio businesses are people and relationships, so having the right candidates in place is critical to the successful performance of the fund and its assets. A fund needs dealmakers who understand the human essence of transactions, as well the financial implications and a strong relationship principals can have an inspiring impact on the success of a portfolio company. And in order to achieve the level of return they're looking for in an investment, they need the right team in place driving growth. This means that recruiting the best talent is crucial.

**How is culture fit playing a role in hiring candidates for the private equity community?**

Assessing cultural fit is a huge part of the hiring process within the private equity firm and is equally as important as a candidate's functional skills and industry experience. A PE fund and its portfolio companies need to hire candidates who can conform and adapt to the core values and collective behaviors that make up the business, which are more diverse and unique than you might find in a large multinational corporation.

**What do you see as the biggest driving factor behind the demand for recruiting in the PE/VC industries?**

Finding candidates with the right cultural compatibility and personality traits. The PE/VC world is an attractive and lucrative one for many candidates coming out of consulting, investment banking or the wider corporate world, so there is usually no shortage of interested parties. However, recruiting people whose values and style align with the fund or portfolio companies culture is a much harder task and this is a big driving factor behind every recruitment process in this sector.

**Do you expect continued growth in demand for PE/VC firms calling on executive search firms to fulfill their talent needs in 2020?**

Definitely, especially in terms of understanding cultural compatibility. The executive search industry has continued to become more precise and scientific in our approach to assessing cultural fit, so this element in particular is a key part of our consulting process, alongside identifying candidates with the right expertise and experiences.

achieved success working for a private equity-backed company tend to know what's generally expected of them in terms of pace, discipline, metric orientation, building accountability in the organization and all of the other elements that they would need to help produce rapid value creation over a short period of time.

"So if it's not someone coming out of a PE-funded company, we're looking for those core ingredients," says Mr. Giarman. "Maybe they're VP/GM of a $500 million unit at Danaher or Roper or a technology company of some sort. So they've proven they can run more or less standalone P&L. They are ready to be CEO of the board, although they don't have the board experience yet in many cases. So there you're looking for their experience from the context they were in. But you're really betting of their potential to be a great CEO."

"In those cases you've got to vet them in real depth about what they did, how they did it, where they were successful, where they made mistakes, who was involved," says Mr. Giarman. "Very granular competency based interviewing, where they have to explain at a level of detail that makes it clear they really touched the value creation under their control. And so it's very common when we start a search that we'll look for people coming out of transactions or who have been in PE-funded environments whether it's a CEO or CFO or whatever, and then we're doing fresh research to see who's out there and available that might be a VP and a GM in a relevant industry that's ready to move the needle, not feeling they're going to get anywhere where they are and really want a shot at private equity."

Michael Sarnoff, who heads the financial services practice at **Diversified Search**, advocates a broad approach to recruitment, when appropriate. "We recently worked with a financial services client who was looking for somebody essentially in a CFO equivalent job," he says. "And through our

## SPOTLIGHT

### Leadership Team Building

Ryan Greene is an operating partner with **Francisco Partners Consulting** (FPC), focused on human capital management and organizational topics. Mr. Greene wears a multitude of hats at FPC, supporting FP deal teams and the senior management teams of FP's 45-plus portfolio companies on a broad range of value creation initiatives, including leadership team building and development and various other initiatives in human capital operations. He works as an advisor directly to the CEOs and HR leaders of FP's portfolio companies and previously served as Interim Head of HR for the carve-out and stand up of Dell's Software Group (now dba SonicWall and Quest Software).

Prior to joining FPC, Mr. Greene worked as a principal with Green Peak Partners, specializing in talent assessment, executive coaching, and organizational due diligence with private equity clients. He previously spent over 10 years with The Boston Consulting Group (BCG), where he primarily focused on organizational transformations, pre/post-merger integrations, and turnarounds for technology and healthcare clients.

conversation with them we ultimately came to an agreement that we thought that a person could successfully transition into the organization without any financial services experience. And not every job will allow for that."

But what the process allowed for was a holistic look at talent. "And if we can do that, we can bring much more dynamic thinkers to the table; we can bring people to the table that they never would have seen through their natural networks," says Mr. Sarnoff. "And quite frankly it allowed us to successfully bring a more diverse slate of candidates to the table, which was something that this client was desiring to see."

Part of this is a desire for clients to bring innovation is likely happening away from their industry. "Industries tend to copy each other," says Mr. Sarnoff. "Within all functions that tends to happen. Some of it for good reason, some of it because everyone is working at very similar organizations. So in that case we were able to bring talent from lots of different industries and ultimately they wanted to hire somebody coming from out of a very different background in terms of industry than they would typically see."

**SPOTLIGHT**

**Leading a Talent Network**

Miia Laukkarinen is vice president of talent at **Bessemer Venture Partners**, where she leads the firm's talent network and recruitment efforts. She works closely with Bessemer's investment team and portfolio companies on all human capital programs and hiring strategies. Prior to joining Bessemer, Ms. Laukkarinen spent over a decade filling vice president and C-level positions in venture-backed consumer internet and software companies. She was also an associate and a member of the venture capital practice of The Caldwell Partners and Heidrick & Struggles.

That kind of approach can empower an organization. But it is not for every company or every situation. "It takes a lot of vetting to determine if someone can successfully make that transition," says Mr. Sarnoff. "They have to show an aptitude for really quick learning. I'd also have to say that the organization you're recruiting them to has to have mechanisms in place to support someone who is going to come in maybe not knowing the industry or their particular business quite as well. It doesn't work for all situations, but certainly big picture you want your client to be able to think that way because that, ultimately you want to see the best people available to your client, and if that means going outside of their industry I think that's what they should be doing."

If you look at the best talent organizations, historically that is the way that they think." We want to be open minded about where that talent comes from and not have such a strict list that we kind of miss the forest for the trees. Every situation is unique; it doesn't always work, but we encourage our clients as best as possible and where possible to try and be open minded and think about where talent can come from."

**SPOTLIGHT**

**Connecting Talent to Value in Private Equity**

carterbaldwin executive search

From inception, **CarterBaldwin** has delivered highly accretive executive search services to portfolio companies of leading private equity and venture capital investors.

Its partners include former portfolio company leaders and global M&A executives, and the firm's members are private company investors themselves. Its private equity clients range from investors deploying billions in private placements to smaller venture stage investment firms.

Martin Coulter, a partner with TPG Growth at **TPG Global**, says that though his expertise is not in recruitment, he believes that good talent is out there waiting to be found. "The shortage might be as much driven by not only the demand side but the degree to which we put parameters around what people have to have demonstrated in order to meet the bar," says Mr. Coulter.

"We obviously manage risk, and I think we often want to see almost a track record of success that matches perfectly for the type of role and responsibility we're recruiting somebody for," he says. "But it's very hard to get that. You can find somebody who's got an incredible track record running a large sales organization but really hasn't had to think strategically, and you can find people have demonstrated that they're big strategic thinkers but never have run big sales organization. And often in the size of businesses that we're in, they're not so large where you can afford to have an executive for every functional area. So what you need are people who have these blends. And that can actually be somewhat challenging."

"It would be great to figure out how do you almost de-risk when you feel you've got a candidate that has what you need and is going to be a difference maker but doesn't check one important box in terms of demonstrating he or she has that particular experience, and therefore you're less inclined to take a risk," he adds. "And you might take somebody, it's the next best candidate that checks the boxes but isn't going to be such an impact player. I'm not suggesting one or the other. But it is something I see that we kind of struggle with."

It's crucial in such situations that investors pay attention to the portfolio company CEO's perspective. "We might have agreed with the CEO that these are the boxes we want to check, then find somebody and say, 'What we like about this person is that he's a real go getter; this person is somebody who is going to basically bulldoze through walls in order to drive to the sales number.' And the CEO might say, 'Yes, but that style is not necessarily going to get the collaboration we need from the product people and from the tech leadership.' So that's another challenge where you need to be really delicate. You've really got to take the lead from the CEO."

J.P. Flaum, founder and partner of **Green Peak Partners**, an organizational consulting firm based in Denver, says that there are a number of skills and traits that matter most when hiring for certain roles for portfolio companies. "One of the most important things when you're looking for a candidate is their ability to hire A-players around them," says Mr. Flaum. "And this means not just when they take a new job and they upgrade a few people that they don't really know very well, but also two years in when they've scaled the company and some of those same people that they either now know well or that they themselves brought in, they have to often upgrade some of those same people, because what got you here won't get you there. And it's one of the hardest things to do in business, especially if people have been loyal and people have helped you get you where you're going."

## INSIGHT

### Signs It Might Be Time to Hire a CEO:

As a founder, there sometimes comes a point in your company's growth trajectory when you need to hire a CEO or president from the outside to get to the next level. This can be an incredibly difficult decision to make, but it's better for you to make the decision yourself than to be told by your board that they're hiring one whether you like it or not.

If, when and how to avoid hiring a CEO – though debated among some venture investors, it is always better for a founder to grow into being a CEO. When there's a choice, the founder's vision, culture, and approach are usually more important than "good management" alone.

Source: Khosla Ventures

But, he says, it is the No. 1 skill that is the highest correlated for success in the C-suite, including for the CEO – the ability to consistently surround oneself with A- players and continually upgrade. "More than industry knowledge, more that strategic thinking, more than where they went to school, more than any of those things," he says.

The top trait, meanwhile, is introspection and self awareness, says Mr. Flaum. The most successful leaders are those who can be honest about what they're good at and, more challenging, what they're not as good at. The ability to surround themselves with people who compliment and buttress those things that they're not as good at or not as passionate about is critical.

"Other introspection comes from their ability to take advice from what we call outside voices – it could be the board, it could be other people in the industry, it could be an executive coach – where they're really able to take the advice and opinions of others and not be the delusional CEO that we see that thinks, 'Hey, you know what, I'm the best at everything so I better weigh in on the colors for our new website.' Well, what expertise do you have in colors? Let the marketing experts handle the marketing, and don't pretend that you're an expert in things that you're not," he says.

Marshall Goldsmith, who wrote the book 'What Got You Here Won't Get You There,' did a survey in which he asked executives to rate themselves versus their peers, says Mr. Flaum. "So CFOs might have CFO peers, CEOs other CEOs, etc., and 85 percent of the executives rated themselves in the top 20 percent of their peers. What we know about that is that it's mathematically impossible, and that we're all a little bit delusional.

But, he says, you have to be a little delusional if you're going to be an entrepreneur or you're going to take a CEO job and say, 'I'll lead the company that just got a $100 million investment,' or has to grow in big ways. "You've got to be a little delusionally self-confident. But then if you're not able to balance that with actually learning and being agile and taking advice and being more introspective by taking feedback etc., that will get in your way."

Rosanna Trasatti, managing director and global head of private equity for **YSC Consulting**, says that given the lack of supply in talent versus the demand, it is critical for companies to go beyond looking at past performance alone and consider potential as well. Yes, businesses must ask themselves whether any given prospect can perform the role or play the position, she says.

"But then there's another key question, which is, 'Are they the right kind of athlete for this game?' And we have compelling research to show that there is a certain kind of athlete irrespective of position, irrespective of industry or sector, that tends to do well in private equity backed companies. For example, you can have a world class CEO who, in previous roles exceled but who struggle to perform to expectation in an investor-backed business. Thus, you need both the right kind of athlete and someone who can play the position in question." YSC helps help private equity firms gain insight into both of those kinds of qualifying criteria.

"There tends to be a preference for leaders that have previous experience in a PE backed company because it is a proxy for, 'Are they the right kind of athlete?' Given the rapid increase of the number of private equity sponsored businesses, the demand for leaders at the top far exceed the supply of talent who have that experience. To solve this problem you need to move to an assessment approach that looks at both performance and potential," she says.

An analysis of C-suite leaders by YSC found that, across all the PE firms with whom they work, there are several facets that differentiated successful leaders from less effective ones in the top job. Dr. Trasatti highlighted three of the significant findings that speak to the kind of athlete that thrives in a PE-backed company.

"Our research shows that tenacity and resilience is key," Dr. Trasatti says. "The stamina, determination and sheer energy it takes to run at full speed day after day differentiates high performers."

Also key is the ability to solve problems at pace, she says. "The cognitive capacity to absorb complexity rapidly and problem solve quickly is a distinguishing trait."

"Leaders who demonstrate high levels of self-awareness perform better than their less self-aware counterparts," says Dr. Trasatti. "The relevant corollaries relate to a leader's coachability, his or her ability to navigate a complex relational map in intense performance conditions, and the skill to engage with all of his or her stakeholders, including investors/board, in an open and non-defensive way."

Dr. Trasatti concludes: "If PE firms are going to accelerate value creation in their assets and surpass industry benchmarks in selecting the right talent for critical roles they need: 1) to have a compelling way to both weed out leaders with a relevant resume but the wrong constitution to thrive in a PE backed company, and 2) to effectively identify those with the potential to outperform peers in pressurized and pacey performance conditions."

Scott Gregory, chief executive officer for **Hogan Assessments**, says that over the past few years his business has seen an explosion of interest from private equity and venture capital firms in wanting to evaluate leaders in companies in which they are doing due diligence and also in adding talent to companies that they acquire.

"PE and VC firms have long had great expertise on the money side," says Mr. Gregory. "I think they have just expanded their thinking about the level of sophistication they have on the money side and have started asking the question, 'How can we get that level of sophistication on the people side?' It's just applying their analytical due diligence mindset that they have always had on the capital side to the people side."

Hogan Assessments defines leadership as the ability to build and maintain high performance teams, says Mr. Gregory. Over 30 years of research on predicting leadership success, the firm has found some commonalities that are revealing. "At the highest level there are two broad characteristics – and both are critical – that are important," he says. "One of those is of course about drive and results-orientation

## PRODUCT HIGHLIGHT

### Getting Ahead of the Recruiting Curve

Censia

Talent acquisition is undergoing a tsunami of change. With rapid acceleration in available technology, it's more important than ever before to be an agile and dynamic recruiter. Algorithms and data will mean finding the needle in a haystack with pinpoint precision.

With so many new recruiting technologies, the employability of a recruiter who only maintains their current level of skills will be extremely low. If you want to stay ahead of the recruiting curve, here's where you need to develop.

#### 1. The Recruiter Becomes the Sales Person

There are 10 million Millennials entering the job market in the next few years – and they expect a better candidate experience. A survey by Talent Board of more than 250,000 people, found 60 percent of respondents who say they had a positive candidate experience admit they will go out of their way to encourage others to apply to the company. 25 percent of respondents who say they had a negative candidate experience admit they will go out of their way to discourage others from applying.

Firstly, you must be able to convince the best-identified prospects to apply. Secondly, convince them to accept an invitation to interview. The third selling area involves convincing hiring managers to accept the proposed candidate slate, while the fourth is to convince the candidate to accept an offer if it is presented. With technology taking over most finding and assessing, selling is the final critical area that no technology will likely replace.

#### 2. Become an Expert in Recruiting Technology

A wave of new recruiting technologies is currently being developed. If you expect to have job security as a recruiter, it's time to realize that you can add value by becoming a technology expert. In addition to continually learning about these new hardware and software technologies, it also makes sense to become an expert in assessing vendors and new products. If you can implement them, and teach other recruiters and hiring managers how to use them you will be indispensable.

#### 3. Be a Consultant

In the future, when recruiting loads are reduced, you should expect the recruiting function to shift to an internal but broader talent consulting role. The very best recruiters will be asked to provide advanced consulting advice and talent direction to executives and senior managers. Obviously, providing consulting advice and influencing executives to take strategic talent actions requires a completely different skillset. In order to be a successful talent consultant, you will have to be able to persuade with data, dollars, and numbers and have enough knowledge of business operations to be credible with executives.

#### 4. Develop Your Business and Financial Skills

The cost of recruitment alone is making financial departments sit up and take notice. No longer can you hide behind unquantifiable excuses. Data can be your friend, both in proving your worth and finding success with potential candidates.

Within the field, one undeniable group is showing up in the HR and recruiting jobs that are being filled, and that's people with business backgrounds. Don't be too complacent about keeping your job if you don't have strong financial, analytical, tech, and sales skills. Google's new VP of HR came directly from sales. New-hires with these skills will question the way that everything is done in recruiting and old school practices may look painfully out of place.

#### 5. Technology is Already Here

It pays to be especially aware of these new recruiting technologies because most of them still have no data proving that they improve the quality of hire. Be the one who figures that out with your hires. Follow up. Find out what worked, and what didn't work. Speak to the Hiring Managers, the candidates. Gather your own data. It will place you at the forefront on your profession. As with most industries, it is paramount to continue training and developing your skills to stay ahead of the curve. But without a discerning eye, good business sense and great communication skills, technology can only take you so far.

Source: Censia

and a real focus on getting results. But the other is about humility. And what we find is that leaders who combine those two characteristics really have the combination that sets the agenda, drives forward with the agenda, but does that in a way that really builds a team and really capitalizes on the power of the team around them."

"There's great deal of research out there about how employees define good leadership, which is an interesting perspective to take — what do the led have to say about good leadership?" says Mr. Gregory. "And there are really four things: One of those is integrity — can I trust this person? Another is about what has been called inspiring, but it's really about, 'Is this a person who leads by example, is this person in the trenches with me, rolling up his or her sleeves and really working with me and working with the team to try to solve problems or remove barriers, get things done, and so personally leads by example.' The third is about competence — does this person know the industry, know this business, know the competitors in the marketplace? And then there's vision — can the leader really point a direction that everyone can get behind? I would say if you take a step back from that, this sort of combination of drive and humility underlies a lot of those things that employees tend to look for."

Hogan Assessments, of course, is not the only company to offer a technological solution to the challenges that investment firms and their recruitment partners face in finding top talent. San Francisco-based **Censia**, a machine learning AI solution that matches talent to job opportunities, is "ecstatic with the growth," says Joanna Riley, the company's CEO and co-founder.

"We help our clients through machine learning and data science identify the best talent in the world and basically predictably match them to open jobs so that it eliminates that time and cost and challenge of 'we don't have the talent necessary in order to scale if we need to,'" says Ms. Riley. "So think any hard-to-fill job. We also move a lot of the spend that was going towards recruiting agencies back into the corporation through being the solution of the enterprise."

**PRODUCT HIGHLIGHT**

**Data Driven Decisions & Results**

EQUILAR

**Equilar** offers data-driven solutions for board recruiting, executive compensation and shareholder engagement that bring together business leaders, institutional investors and advisors to drive exceptional results while ensuring sound corporate governance.

Its data-driven platforms, BoardEdge and Insight, provide tools for board recruiting, business development, executive compensation and shareholder engagement. Companies of all sizes, including 70 percent of the Fortune 500 and institutional investors representing over $20 trillion in assets, rely on Equilar for their most important boardroom decisions.

Censia's platform includes data about some 550 million professionals across 190 countries. "A lot of times these PE firms and VC firms are telling their companies, 'This is our recommended group of recruiting agencies you can use,' but the truth is the cost there is immense," says Ms. Riley. "Those PE and VC firms want to grow better, faster and smarter. Spending the money with agencies that take a really long time and cost a lot of money is not the best solution. Instead, our system can get that talent to them immediately. We're able to deliver instant slates of candidates for every opportunity; then the organization themselves can just control the hiring process."

Redwood City, CA-based **Equilar**, meanwhile, tracks data on executives and board members. Well known for tracking compensation data, the company also has a people database, BoardEdge, which CEO and founder David Chun describes as "a LinkedIn of the world that's not on LinkedIn." BoardEdge collects, organizes and updates data on public company board members and executives, and highlights data points institutional investors use to evaluate boards.

For venture capital and PE portfolio companies, such data can be a goldmine. "It's helping them identify candidates both for executive positions and boards," says Mr. Chun. "It's also being used for back channel reference checks as part of the recruiting process. But frankly the bigger opportunity is where they're using it to help how to navigate when they're competing for deals, helping them to get to a certain company or a certain individual and identify who is in their network."

### IMPROVING OPERATIONAL EFFICIENCY

**Embracing AI & Tech Transformation**

Technology, including intelligent automation and robotics, is already eliminating manual tasks and improving operational efficiency. Technology can help to free up executives to spend more time on strategic hiring and to also empower staff to focus on more value-added work. To date, only the largest PE firms ($15 billion-plus AUM) surveyed are leaning heavily on this technology transformation. For smaller private equity players, outsourcing and headcount are the primary strategies to increase operational efficiency and scalability.

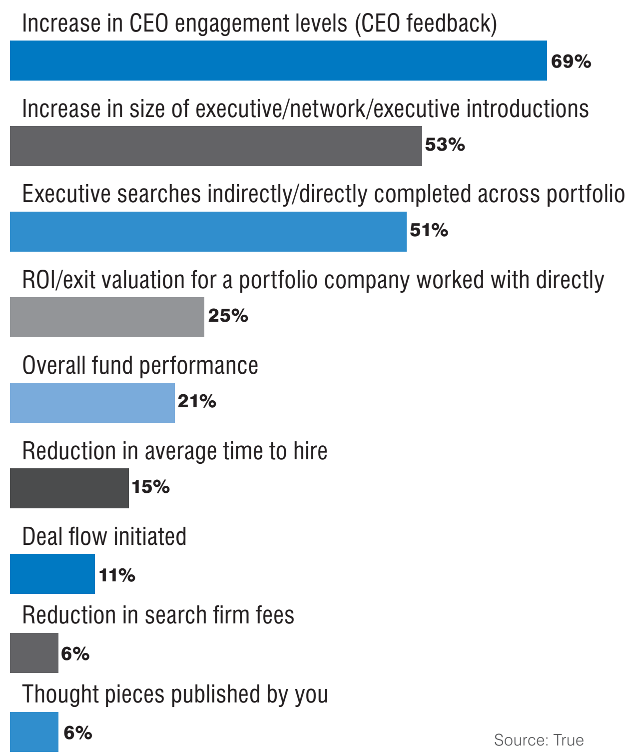
Source: EY

Many factors, of course, come into play when choosing senior executives, including those over which businesses have minimal control. Some people believe that if the economy finally takes the downward tumble that many have been predicting, companies will be looking for different qualities in their leaders. Tom Nieman, of Signal Partners, who has experienced a few downturns over the years, says that when the economy goes south, roles at the top are often changed out.

"In a growing economy somebody who is nominally talented looks really good," he says. "But all of a sudden the wind's in your face, and if you're not really that good it shows. Someone who seems like they were a great executive maybe their true colors show and they're not so great. So the investor says, 'Wow, maybe the person I thought was great really isn't that great, why don't we go find someone who has done this before?'"

## BY THE NUMBERS

**Measuring Talent Partner ROI**




Source: True

Josh Withers, founder and general manager of **True Search North America**, has not forgotten the financial services crash of a decade ago. "These days companies want someone who can scale and grow and work in ambiguity and build a team super rapidly," he says. "We definitely didn't hear any of that in 2009. It was, 'Find us someone who's efficient, find us someone who can rationalize the business and grow

## INSIDE LOOK

### What Does the Future Look Like for Talent Partners in PE/VC?

**What does the future look like** for Talent Partners?

"There will be more of a focus on contributing to deal sourcing/deal enablement."

"It will be a key role for VC/Investors in Europe; in the USA it is already a key role."

"This role will evolve to be a lot more advisory than tied directly to recruiting."

"This will become a must-have function in every VC firm."

"This will morph with how investors work in the next 5 years."

"It is going to become slightly drowned out as each firm has their own set of Talent Partners and companies have multiple rounds, investors, etc. Talent Partners will either need to work together, or work even closer with their executives to bring value to the table."

"Will be recognized as a key contributor of value and rewarded appropriately. Will increasingly have presence on Boards and pitched as part of portfolio support to entrepreneurs."

"Similar to CISO, top Talent Partners will be deal enablers (different from sourcing)."

"Seed = more hands-on<br>Venture/Growth = more strategic<br>Both = more talent CRM-enablement to productize Talent Networks and achieve more-with-less."

"The key challenge will be a transition from transactional value to strategic value and working more proactively across a portfolio vs. more reactionary to current needs."

"With more data and better systems, having better informed discussions with CEOs to help influence their talent agendas."

"Firms devote more resources to this function over time."

Source: True<br>The Talent Partner Study; Inside the VC

responsibly.' It was just a different flavor of person that they needed at that time. Some companies still need that type of person because they're flat for whatever reason and they're trying to trim costs, but it's not as common a request as it was back in that time period. The job doesn't change but the type of people they look for does, and the amount of people they look for does. During those periods we're not quite as busy and the type of person is slightly different."

Mike Gaffney, founder and managing director of the **Bancroft Group**, private equity advisors in the healthcare space, says that the trick is to fill a leadership chair with the right person at the right point in time. "Sometimes you need somebody who is going to be focusing on costs," says Mr. Gaffney.

"Sometimes you need somebody to focus on growth," he says. "Sometimes you need folks who can drive the turnaround and right the ship for the organization. The nuances below that are: Where are you trying to grow? Do you have the right insights and track record to have credibility in that marketplace? And can you do that in the context of a private equity

## UP CLOSE

**What Does the Future Look Like for Talent Partners?**

**MORE TECH/ DATA DRIVEN**

Automated processes, predictive psychometric tools, tracking candidates, companies and relationships, leverage data to improve the quality of searches.

**STRATEGIC + ADVISORY**

Evolving to more strategic/ advisory role vs. a tactical/ execution oriented role.

**GROWTH + SPECIALIZATION**

Increasing the team size to lead more specialization in the role.

**DEAL STAGE INVOLVEMENT**

Helping to win deals as a strategic advantage in pitches or actually moving to more deal sourcing or deal enablement.

Source: True. The Talent Partner Study; Inside the VC

ownership? All of which is different than being an entrepreneur or being a larger commercial for-profit enterprise executive. Your line of sight, your time-frames may be tighter or different. The performance metrics may be higher. But the pace you need to pursue because there is a limited amount of time that private equity firms will own that business requires a different component of pace. The challenge relates to a particular sense of circumstances. And that's why you need to have breadth and depth in your ability to deliver in this marketplace."

Helping to navigate that search for talent across the sectors are a range of executive search firms, both big and small, with generalists and niche specialists of all kinds. With the growth of both the venture capital and private equity markets, executive search firms have reaped considerable new and ongoing opportunities. "That seems to be where much of the significant business is flowing through because the traditional corporate customers are bringing more and more of their search work in-house all the time," says Ken Vancini, founder and CEO of **Innova International**, a talent management firm. "They're trying to reduce the executive search spend, whereas private equity firms can understand the return on investment when it comes to finding the right executives. They're very sophisticated in understanding what kind of impact to the EBITDA or other parts of the business that having a good quality team can have. So they're willing to spend the money."

Scott Estill, a partner at executive search firm **Lancor**, says it is important that investment firms have long-term, partnership relations with search firms as opposed to simply the transactional. Too many recruiters as well view their assignments as one-offs. "That's short term effective but long-term foolish," says Mr. Estill. "You need to build real rapport. If you're going to be all in with the private equity sector, which we are, you need to be thinking about the long term, having conversations with your PE partners not just when they need a search but throughout the life cycle of the investment."

It is also essential that search firms do more than simply present a slate of candidates. Too many recruiters, Mr. Estill says, will simply offer up 50 or so prospects and in effect ask, "Which one do you like?"

## INSIGHT

### Digital Health Opportunities for PE Investors

Digital innovations tend to be exciting investment opportunities in most markets. Healthcare is no exception. While the digital health market is highly competitive and occasionally complicated, it's also a large and dynamic market full of opportunities for private equity investors. If a private equity investor can navigate the balkanized market – along with the venture capitalists and startups that feed this particular market – then digital health is one of the strongest targets for investment in 2019. Healthcare has a significant need for digitization to coordinate the many activities and constituents involved in the process, while also making the interactions and information exchange easier and richer at the same time. This will require new roles and responsibilities.

Any digitization brings disruption in the form of changing how activities are conducted and how business is transacted. As a result, there is typically a shift from lower skilled jobs to higher skilled ones. Given the vast size, complexity and highly regulated nature of healthcare it is likely to remain a highly significant part of the economy. In a market as competitive, fast-moving, and potentially lucrative as digital health, enjoying quick access to industry-expert advice can make all the difference to a private equity investor.

Given the importance of healthcare and regulatory involvement, change is likely to be highly scrutinized and methodically implemented. A greater involvement from consumers in healthcare decisions is driving demand for more healthy lifestyle choices and related services, which in turn should generate new jobs.

Source: Bancroft Group

"That works for publicly traded companies better than PE firms," says Mr. Estill. "PE firms say, 'Wait a minute, that's your job. You tell me the five people that are most compelling for the situation. Don't give me 50 people and just throw them against the wall.' That's what PE firms want as opposed to just give me a bunch of names. 'No,' they say, 'tell me why. Tell me my needs. Where are the blind spots in my existing portfolio companies and matching those with our investment thesis?' You want them to say, 'Oh, I get why you think Susan or John is good, I would like to meet them.' That kind of thing is super valuable to them. If you could do that you're building a real relationship, and not just for the PE firm but for both sides."

Jeffrey Warren, of Russell Reynolds Associates, agrees. Private equity firms know their industries really well, he says. They know most, if not all, of the key players; those are easy to identify. "They're looking to us not only to have relationships with those folks but what are the adjacent spaces, and who are the leaders in those adjacent markets or industries who could be really complementary and be able to create value in unique ways. Or they may know a lot of the people but they don't know much about their specific situation. That's our job to be in touch with those folks."

"We also spend a lot of time around behavioral interviewing and really making sure that we're really drilling down on what are the competencies that are going to lead to success and lead to successful exit, whether that's somebody who is bringing more of a strategic nature or somebody is bringing more of straight execution, or some combination thereof," says Mr. Warren. "And how do you layer in things like somebody's influence and skills. And how do you layer in somebody's ability to build relationships with clients and customers with the portfolio company. Those are the types of areas that the private equity firms look to us for because oftentimes they haven't been trained in that, and with some of the softer skills they're seeking our input because we have spent more time with these people."

One area in which search firms can be particularly invaluable to their VC and PE clients is in helping to enlist diverse talent. "It's not a situation where you just say, 'Hey here's my search, turn on the faucet, I want a bunch of diversity candidates,'" says Holly McCarthy, founder and managing partner of **Opus Advisors**, which recruits candidates for private equity firms, hedge funds and investment banks. "Yes, you

**SPOTLIGHT**

**Delivering Innovation**

At **Innova International**, the firm's mission is to help executive search firms adapt, scale and grow by delivering advisory work in a rapidly changing industry.

Innova's focus is on firms with revenue between $3 million and $15 million who aspire to grow profitably to $25 million-plus. Innova leverages past successes and brand equity to facilitate sustainable growth.

The firm's advisory work focuses on financial modeling, recruitment of new partners, developing compensation plans, incorporating cutting-edge technology, and advising on industry best practices. Through the lens of innovation, Innova helps search firms scale no matter their size or industry focus.

Innova's our goal to help executive search firms reach new heights by creating lasting and profitable change.

Source: Innova International

can solve their immediate problem with that. But if your long-term goal is to have a really healthy 50-50 blended mix of diversity and non-diversity staff then you have to look at it as a marathon, not a sprint."

"What we find is, the clients who do a really good job of building out their diversity ranks realize that they might meet somebody when they're 20, for example, and the would-be candidate might say, 'Oh my gosh you're perfect for me, I'm perfect for you, but you're up in Boston and I'm not ready to leave New York; I'm young; all my friends are here; my boyfriend is here; and I'm not ready to leave yet. But at some point because I'm from Boston, I know that's where I want to raise my family and I'd love to return.' So even though that person is not really ready, willing or able to relocate today and may not be for six years from now, the best thing a company can do is to continue to build that pipeline and keep that funnel going and lean on their search firm to make sure that they're at least once a year staying in touch with those, and at

**SPOTLIGHT**

**Recruiting Private Equity Leaders for Tomorrow**

acertitude. brilliant people at work®

Success in the private equity community is synonymous with value creation, driven by strategic planning and operational excellence. As the industry positions itself for continued growth, leaders who can accelerate performance amid expanding expectations for regulatory and operational risk management will be more important than ever.

At **Acertitude**, consultants leverage deep industry insight to connect private equity firms, hedge funds, real estate, investment trusts, and venture capital firms with top-tier executives who understand today's levers for value creation and think strategically about the industries emerging concerns.

some point they want to be right there when she is finally ready to come back to Boston."

"And look, our clients are busy," says Ms. McCarthy. "A year goes by when you blink. And so they need to lean on us to say, 'Hey every year we're going to have you meet with, say, our top 20 people — of all varying places in life by the way, some might be 20, some might be 30, some might be at a partner level, but there's this hot-seat of list of names of people that we would love to join our firm whenever and if ever they're ready. And the best thing you can do is really partner with your search firm so that they're keeping a constant perusing of the marketplace for you in that regard and also lean on them to proactively make sure that those touches are happening over the years."

Jack Scott, operating partner, human capital, for middle-market private equity firm **FFL Partners**, says it's critical for a recruiter to thoroughly understand the client investment firm and its drivers. "That requires some effort," says Mr. Scott, a former managing partner with Heidrick & Struggles and partner with Korn Ferry. "It's not like you can just pick up an analyst's report on a public company and read what the challenges are for that business and have it all dialed in for you. You have to dig deeper."

"Having been on the recruiting side of recruiting for lots of VC firms, I think that it's actually harder in VC than it is in private equity," he says. "I think VC firms divulge less about what the challenges and opportunities are. They're great at telling you the opportunities; they're just not great at telling you what the challenges are."

As a matter of fact, he says, "quite often the reason you're being brought in to do a search is because that company is headed down. I've had a number of CEOs that I've recruited over the years say to me, 'I had no idea how bad the shape the business was in based on what you had told me as a recruiter and even what the board members, the investors from the VC firms, had told me.' I don't think they're as forthright in sharing information. So search firms have to be smarter and dig deeper."

Secondly, recruiters should be more sensitive to the differences between VC and private equity type companies, he says, "and investments and how the different risk profiles work," he says.

"And third, I would certainly want to be highly cognizant of the DNA of a private equity backed portfolio company executive versus somebody who is more corporate," says Mr. Scott. "I repeatedly hire people from large companies. Some work and some don't. But picking out earlier which ones will succeed in a smaller company is very difficult. In my experience, it's hard to anticipate who's going to work well and who is not. Sometimes you think they will and they absolutely crash and burn their first try."

"So the easier approach, which is human nature, is to say give me a person who's done it before. Round peg, round hole," says Mr. Scott. "Well, that's fine except most round pegs don't want to go back in the

## SPOTLIGHT

### Leadership & Succession

Jeff Warren leads the global alternatives practice at **Russell Reynolds Associates** and is the area manager for the firm's Los Angeles office. He conducts leadership and succession engagements across the C-suite, including the investment and financial officer functions, working with public companies, private equity firms and their portfolio companies. He is a member of the firm's CEO/board services practice and has also led engagements for a variety of financial services firms including private equity, investment management, banking, consumer finance and real estate clients. Mr. Warren advises clients within private equity and alternatives, working across the investment firm and portfolio company levels.

Prior to joining Russell Reynolds Associates in 1999, Mr. Warren was director of business development for KSL Fairways, a wholly owned subsidiary of KSL Recreation Corporation and a private equity affiliate of Kohlberg Kravis Roberts & Co. In this role, he oversaw business development, acquisition and strategic planning activities. Previously, he was in the financial institutions' investment banking group at Merrill Lynch and, earlier, with Manufacturers Hanover Trust Company in leveraged finance and merchant banking.

round hole; they want to go in the bigger hole; or do something different. Rarely do I find people say, 'Yeah, give me a job just exactly like the one I had before.' They want that size challenge or industry challenge or breadth or something else that they haven't had before. And trying to predetermine who is going to succeed in those new environments is not easy."

Search firms, therefore, need to be good at predicting behavior and understanding that. "A lot of them have assessment tools now that they didn't use to have; a lot of them are better at thinking about that," he says. But honestly, most of them look for square peg, square hole and aren't thinking too much about, 'How well would the person who has never done this before fit?' 'And what are the required capabilities and what

## Q&A

### Seeking Hybrid Leaders

*Five years ago Lara DeVito was brought into the private equity world by a top investment banker. She had no idea what she was walking into. Ms. DeVito quickly realized this sector was like no other. It had big talent needs at a time when people shortages, especially in the C-suite, were emerging as a hot button issue.*

*Today, Ms. DeVito is recognized as a leading senior level recruiter serving as a consultant and trusted advisor to private equity leaders. She brings more than 10 years of experience specializing in the placement of CFOs, controllers and other C-suite financial leaders. During that time, Ms. DeVito has built a strong network and has leveraged that group of high potential leaders for her expanding client base.*

*According to some of her top clients, she has been described as a diligent, committed, well-informed, and energetic recruiter with a great eye for talent. Ms. DeVito serves as an executive board member of California Women's Network – a platform that brings together organizations and individuals to advocate for women's initiatives.*

**How has the PE industry changed over the past few years?**

It has grown and changed tremendously and is only getting bigger. The caliber of talent now needed to lead and develop PE portfolios is a hybrid of a person. Myself as a recruiter, I have to be faster, more value networked, able to turn on a dime and continue to be of utmost service no matter what my client requires.

**How does compensation impact the placement of PE professionals?**

Compensation in the private equity sector is very different from the comp of a CFO within industry or in the public arena. The private equity executive, at the C-level, has to be willing to bet on the long run – this, of course, is where his or her payout takes place. It is a totally different mindset for which to recruit.

**What kind of leaders are PR firms seeking at the moment for their portfolios?**

Right now the need for incredible finance leaders is in high demand. These CFOs need to not only know how to grow a company but they need to be on the Red Team. They need to know how to challenge an organization and improve effectiveness. They need to partner with the CEO, have strong understanding of sales/development, be strategic thinkers, see the big picture, work with banks, and have a strong knowledge of M&A. This is a hybrid role that takes guts, knowledge, leadership and passion.

**Does placing a PE professional require a different skillset or model to get the perfect candidate?**

In a nutshell, yes. It takes so much learning of the industry, mentorship from those in the PE space, old school headhunting and an immense amount of trust earned every day. You also have to be able to handle high levels of stress!

tendencies and capacities do they have or haven't had before.'The ability for a search firm to differentiate themselves and to be particularly good in operating in the PE world is in those things."

Teri McFadden, the talent partner at Norwest Venture Partners, says that before even enlisting a search firm, it is essential that the portfolio company CEO understands exactly what their needs are for any given role. "I think good investors sitting around the table will help with that education process and particularly if they have someone like me we will get some candidates in front of them before we ever go to retained search," she says. "Whether or not that candidate ends up being the winning candidate or not it helps inform decisions and helps the CEO really kind of figure out what it is they want to hire, so the search firm doesn't go out and develop a slate of six candidates who at the end of the day aren't the right fit. Because often I find that our CEOs say they want to hire, for example, a VP of marketing who knows messaging and positioning but what they really need is somebody who knows demand gen. And so really kind of digging into that with them and making sure that the spec is good before we ever go to retained search."

It's also critical, Ms. McFadden says, for recruiters to take the time to get insights from board members about what they want in any senior-level role. "The board members are going to want to weigh in on that hire," she says. "Even if they're not involved in the whole interview process of every candidate, they're going to want final blessing interviews. And the worst thing that can happen is to get to final blessing interviews and have two of your board members say no, this is not at all what we need, and so back to the drawing board. I encourage recruiters to talk to my partner who sits on the board, talk to coinvestors who sit on the board, and get their perspectives on what they think the challenges are, what they think the needs are and basically offer any insight to the recruiter to make sure that they get the right candidates to the table upfront."

Mercedes Chatfield-Taylor, managing partner with **Caldwell's** private equity practice, says that having a clear understanding of what one is seeking in a candidate is critical. "I'm a huge fan of a very concise, weighted scorecard," she says. "So you have a spec, but you take that spec and you boil it down to the five or six most important competencies and skill-sets that you're looking for."

"The other thing is having a search process document from the beginning of the search," says Ms. Chatfield-Taylor. "At the end of the day what particularly VCs want is great candidates fast, but you have to make sure you don't break a ton of glass getting those great candidates fast, and that the folks you don't hire and those that you do have a really good experience throughout. It's important that you know what is going to happen for every single candidate."

"I have found that in particular with early-stage companies that if it's not the CEO search it will be that CEO's first CMO search or that CEO's first chief product officer search, and they will learn on the job how to interview," she says. "And so if they get the right search partner that search partner can show them how to interview, give them the framework to interview, give them a framework for a process, not for processes' sake but just to get through quickly and efficiently and effectively with a feedback loop that's the same for every candidate."

Like a number of outside recruiters, Ms. Chatfield-Taylor is also a fan of investment firms having a talent partner to serve as the contact person and liaison between recruiter and the firm, among other responsibilities. "A talent partner is so helpful, especially a talent partner who really has had experience working with executive search firms, who either has been in an executive search firm and then moved over to the private equity or venture capital side or has managed those relationships. Because the reality is that the investors have their plates very full and when you don't have a talent partner you can get too reactive and you can do all sort of things that aren't super helpful."

Jackie Xu, talent partner for venture capital firm **Kleiner Perkins**, says she regards search firms as

## UP CLOSE

### Wanted: Leaders Who Can Navigate Change

*Mercedes Chatfield-Taylor is managing partner of the PE & VC practice areas for **Caldwell**. She focuses on the executive level talent needs of high-growth technology companies. She has completed over 50 CEO search as well as other top CXO level assignments for her clients. Her strong suit is helping to diversify PE & VC-backed company boards and leadership teams.*

*Following is an excerpt from a recent discussion on her role, what's hot in PE, and key trends she is noticing in the market.*

**What got you interested in private equity? How has that field changed throughout your career in search?**

I started my career in Bermuda, working in international banking and reinsurance. I met several large PE and VC firm partners early in my career and have always had an interest in the space.

**What are some hot roles you're seeing PE firms looking to fill right now?**

PE-experienced, at scale, highly operational chief financial officers are always in demand. Highly skilled product and technology leaders (CPOS) too.

**What kind of leaders are PE firms seeking at the moment?**

PE firms continue to look for people who have successfully navigated companies through change. That includes taking companies private successfully, then through another liquidity event. Leaders with strategic acquisition AND integration experience are also in demand. Diversity, of course, is in big demand.

**SPOTLIGHT**

**Connecting Talent to Innovative Startups**

Jackie Xu joined **Kleiner Perkins** in 2013 where she supports strategic hiring efforts for the firm's portfolio companies and advises them on technical recruiting, compensation and team-building. Her passion is to connect talented people to innovative startups. Prior to joining KPCB, Ms. Xu managed a bi-coastal team of engineering recruiters and partnered with executive leadership on strategic acquisitions for Twitter. As part of the initial recruiting team at Twitter, she helped the company grow from a startup of less than 100 engineers to a publicly traded company with over 1,000 engineers. Before Twitter, Ms. Xu spent time at Facebook and in executive search placing senior executives at hedge funds. She began her career at Goldman Sachs in investment banking in New York.

valued partners. "We work with a handful that we know very well, that have done really great work for us, and we're always talking. We may not have a search today, but we're always collaborating and exchanging ideas. They're out in the market. They're hearing so much. They're seeing so many companies. They're our eyes and ears. And they can say, hey on this search the demand is great or maybe on a different one the demand isn't so great, because maybe the way the company is pitching the story."

A good talent partner can help keep a search assignment on track and smooth out the inevitable problems that arise. "Sometimes it's very easy for the CEOs because they don't understand search to say, 'It's the search firm's fault,'" says Ms. Xu. "It's very easy to put blame on someone because then the accountability is off your shoulders. I think it is human nature. So it's important for the talent partner role to almost be like a referee, to be objective. Sometimes you have to step in and coach the CEO. Maybe it was their first time. Or maybe they had a really bad experience with a different search firm that they're just subconsciously taking it out on this

## MANAGING GROWTH

### Hanold Associates Leads Search for Reef Kitchens


Jason Hanold


Keri Gavin

Softbank-backed REEF Kitchens has retained **Hanold Associates** to lead its chief HR officer search, based in Miami. Jason Hanold and Keri Gavin are leading the search.

Recently backed by SoftBank, holding company REEF Technology has a valuation of over $1B. The investment from SoftBank has allowed the company to expand its network across the country, becoming the largest parking network in North America. REEF has assembled an executive team and advisory board of former executives from major technology corporations such as UberEats, Starbucks, Darden, IBM and Twitter as it pursues its vision. They plan to add over 12,000 employees by year-end.

Reporting to the soon-to-be-named CEO of REEF Kitchens, the CHRO will be responsible for all aspects of HR throughout the REEF Kitchens organization. This leader will be a key member of the executive team, working to align talent and human resources objectives with those of the business. The company plans to grow rapidly and to ensure the success of this business expansion, human resources and especially talent management will be a key area of focus for the organization. Managing growth will be the first year focus of this newly installed CHRO.

current search firm. Whatever it is, it's your job to analyze the situation and to make sure that there's a fair shot of success, because our goal is to get the best person into the seat in the shortest amount of time. That's our goal, just making sure that everyone is aligned, that we're all one team and really treating it as a partnership."

Recruiters, generally, express real passion about working with private equity or venture capital firms. The speed of the search, the directness of the client and the results orientation all feed into what many recruiters thrive on. "I'm a product of corporate America," says Dan Hawkins, founder and president of **Summit Leadership Partners**, a Charlotte, NC-

## FUNDING EXPANSION PLANS

### Sustaining Rapid Growth

TRITONEXEC

ThinCats, a leading U.K. private lender dedicated to funding growing and ambitious small to medium sized businesses, has stepped up with more than $3.5 million in debt financing to help with expansion plans at **TritonExec**, an executive search firm experiencing rapid growth in the U.K. and an expanding business base in the U.S.

TritonExec will use the capital to accelerate growth in its people and technology at its U.K. and U.S. operations. It is understood that ThinCats has not taken a stake in the business. The recruitment firm, which has built a name around recruiting senior leadership for global companies undergoing digital transformation, is said to be looking at M&A activity following eight years of climbing revenues and EBITDA. Rivals in London and across the U.S. are in its crosshairs.

Dave Sherrington, regional director for business development at ThinCats, which has lent more than $550 million to SMEs, said: "TritonExec is a young, dynamic and fast growing business – they are also at the forefront of securing leadership for some of the most buoyant industries across the world right now – in private equity, technology and professional services. We are excited by their journey and look forward to working closely with them as they continue on their fast track growth trajectory."

based leadership and organization development consulting firm.

"I have almost 20 years in the Fortune 500 world, the last couple gigs as a CHRO, and we looked at building talent and capabilities in terms of decades and PE looks at it in terms of months. That's what I love about it. There's such an immediacy and so, frankly, we use words like speed, accelerate, catalyze a lot because we recognize that PE is not necessarily interested in the next generation of leadership," he says. "They've got an investment now, so a lot of our work is identifying, assessing, positioning talent and organization structure to be successful now."

Jason Hanold, CEO and managing partner of **Hanold Associates**, which specializes in HR officer and board searches, says that if a recruiter can truly understand the spirit and strategy and inner workings of a private equity client, they will become exceedingly valuable to that firm.

"I grew up in talent acquisition leadership roles," says Mr. Hanold. "When I was at Whirlpool, Deloitte, and McKinsey & Company, I was making decisions about what search firms we wanted to use. Now those aren't PE firms, but the same principal applies. It was very efficient to work with one or two firms who really got us, understood our culture and our leadership. Just from an efficiency standpoint I didn't have to re-explain what works well many times over with each new search. And so with the PE firms if you are brought in and given an opportunity to serve them and if you do great work they will continue to come back to you again and again. You have to give them a reason to walk away."

It goes without saying that it is high pressure work for everyone involved. Given the hold times that many PE firms have for their portfolio companies, a bad senior hire can be a tremendous setback. "Any self-respecting search professional lives with that pressure and feels that pressure," says Mr. Hanold. "But I will tell you that once you make that connection with a great candidate and a great leadership team, there's nothing more intrinsically rewarding than knowing that you played a small part in not only bettering the candidate's situation in life but that you've put your client in a better position to compete within their segment and within their industry. That pressure has a huge intrinsic payoff."

Abe Doctor, a partner and head of the North American market with **TritonExec**, says he became attracted to working with private equity and venture capital firms 15 years ago while conducting a search for a PE firm and he saw how well the firm's approach aligned with his approach as a recruiter in terms of finding the best people, a highly scrutinizing assessment process and that fit was so essential to financial success.

"Ultimately it's arguably the most pressurized type of dynamic you could have," says Mr. Doctor. "On the other hand, it's equally the most rewarding. The stakes are extremely high, the competitor set at that level is generally some of the best of the best, and so if you're not innovating and doing work that's twice as high quality as you were six months before and continuing to stay aligned to what the private equity firm is focused on, that relationship can easily deteriorate."

At the same time, being aligned with the right private equity or venture capital firm can change the whole dynamic of working with even the least inspiring of client companies. "A client that becomes invested in by a very prominent VC or PE firm can all of a sudden become a highly marketable client to work for," says Mr. Doctor. "We helped one of our private equity clients build out six executive positions and in fact their entire C-suite, and the company is a septic tank business. It is literally the least sexy company you could ever think of, driving tanks that pump people's sewage, but it became a really attractive opportunity because of the private equity investor. And then as soon as they bought the septic tank company they started buying 10 others with it. It's that type of momentum that's attractive. Otherwise, it would have been the last search that I would ever do in my life if it was just that septic tank company alone without any VC or private equity investment."

Without question, these are high times for private equity firms and VC firms and their partners in executive recruitment. But they are challenging times as well. For all of the efforts to predict who will become great leaders and who won't be able to make the grade, the human factor remains a great uncertainty in an arena that abhors uncertainty. Nonetheless, investors today are doubling down their bets on talent.

"At the end of the day the firms that are best around talent will ultimately win," says Michael Sarnoff, of **Diversified Search**. "What makes me excited is that we see private equity funds thinking more dynamically around how they approach hiring. A lot of this stuff is starting to happen for the industry overall. But it's not easy. Finding great people is not easy. Coming to the right hiring decisions is not easy. But the most successful funds are those who really take it seriously and have a real process around it and give real thought to it. We're happy that we have clients like that today and we're excited to see where the industry is heading."

# INDUSTRY VIEWPOINTS

# VIEWPOINTS

Hunt Scanlon keeps tabs on an ever-expanding executive search and talent management sector that far exceeds where the industry was just a decade ago. Today, Hunt Scanlon tracks some 16,000 executive search consultants at more than 3,600 recruiting firms in North America and another 4,000 overseas, spanning Europe, Asia, Africa and the Middle East, and everywhere else in between. We're also tracking leadership assessment firms, talent solutions providers, consultancies, and those focused on coaching and training. This is an active sector, to say the least.

To round out our study this year, we invited three talent specialists focused on the private equity sector to bring us their market insights. As they will be the first to admit, all of them face a host of challenges. As such, their 'Viewpoints' examine a multitude of topics this year, including: the emerging role of CHROs and talent at PE firms; and seismic shifts in compensation protocols and functional competencies and behavioral attributes critical for success.

So, if you're interested in hearing from the industry's most trusted and respected talent leadership advisory professionals, we encourage you to take the time to read this outstanding section of this year's report.

# FINDING THE RIGHT TALENT TO GROW EFFECTIVELY: THE EMERGING ROLE OF CHROS & TALENT AT PE FIRMS

## Jason Hanold, CEO & Managing Partner at Hanold Associates

*The role of executive search in the private equity industry is evolving and a major trend is the need for recruiters to involve themselves in the process. Jason Hanold is a major contributor to providing this service to private equity firms across the country. PE & VC firms alike have realized that they are limited with respects to value and growth without the right talent in place to get them there. Talent has become a key success factor which contributes to a PE firm's ability to sustainably and efficiently realize significant growth. Talent has become the differentiator between firms that can reach their potential and firms that want to progress further but do not have the resources too.*

*Mr. Hanold is the CEO & managing partner of Hanold Associates, the leading retained boutique executive search firm specializing in human resources leadership recruiting. He serves a client roster that includes Patagonia, Nike, eBay, Kohler, REI, Google, Riddell, Fossil, Carnival Corporation, the UFC, Blue Apron, Amazon, Vail Resorts, Abbott, Biogen, Electronic Arts, Godiva, Fiat-Chrysler, Bridgestone, Northwestern University, Heinz, Warburg Pincus, Medtronic, Zurich, Wikipedia, T. Rowe Price and SC Johnson, among others.*

*In the following Q&A, Mr. Hanold examines how Hanold Associates made a name for itself in the PE industry. Mr. Hanold also refers to the growing demand for leaders in the market and offers his opinion as to whether the demand will continue to grow over the next year. He then provides a more in-depth look at the process for selecting a CHRO for a PE firm including the qualities these firms look for and how the process of recruiting for the PE & VC Industry differs from others.*

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**How did you get involved in PE Industry, and is recruiting process different?**

Our involvement in the PE industry dates to the founding of our firm, and relationships in the sector that were established when that talent was in adjacent sectors, and then from those who were familiar with our work in in a variety of business scenarios and governance structures. The process differs from most in terms of how many stakeholders are typically involved, depending on the PE firm's involvement in the search. It varies depending on the portfolio company's autonomy and how the PE firm choses to insert either Human Capital or Operating Partners in that assessment and evaluations process. CEO and PE firm. Most PE firms of scale have sophisticated Talent leaders who can help their Portfolio Company leaders drive a successful search outcome with their respective search partners.

**The executive search industry has benefitted from growing demand for exquisite leaders. How have you responded to increased demand? Do you expect demand for talent in PE to continue to grow in 2020? Will it demand more than other industries?**

Growing demand for PE sponsorship has absolutely tightened the talent pool and requires that we think more creatively about the next iteration of distinctive talent to fuel the growth of the PE-backed companies. With the ballooning demand, yesterday's supply of those with proven experience in a PE environment with not fill the demand. We are evaluating talent in cultures where the expectations, pace, data demands and success characteristics look most similar to many PE environments, and then assess for agility, curiosity and grit, to better ensure these leaders without direct PE experience, can transition seamlessly. Most PE firms are successful and sophisticated when it comes to hiring. However, we have come across a few recently, who have enjoyed such a high degree of past success, that they seem unwilling to make future adaptations, think more creatively, and break from templates that helped drive past success. Its philosophical; do you subscribe to only the belief that only past behavior predicts future success, or are you consistently monitoring the horizon for better thinking, and does emergence of AI and empirical analysis like Sabermetrics have you searching for the application to our assessment processes? If the latter, you'll be faster to adapt. If you are a PE firm, you will want to ensure your search partners have leverage-able relationships beyond PE to help be valued advisors and assessors in the growing demand for talent.

**What qualities are PE Firms looking for in CHROs? Are these qualities different from other industries?**

PE firms are looking for some similar characteristics in their CHROs that we see in other sectors with similarly desired traits; Fast-moving, decisive, data-driven, action-oriented, operationally focused practices an obligation to dissent, builds exceptional teams, self-awareness, risks tolerance, agile and possesses a growth mindset. Those traits, among others are found in strong leaders and contributors outside of the PE environments.

**Is recruiting for PE Firms "data-driven"? How is Hanold Associates using data and AI to recruit ideal fit leaders?**

We are constantly evaluating new methodologies, thinking and technologies for bettering our rigor, efficiencies and effectiveness in the search process. However, we are balanced and disciplined in being mindful of the power of a truly effective qualitative interview. Research supports that the skilled interviewer (listener and questioner) enters into another's experience. The interview is a social interaction where the interviewer and interviewee share in constructing a story and both participate in the meaning-making process. AI can predict from patterns, aggregate data, provide directional guidance, and still miss the mark. It has not replaced the skilled assessors nuanced ability to apply the contextualization to the meaning, appreciating the relational basis of the interviewer and the interviewee where trust and reciprocity is establishes, and bridge the intersubjectivity to the relative opportunity to attempt to predict more than simple success, but the likelihood of future distinction and exceptional performance in role. Our firm is going into our 10th year, and I'm proud to see that our first several successful candidates from our very first searches, are soon celebrating their 10th anniversaries as well. While I can't adequately articulate how we get it right almost all of the time, we do, and we will continue to evaluate emerging AI protocols, and always examine ways to better our outcomes while constantly evolving in our craft. The most effective in our profession best blend the subject art with objective science. The purist on either side of the ledger will not thrive as do those who find the right blend of art plus science.

**Describe the process when selecting a CHRO for a PE firm.**

Our process is highly adaptive and tailored to the needs of the client. So even within PE, and sometimes even within different portfolio companies of the same PE firm, we'll launch very different processes for our client and their unique needs. With that said, some elements of old-school processes we see no value in including, like a long-list reviews, or having a PE firm review all profiles before an initial outreach. That's over-baking a process and adds no value. We will walk from those assignments where the PE-client operates counter to the very profile of the executives who they want to recruit. We know that we introduce our eventual successful candidates in three weeks from the launch of the search. So, we can either focus on outstanding, recruitable candidates, or we can have a sweeping view of a mostly irrelevant talent market. It's slow, its old-school, and there are better, faster ways to get after it.

**How important is Compensations structure when recruiting for PE firms, and how does it differ for other industries?**

Incredibly important. Many public company executives are attracted to the PE-environment for a couple of reasons, the first includes to managing and operating towards short-term quarterly Wall Street expectations. The second most cited reason it the opportunity for a wealth-creation opportunity, followed by the chance to be in a fast high-growth environment. The upside in PE is what often attracts some of the best executives in the world. Compensating them well and having the compensation tied tightly and directly to the performance of the organization is critical.

**What does "Dry-Powder" mean? Why is this important for search firms as they are called to recruit leaders for PE/VC firms?**

Significant Dry-Powder, to a point, is a highly attractive backdrop to a PE firm in the eyes of a prospective candidate. It shows that they have a strong ability to raise or build capital, and since it has the capital, more opportunities are imminent. Because of the aforementioned reasons as to why the most talented are attracted to PE firms, this supporting characteristic is evidence of more opportunity on the horizon. If a firm as too little dry-powder, it may have an adverse impact, and conversely, with too much dry-powder, once could reason that an investor base will become restless, and questions around decision-making permeate the candidates' evaluative themes.

# OPTIONS GROUP SEES SEISMIC SHIFTS IN COMPENSATION PROTOCOLS

## Richard Stein, Chief Growth Officer at Options Group

*Richard Stein is a partner, chief growth officer and head of OGiQ in Options Group's New York office. He has a distinguished career supporting the C-suite of many of the world's top financial services organizations in all aspects of talent acquisition, development and retention. Mr. Stein is one of the industry's top advisors with experience across the Americas, Europe and the Middle East.*

*His expertise lies in the financial services industry, with a particular emphasis on banking, wealth management, risk and capital markets. Throughout his career, Mr. Stein has originated and executed search and competitive intelligence assignments for major investment banks, hedge funds, asset managers and alternative investment firms around the globe. He is at the forefront of pioneering a new generation of human talent management solutions, through the firm's technologies where research meets recruiting for optimal strategic results. Its key differentiators capture real-time intelligence through a proprietary talent acquisition platform and original primary research with leading market participants on trends, issues, challenges, key performers, and competitor benchmarking.*

*In 2019, New York has again solidified its position as a champion for equal pay rights by passing two new laws designed to close the gender wage gap. The new legislation further amends the New York Labor Law by expanding employee pay protections and by prohibiting employers from seeking or relying upon compensation history information. Here's the latest thinking from Richard Stein.*

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### Shifts in Compensation Protocols

The new state-wide compensation history law, codified as Section 194-a of the New York Labor Law, bans employers from relying upon or inquiring about the compensation history of a job applicant or current employee in deciding whether to hire or promote, or in determining compensation levels, among other things.

The ban also expressly applies to persons or entities acting as an employment agent, recruiter, or otherwise connecting applicants with employers.

The compensation history inquiry ban does not prohibit an applicant or current employee from voluntarily disclosing their compensation history for the purposes of negotiation, so long as the disclosure was not prompted. That being said, employers should be careful not to coerce or pressure an applicant or employee into providing their compensation history.

The goal of this legislation, which becomes effective on January 6, 2020, is to prevent the perpetuation of gender bias throughout someone's entire career. By ensuring that future wage decisions are not based on past compensation this legislation allows all candidates to enter a new position unaffected by the biases (whether conscious or not) of past employers, as reflected by previous wage levels.

"Traditionally, asking candidates about their job and compensation history was considered a routine part of the job interview process," said Richard Stein, chief growth officer and global head of OG iQ, the intelligence platform at Options Group. "Recruiters in particular have long relied on access to candidates' compensation histories in order to act as talent brokers. In today's world, however, it has become clear that this model is no longer sustainable."

Notably, this new state-wide ban is in addition to and on top of the very similar prohibitions that already exist for New York City employers. Unlike the City's law, however, the new State ban also applies to "current employees," though it remains unclear how this aspect of the law will be interpreted and regulated.

### Expanded Equal Pay Protections

The state's suite of new legislation also expands equal pay protections for employees. The amended law, which will be codified as Section 194 of the Labor Law, requires equal pay among all members of protected classes as defined by the New York State Human Rights Law, which includes but is not limited to, gender, age, race, creed, color, national origin, sexual orientation, gender identity and expression, military status, disability, predisposing genetic characteristics, familial status, marital status, or domestic violence victim status.

Under the revised law, employers may not pay an employee who is a member of one or more protected class or classes at a lower rate of pay than an employee without status within the same protected class or classes performing work in the same establishment for:

- Equal work that requires equal skill, effort, and responsibility, and is performed under similar working conditions; or
- Substantially similar work, when viewed as a composite of skill, effort, and responsibility, and is performed under similar working conditions.

Employers are permitted to have pay differentials in compensation based on seniority, merit or a system which measures earnings by quantity or quality of production. In addition, employers may have pay differentials based on a bonafide factor other than status within one of the protected classes, such as education, training, or experience, provided certain other conditions are satisfied. This equal pay law will go into effect on October 8, 2019.

**Effect on Recruitment**

"Executive search firms, having already been challenged by burgeoning technological developments available to candidates and employers alike, now face another challenge," said Mr. Stein. "In navigating the new equal pay and compensation inquiry ban laws, firms have responded by putting much more focus on areas like organizational design, leadership development, job analysis, and executive assessment. Today more than ever the best recruiters focus on all aspects of talent. Operational structure, corporate governance, culture, business goals, results, and leadership composition are just some of the many factors that the modern recruiter is now expected to juggle," he said.

In addition to the growing emphasis on reviewing all aspects of a candidate in order to assess potential performance, recruiters must gather this information in a way that complies with the new compensation history law, said Mr. Stein. "Employers and recruiters are exposed to liability if they ask an applicant or current employee any questions about their current or previous compensation, whether in an application or an interview."

"That being said, nothing precludes an employer or an executive recruiter from asking about a candidate's desired or expected compensation, or even about a minimum compensation requirement for a desired position," Mr. Stein added. "These questions are forward looking and do not address the individual's current or former compensation. Similarly, nothing prohibits an employer or an executive recruiter from asking an applicant to justify or explain 'based on skills, training and experience' their requested compensation level."

"Search firms and their clients should promptly review their internal recruitments policies, as well as any applicable direct hire contracts, to ensure compliance with these new laws," said Mr. Stein.

**Effect on Employers**

The impact of these new laws will continue to push employers to update their compensation practices and protocols more rapidly than in past years. Companies are carefully revisiting their compensation strategies to ensure that they are adhering to the recently passed laws. One of the unintended consequences will be to accelerate the evolution of recruiters as strategic advisors. The most influential recruiters today are seizing the opportunity to become guides in an operational environment where old borders and landmarks have been blown away. Disruptions like the new equal pay and compensation inquiry ban laws will play to their strengths.

In preparation for these new laws, according to Mr. Stein, all employers should:

- Remove compensation history inquiries from the recruitment process: taking it off the application and training hiring managers not to ask any questions related to compensation. (bonuses, benefits, additional perks given to an employee in return for work are also included within the prohibition)

- Review their compensation practices with their outside advisors: commit to solving any compliance questions as soon as possible.
- Ban online searches of a candidate's compensation history: specifically during the recruitment and interviewing process.
- Ensure that each applicant's and employee's protected class status is not considered when making compensation decisions, and that there are bona fide business factors to explain any perceived compensation disparity.

Of course, employers should consider consulting their human resources and legal advisors in order to ensure compliance going forward.

# CEOS IN PRIVATE EQUITY SPONSORED COMPANIES: FUNCTIONAL COMPETENCIES AND BEHAVIORAL ATTRIBUTES CRITICAL FOR SUCCESS

## Keith Giarman, Managing Partner Private Equity and Mike Magsig, Managing Partner Board & CEO Practice at DHR International

Keith Giarman

Mike Magsig

*Keith Giarman serves as managing partner of the private equity practice at DHR International. He is based in the firm's San Francisco and New York offices. He is also part of the firm's advanced technology, financial services, board & CEO, and financial officer practice groups. For more than 10 years, Mr. Giarman has been overseeing board, C-suite and senior level search assignments working with management teams and investors where the mantra is rapid and long-term enterprise value creation. He has also been instrumental in the build-out of principal investing teams. Prior to DHR, Mr. Giarman built the CEO practice for one of the premiere boutique executive recruiting firms in Silicon Valley serving the venture capital community.*

*Mike Magsig leads DHR International's Board & CEO Practice, specializing in recruiting c-suite executives and board directors. Mr. Magsig is a leader in executive search, successfully working with clients to place their transformative C-level executives and board of directors and in succession plan creation. During his career, he has successfully placed more than 300 C-level positions at companies including Swiss Re, Broadway Bank, Horace Mann Educators, CNO Financial and NCCI. He also placed members of the Board of Directors at AIG, John Hancock Funds, and Assured Guaranty*

**Executive Summary**

The ideal profile of a CEO in a private equity sponsored company is situational – highly dependent on the investment thesis for a particular entity. Value creation in a turnaround, for example, is quite different from that applied in a stable company looking to expand via new markets, products or M&A. Small cap companies typically require some transformation as they strive for growth in competitive markets. The value creation that can be achieved with cost line improvements alone in these small cap companies is very unlikely to meet investor return hurdles. The reverse is also often true. Larger companies, especially those with sizable production costs, can often be rationalized to produce significant cost saving that drive profit (product line focus, process reengineering, lean/six sigma, etc.).

At the same time, new CEOs often err in thinking that all PE firms operate the same and have the same expectations. In truth, their approach will vary depending on the investment thesis. One company, for example, may be a more troubled asset. Another might be at a later stage of the investment. Perhaps the private equity firm had owned it for five years, tried to sell it and couldn't, and now they've got to go back to the drawing board and start over again. Very often in that situation that asset will require a different skill-set based on the aspirations at that point in time versus when it was acquired. In other words, things have changed and therefore the skill-set of the CEO needs to map.

Different firms have a different investment theses, and that matters. What also matters is that different partners operate differently on the board. For a CEO, what worked in PE firm A with partner Joe Smith may not work with PE firm B with partner Tom Davis. Personal styles and motivations often differ. Once the CEO is actually executing the value creation plan, he or she must also map how the PE firm wants to be involved and how they can be helpful. Case by case that can be quite different.

Importantly, cultural factors also weigh heavily when considering the appropriate leadership style for a CEO in a given entity. Has the current culture served the company well or will it require transformation to deliver desired results? Will the hard-charging CEO of a large financial services company in New York City be effective running a mid-market financial services company based in the Midwest? Without clarity on the cultural issues that frame a hire – where it is today and where it needs to go -- it is easy to make an error. Executives who cannot navigate the culture cannot create the "followership" required to meet business objectives.

With all of the above in mind, there appears to be some consistency in the attributes of CEOs most often identified as "must have" by our private equity clients. While certainly not an exhaustive list, these more common attributes are explored below.

### Find Value Accelerators


### Thinks Like an Owner

**The CEO aligns with the private equity sponsors, embraces the value creation plan, and thinks like an owner of the business.**

Strategic resource allocation and capital expenditure is critical in any company as it makes investment decisions tied to the achievement of strategic objectives. In private equity sponsored companies, there is even less room for error when making investment decisions that affect the business. The CEO (like others on the management team) needs to align with the owners. They should have a personal ownership position in the company in addition to robust equity compensation tied to his or her direct efforts to meet financial metrics.

They need to act like an owner of the business with a maniacal focus on achievement of the value creation plan. Thus, they will expect their team to do more with less and carefully assess the true benefits of spending precious resources in pursuit of growth and operational excellence.

*"CEOs need to do two things well to be successful in the long-term: run their operations efficiently and deploy the cash generated by those operations. Capital allocation is essentially investment and, as a result, CEOs working with their Boards need to be both capital allocators and investors. While CEOs have a wide range of responsibilities, this one just might be the most important of all."*

- Will Thorndike, Managing Partner, Housatonic Partners and Author of *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success*.

### Grasp the Value Drives

**The CEO is crystal clear regarding what drives value in the business and is crisp in communicating areas that require strategic and operational focus.**

Bain & Company's research over the last 40 years has discovered that the smartest PE firms focus on creating operating value within their portfolios and are doing so in a more systematic, focused and aggressive way than their competition. Bain has found that the CEOs who are most successful define the full potential of the portfolio company, foster a results-oriented mind set within the company and measure the core areas that drive real value. This unique attitude is just as important as stellar professional skills and an exceptional track record. In the words of Bain, they make equity "sweat" – putting all of the company's capital to work in order to harness talent, accelerate performance and develop an actionable blueprint for value creation.

*"The single most important thing is to make sure you have the right leadership for the business. In a world economy that remains prone to macro shocks, the firms we work for are looking for expertise and a successful record, but equally important, CEOs who really want to make a difference transforming a company."*

- Hugh MacArthur, Head of Bain's Global Private Equity Practice and lead author of Bain's 5th Annual Private Equity Report (publication date: February 2014).

### Measures Organizational Health

**The CEO has a finger on the pulse of the organization, is constantly assessing organizational health and ensures all levels of management embrace key imperatives.**

A great CEO and leadership team that cannot activate mid-level management to achieve value creation goals will not succeed. Thus, it is critical that the CEO establish a methodology for measuring organizational health. At a minimum, the CEO needs to spend time regularly in the "field" with the troops, especially those that touch the customer base most regularly. In smaller companies, this effort to be in the field on a consistent basis, listening carefully to opportunities for improvements, may be adequate. In larger companies, more structured processes may be required. For example, McKinsey & Company has established an "Organizational Health Index" that allows a larger organization to be surveyed periodically to see how key programs and strategic imperatives are being embraced during change management programs. (Please see "Beyond Performance" by McKinsey & Company Partners: Scott Keller and Colin Price.)

*"Focusing on performance isn't enough. Owners need to measure organizational health with the same rigor applied to performance metrics like revenue, cost and EBITDA. Such a measurement system and discipline is critical to create sustainable value; it is most certainly an early warning system that elucidates business performance issues."*

- Gary Pinkus, Director & Global Head Private Equity and Principal Investing Practice, McKinsey & Company.

### Is Focused on Employees

**Working closely with senior management, the CEO needs to create a healthy and robust work environment that ultimately drives customer satisfaction and superior equity returns.**

Traditionally, most companies have emphasized the need to satisfy shareholders and customers as key priorities, but only more recently have companies – PE funded and otherwise -- embraced more assertively an employee-first mentality. The theory is that engaged and focused employees, operating with well-articulated goals that are engrained into their daily routine, is the most efficient route to customer satisfaction.  By focusing on the work environment as a priority, companies inevitably create a culture of value creation implicit in their daily operating system.

*"CEOs and their senior teams should create a stimulating work environment that empowers their employees to take care of their customers. At Ascenty, we believe in the upside-down pyramid whereby first companies focus on creating a great work environment for their employees. Second, employees focus on providing superior goods or services to their customers. And third, satisfied customers lead to profits and excellent returns for the shareholders. Ultimately though, it is the entire organization that needs to believe in this chain reaction. CEOs and senior managers that only focus on the customers or even just financial returns to their shareholders will miss out on the most important link in the chain: your employees."*

- Christopher Torto, CEO of Ascenty, PE sponsored by Great Hill Partners (Prior, serial CEO of PE funded companies with multiple liquidity events, including IPO)

### Top Grades Management

**The CEO builds and cultivates a world-class team, celebrates successes, and acts quickly and decisively in addressing performance shortfalls.**

World-class CEOs place greater emphasis than their competitive peers on attracting, developing and retaining top talent. Such CEOs are focused on empowering and delegating greater responsibilities to those employees who will respond to the challenge. They set a collaborative tone across functions and business units through mutual trust and clarity of shared purpose. Clear performance expectations are set based on attaining tactical milestones that align with the value creation plan. Appraisal systems are based on factual quantitative and qualitative objectives that stretch business performance expectations, recognize outstanding achievements and identify areas for personal development and improvement.

*"There is nothing more important to building a business than recruiting exceptional talent and creating an environment that is team driven and all players feel a sense of fairness. I grew a business from 60 employees to 1,400 in 4 years and it could not have been accomplished without strict adherence to sound management practices and fair play."*

- Walter Raquet, Founder, Green Earth Technologies (former Co-Founder of Knight Capital [1995-2002])

### Creates Followership

**The CEO is a superb leader and communicator who builds relationships well, sets a clear and compelling vision, and can rally the organization from the Board down to the field staff.**

Some see “charisma” as a necessary element of effective leadership, but research, (Jim Collins, “Good to Great, and others) has proven that a long-term, willful, less egocentric approach to the business yields optimum value creation for the entity. Some dispute these findings when considering the success of technology CEOs like Steve Jobs at Apple (the Product guy) and Larry Ellison at Oracle (the General). Effective leadership styles will vary based on the company’s culture, the markets served and business requirements, but there is some commonality. Great CEOs have presence and gravitas that allows them to get the attention of their people – from the Chairman of the Board down to the customer service representative. They communicate key imperatives clearly and build a motivated team that can establish momentum and measurement systems that ensure the key imperatives stick.

*“The best CEO will fail if they cannot get others to follow based on a well-developed understanding of the business and how to drive value. While simple, high-impact delivery is critical, the substance of our messages is just as important. It is important to convey information transparently and with accuracy as you problem solve with the team to focus and motivate the organization on key initiatives that drive value for customers, employees and the investors in the business.”*

- Peter Weber, CEO, Curvature (PE sponsored by the Partners Group)

### Knows the Customers

**The CEO is keenly aware of how the company and its product and services are perceived by the customer base and continually verify how the company syncs with current and ongoing customer requirements.**

The CEO develops and executes an appropriate strategy and, more importantly, effectively evolves that strategy based on a solid understanding of the company’s core offerings, be they product or service or both, through the lens of their customers. Without an understanding of customer requirements and a concomitant focus on serving customers well, companies cannot meet their top line or bottom line growth objectives. Great CEOs prioritize time spent with customers as well as internal functions like sales and customer service as part of their daily routine. They align customer needs with internal business operations and make measurement of the company’s effectiveness in meeting those requirements an absolute imperative.

*“CEOs need to stay strategic in their overall management style to effectively orchestrate and coach the team for success, but cannot maintain such an abstracted view that they miss insights coming directly from the customer base. These insights are critical in accurate strategic and resource allocation decisions.”*

- Tom Tiernan, President & CEO, VFO Group (former Operating Partner at Francisco Partners)

### Knows the Numbers

**The CEO knows how to interpret and communicate the financial status of the business with cash-flow and balance sheet management as the mantra.**

While there is no question that CEOs need an outstanding Chief Financial Officer (CFO) as a business partner, there is a preference for CEOs who can go deeper on the numbers. That does not mean the CEO needs to have grown up in the finance silo. Quite the contrary, a lot of contextual factors will dictate whether a more market-facing, finance-oriented or operations-driven CEO is appropriate for the business. Whatever the functional background of the CEO (and they all have a “spike” in terms of their functional abilities), fluency and granularity in the analysis and communications of numbers-related issues related to Profit & Loss is critical.

*“When we look across our portfolio and our history, we have looked to our CEOs to be more accountable for the strategic running of the business, pulling levers and orchestrating the team against a value creation plan. But it is clear from our experience that there is a threshold level of competency required in understanding the core financial issues facing the business. Our best CEOs are strong leaders with good balance in their functional expertise and always have a great*

*CFO by their side as a true partner running the business and making good capital and resource allocation decisions."*

- Greg Pappas, Managing Director & Head of Portfolio Support Operations, Berkshire Partners.

**Conclusion**

CEOs of private equity sponsored companies have a tough job. It requires a disciplined, focused and metric oriented approach. Importantly, CEOs need to effectively balance the interests of a range of stakeholders, including investors, management, customers and, in many cases, founders and families. When CEOs think like an owner of the business driven by their equity position, and instill the same mentality throughout the organization, true breakthrough performance can occur and all stakeholders win along the way.