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2021 Global Private Equity Talent Leadership Report

Designing the New Private Equity Talent Blueprint

A transformative shift in PE recruiting – with an emphasis on culture, diversity & inclusion, and engagement – is unleashing higher levels of leadership performance to drive value, growth, and results. Here's how.

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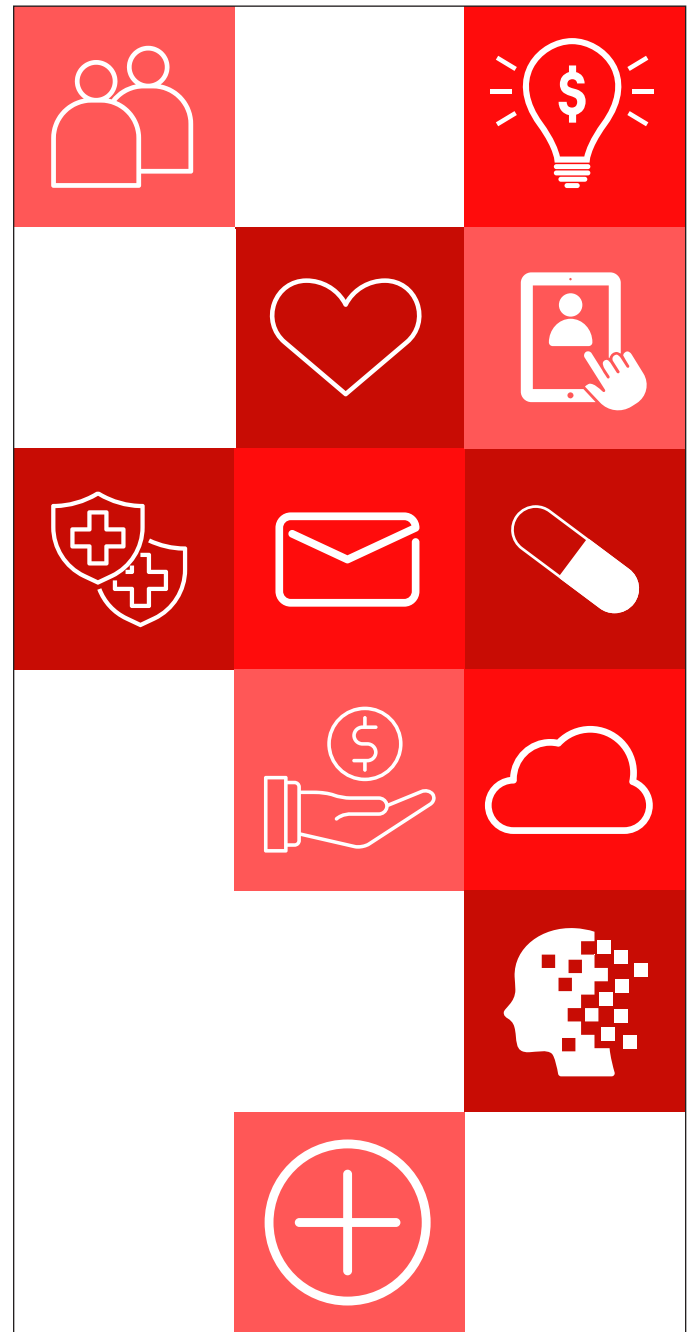
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leadership and talent solutions consultants who service them.

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FOREWORD

FOREWORD

Regardless of industry or profession, we all experienced some level of challenges in 2020 due to Covid-19. Now a full year into the pandemic, a “new normal” is setting in, as organizations are focused on proactively preparing for the future. As the CEO of an executive search firm serving private equity and their portfolio companies, I’ve had a unique vantage point over the past year working side-by-side our PE clients and hearing first-hand how their business strategies are evolving based on experiences and learnings from the global pandemic.

2021 began with a great deal of optimism as vaccine access and distribution began to increase and new Covid-19 cases continued to decrease. For the private equity market – and executive search firms that serve PE firms – it was an explosive first quarter of the year. The uncertainties of 2020 caused many PE firms, and investors in general, to take a conservative approach to investing until markets stabilized. Now, we are seeing growth and private equity firms deploying capital at record-setting rates, and the need for key executives to lead these companies is vital.

Like many of our clients, we’ve spent the first half of the year reflecting on our experiences from 2020 and evolving our business strategies based on learnings from the past 12+ months. I am pleased to share perspective on some of the trends we are seeing in the PE market as we look forward to the rest of 2021, and years ahead.

A more hands-on approach

Many PE firms learned from past crises that during times of turmoil it is critical that they take a more hands-on approach with portfolio companies. This often means looking closer at talent, specifically in leadership roles, and identifying ways to harness higher levels of leadership to increase results and returns. Many firms are now deploying a much wider range of capabilities to drive value, such as

building operating partner teams, and adding more specialized functional expertise.

Evolving operating models

Coming out of 2020, many PE firms realized it was time to adjust their operating models to be successful in the “new normal.” Strengthening operational improvement capabilities and leveraging key advisors to implement business models have become top priorities for firms looking to become more agile and resilient to future market volatility. PE firms significantly modified their operations to provide safety and protection for their employees, with a focus on limiting business disruption and ensuring agility going forward.

Additionally, PE firms are continually improving upon talent management models, moving beyond traditional views of human resources to something more transformative – with a heavy emphasis on talent management and development, culture, and engagement. Many are looking to experienced recruiting firms to share insights on how other PE clients are successfully evolving the focus and attention placed on talent management and acquisition strategies.

Increased complexities and importance of the CHRO role

As organizations strategically plan for business operations in 2021 and beyond, many are grappling with questions around the future of work, including things like office space, health and safety of employees, remote and hybrid workforces, and maintaining company culture. As some organizations begin the process of migrating back to the office there are numerous policy and workplace systems that need to be addressed. Organizations that hadn’t properly invested in human resource leaders prior to the pandemic are now facing difficulties in

securing top talent in this area as key HR executives are becoming increasingly important in helping organizations navigate through this period of transition and transformation.

Pent-up demand is impacting talent pools

With many PE firms electing to take a more conservative investment approach during 2020 due to uncertainties, most (if not all) of our PE clients see 2021 as a recovery year with pent-up demand for both products and services. So far this year, growth and private equity firms are deploying capital at record-setting rates, and the need for key executives to lead these companies is vital. With a drastic increase in market demand, it's extremely challenging to acquire top talent. The companies that are successfully landing top-tier executives this year are those that are moving quickly and decisively, and often exceeding compensation expectations.

The increased use of technology has also significantly contributed to the expedited pace of search execution. Given the widespread use of video, we are seeing expedited search timeframes as both candidates and organizations are more readily accessible for interviews. I believe this is a trend that will certainly become a part of the "new normal."

Pent-up demand for great business leaders

One interesting outcome of the current situation is that the pandemic has exposed leaders that looked better than they actually were because of a strong economy. Management at all levels is now being tested on having true leadership skills and strategic capabilities. I believe that sponsors of these businesses have acknowledged the necessity, now more than ever, of having strong C-suite leadership. This year is providing to be an important year for identifying and securing top business leaders but for reasons mentioned previously, it is also providing to be a

challenging time to effectively execute on recruiting due to extreme competition for top talent.

Re-thinking requirements when hiring business leaders

As the war for top talent continues to heat up, more and more organizations are reassessing previous requirements for executive roles, particularly as it relates to location. With companies assessing and changing their real estate footprints real-time as remote workforce policies are established, many organizations are grappling with the decision as to whether they are willing to have executive candidates reside outside of their core office location areas. Organizations open to remote leaders may benefit from a wider, and more diverse, talent pool. However, there are also drawbacks to consider – as a lack of key executive presence in office headquarters can have a serious impact on a company culture and employee engagement, two areas that have become increasingly top of mind for organizations during this period of remote work.

Technology, flexibility, and agility are the new normal

A tremendous silver lining of the involuntary remote workforce was the expedited nature by which almost all businesses were forced to deploy and adopt technology at a rapid pace. CIOs and technology leaders have been challenged in unimaginable ways over the past 12+ months, and it's become increasingly apparent that the most successful tech executives are those that had proactively planned in areas like disaster recovery and security vs. play a more reactive, "keep the lights on" type of role. Going forward, we expect technology, security, and risk management executives to be extremely high in demand across all industries.

With great challenge comes great opportunity and so far in 2021, the opportunities have been plentiful.

At JM Search, we started the year with our best first quarter in our 40-year history and we are continuing to partner with our clients to deploy creative and efficient talent solutions to meet their evolving needs. To a great second half of the year and beyond.

– John Marshall
CEO
JM Search



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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Designing the New Private Equity Talent Blueprint

A transformative shift in PE recruiting is unleashing higher levels of leadership performance to drive value, growth, results, and higher returns. But according to Gary Pinkus, chairman of North America at **McKinsey & Company** and former global leader of the firm's private equity practice, problems persist. "We are falling short on getting the right talent into the right roles – and we are not moving fast enough on talent," he contends.

To accelerate answers, PE talent leaders and executive recruiters are establishing the new science of talent. In the recent past, PE firms deployed a wide range of capabilities to drive value to assist management teams in assessing leaders and transforming performance. Today, the emphasis has shifted to new drivers, including culture fit, DE&I, engagement, and adaptation. These are just some of the new levers that private equity talent leaders are pulling to unleash leadership potential.

For private equity firms and their portfolios, competitive advantage is rooted in winning the talent game. That means evaluating talent faster with a wider range of capabilities and stakeholders – and it happens when the right resources, the best tools, and the most adept recruiting partners combine to create a rigorous, comprehensive go-to-market strategy for talent. Maximizing value creation for portfolio companies begins and ends with connecting and integrating strategy with talent. The unique leadership demands of private equity demand a new set of talent blueprints for every private equity leader, their talent acquisition teams, and executive recruiters who serve them.

Let's go inside the latest thinking.

To many, the decade coming out of the Great Recession of 2007-2008 has been considered the golden era of private equity. As a revealing report from **Spencer Stuart** put it not long ago, PE firms refused to simply sit back and reap the rewards of the improving market conditions but put the lessons of that crisis to work for them. In short, they took greater control of the reins on their portfolio companies and adopted a more hands-on approach. “Many firms deployed a much wider range of capabilities to drive value, for example building operating partner teams and adding more specialized functional expertise (e.g. in finance, IT, supply chain, HR and digital) to assist management teams in transforming performance,” said the report.

A critical component of this approach was to look closer at the management team and especially the chief executive officer. “Private equity firms have been early, enthusiastic adopters and expert users of cutting-edge assessment methodologies in recent years,” said Spencer Stuart. “Many firms have institutionalized the assessment of management teams during the first 100 days following a deal, giving them deep insights into their new investment. This allows them to plan and shape the right support structure around the management team and apply the full range of the investor’s new functional capabilities to position the team for success.”

Today, as the U.S. emerges from a pandemic that has taken the lives of more than four million people globally, including over 630,000 in America, and rocked the very foundations of the world economy, another transformative shift is underway in private equity. The industry is entering nothing less than a new era in PE talent, which some have christened “the platinum period.” Now, the emphasis is on new drivers, including culture, diversity and inclusion, and engagement. These are just some of the new

INSIGHT

3 Ways HR Leaders Can Prepare for a Portfolio Company CHRO Role

SpencerStuart

Private equity’s impact on the global economy is growing every year. The sector has become a financial behemoth worth as much as \$7 trillion dollars globally, according to a recent McKinsey report — and, as a result, an important direct employer of millions of people worldwide.

Consequently, in **Spencer Stuart’s** work advising leading private equity firms and portfolio companies, the firm is seeing that both the demand for and the profile of HR leaders at portfolio companies is on the rise. More private equity owners today view the CHRO not only as someone who oversees the HR function, but also as a strategic business partner to the CEO, the board and private equity partners and operators. Here’s how HR leaders can prepare themselves for a portfolio company CHRO role:

Do your Homework and Align Your Expectations Anyone considering a position in a portfolio company must understand the private equity firm’s goals in owning that business. What is the investment horizon? Are there plans to either grow or downsize before being sold? What level of importance does the private equity owner place on talent?

In many cases, joining a portfolio company means that you’re going to an environment where resources may be more limited than in a public company — smaller teams, less existing technology and systems, or lower appetite for investment in either additional people or new tools. Can you work within these possible constraints to succeed in the position?

Demonstrate HR’s ROI Private equity owners and portfolio company leaders are typically data-driven, numbers-oriented and analytical. Successful portfolio company CHROs will similarly link their role to the company’s bottom line and have the ability to link the HR function’s work and roadmap to the business’ overall goals.

Gain Experience Outside of Your Domain Business acumen is a key success factor for portfolio company CHROs. Seek opportunities that allow you to connect with the business as much as possible — if you’re in a specialized HR role, branch out and seek opportunities to be a partner with the business. Volunteer to be part of cross-functional projects and get involved in M&A type activities where possible. The more transformation and change management experience you can gain, the more prepared you will be.

Source: Spencer Stuart

levers that private equity talent leaders are pulling to unleash higher levels of performance in leadership. Indeed, executive recruiters and PE talent leaders are designing a new set of talent blueprints to recruit,

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assess, and extract value from existing and incoming leaders. And their aim is to uncover new and sustainable ways to enhance value, growth, results and returns.

In contrast to the earlier collapse, private equity firms, their portfolio companies and the executive recruitment firms that serve them are in large part coming out of the pandemic with business booming. "In Q2 2021, PE deal making continued at a frenetic pace for the third quarter in a row," says a new report from the financial data and research company **Pitchbook**. "Through the first half of the year, PE firms have closed on 3,708 deals, worth a combined \$456.6 billion—nearly two-thirds the deal value we recorded in all of 2020. Q2 2021 registered the second-highest deal activity in a decade after Q4 2020. While it may be too early to predict with certainty, deal making and exits are easily on pace for a record-setting year, while fundraising is tracking close to 2019's elevated levels."

Hiring Challenges

"Several factors drove this unprecedented rally in PE activity," says Pitchbook. "According to the **Centers of Disease Control and Prevention**, over 50 percent of eligible U.S. residents are fully vaccinated, and the economic recovery has continued apace. Inflation rose significantly in May, and the Labor Department reported that unemployment claims fell to their lowest levels since before the pandemic. Investor confidence remains high as equity markets continue to move up and to the right. Additionally, even riskier companies are enjoying favorable conditions as the high-yield credit spread fell to a post-global financial crisis (GFC) low point in June."

Investment data firm **Prequin**, meanwhile, reported that through June private equity funds around the world, including venture capital vehicles saw the best first half in at least five years, closing on \$459 billion.

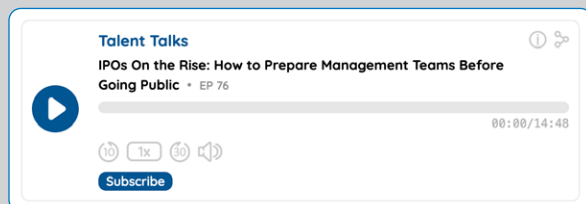
TALENT TALKS

IPOs on the Rise: How to Prepare Management Teams Before Going Public



In this episode of 'Talent Talks,' Hunt Scanlon Media host, Rob Adams, is joined by Dan Hawkins, founder & CEO of **Summit Leadership Partners**, a leadership advisory firm that frequently works with companies preparing for an IPO. Summit was originally founded in 2014 by Dan Hawkins, a global executive and former CHRO with a passion for advising growth-oriented companies and business leaders to scale and improve performance. Since then, Summit has attracted some of the finest talent and organizational performance experts in the industry and helped a wide range of businesses meet the demanding expectations of boards and investors.

In this podcast, Mr. Hawkins discusses why IPOs are on the rise and how that surge is impacting the PE and VC sectors. Mr. Hawkins then shares his experiences working with management teams throughout the IPO process and shares tips for companies interested in going public. Listen Now!



That was 51 percent above the same period during pandemic-ravaged 2020 when \$303 billion was raised.

Investment giant **Blackstone**, for its part, released a survey of 51 CEOs this summer that showed continued optimism for the industry. "Sectors that have been disrupted by COVID-19 – such as energy (with battery storage solutions and renewables driving growth), industrial, consumer and location-based entertainment – have begun to rebound," the report said. "Within Blackstone's portfolio, we have seen that larger, well-capitalized companies in 'good neighborhoods' – fast-growing areas such as technology, life sciences and global logistics

that are benefiting from secular trends – have been more resilient and are expected to continue growing strongly."

"Our surveyed CEOs expect strong growth in the latter half of 2021 and into 2022," the report said. "Most respondents expect business conditions to be better by Q3 and over half expect 2021's margins to exceed 2019 levels. A majority of respondents also expect to see their company's employment levels to be greater at the end of 2021 relative to pre-COVID-19 levels."

"While the outlook remains generally positive, surveyed CEOs believe hiring and retaining qualified workers may prove more challenging for their respective businesses with the possibility of wage inflation and higher input costs."

There are other concerns on the horizon as well. A recent **Summit Leadership Partners** survey of 200 portfolio company CEOs said that while portfolio companies are coming out of the pandemic stronger than ever, there is an uneasiness about talent management. "In fact, about four in five (83 percent) portfolio company CEOs don't feel their company is on a good path of meeting their talent goals," Summit's study reported. When it came to talent management, 38 percent were worried about being able to execute on their goals. Thirty-seven percent said they were making progress but not enough to be competitive. And 22 percent said it was a major concern of which they cannot sleep at night thinking about it.

"Portfolio company CEOs, who face pressure to execute on their value creation plans and deliver against their EBITDA target, are now becoming concerned about the stability of their leadership and employee engagement," according to Summit's report. "The top talent challenge over the next 24 months is expected to be promoting and sustaining

Hunt Scanlon PE Recruiting Power 100

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culture remotely (50 percent), followed closely by developing leadership bench strength (46 percent) and retaining key talent (46 percent)."

On a positive note, the Summit Leadership Partners survey reported that portfolio companies intend to incorporate more diversity, equity, and inclusion (DEI) within their hiring practices to be more sustainable amid the growing shift in social awareness: "The overwhelming majority (95 percent) of portfolio company CEOs say DEI is a focus area for their company over the next one to two years."

Leadership Exposure

All that said, PE talent managers and executive recruitment firms report that in large part they have been busy and getting busier finding leaders for private equity firms and their portfolio companies. John Marshall, chief executive officer of **JM Search**, says that despite the pandemic JM Search had an "amazing year" in 2020. "We finished 2020 exceptionally strong," he says. "Right now, we're off to a record start. We are up about 60 percent in the first half of 2021."

Private equity firms, in particular, have needed leaders across all senior operating functions of their portfolio companies. Those roles include CEOs, CFOs, CIOs, operation directors and chief revenue officers. "There is a tremendous pent-up demand for talent," says Mr. Marshall. "We are busier today than we have ever been." In many ways, he says, the pandemic forced equity sponsors to look at their businesses a bit differently. "The pandemic exposed weak leadership," says Mr. Marshall. "When the economy was essentially in lockdown, there were a number of leaders who had been doing okay in a strong market, but when things got tough they weren't up to the challenge to lead their organizations. The exposure to this lack of leadership was noted by the sponsors and they are now making the necessary changes in

Q&A

New Skill Sets Sought After in Wake of Pandemic



John Marshall, CEO of JM Search has been helping companies build exceptional management teams for over 35 years. Under Mr. Marshall's leadership, JM Search has grown to become one of the 20 largest retained search firms in North America and the premier

firm dedicated to serving private equity and venture capital investors and their portfolio companies. In this interview, Mr. Marshall shares how JM Search fared in 2020, what skill sets are most important as a result of the pandemic and how and where to find leaders with these soft skills.

Can you give us a sense of how JM Search fared during the pandemic?

Over the course of the pandemic, I actually thought we had an amazing year, we hired 17 new people. We grew, we didn't let anybody go, nothing was cut. We got a lot of very strong initiatives put into order when there was a little bit of a slowdown in particular, in March, April, and May. But, you know, we finished exceptionally strong. It was a good year, right now, we're crushing it. We're off to a record start, I think we're up about 70 percent year over year.

Give us a sense for how PE firms did during the pandemic and how they're doing now?

I think the pandemic had two major impacts: it forced equity sponsors to look at things a little bit differently and then the pandemic exposed weak leadership. What I noticed last year was, when the economy was essentially in lockdown, there were a number of leaders that, were doing okay, in a hot market, but when things got tough, they weren't up to the challenge.

I think that this exposure of this leadership is leading to turnover within leadership at these companies. Although they may not have made changes at the time, they certainly remember what happened. And now, they're looking for leaders that are going to be able to perform not only in the good times, but

also in bad times. The other thing the pandemic did is it gave equity sponsors time to really go in and analyze their portfolio companies. I would say that it's certainly busier than ever and equity sponsors are moving very, very quick.

What skill sets are being sought after in the wake of the crisis?

Communication, inspiration and motivation. Those were the three major skill sets that they that were lacking during the pandemic. They've need to have that it-factor, they need to be leaders, they need to be out front, they need to keep the team inspired and motivated, and they have to have constant communication. These soft skills have become increasingly important.

Where do you find that kind of that kind of talent?

You've got to look at all sorts of companies, including companies that are private equity sponsored as well as companies that are public, where people have autonomy, and are running their own P&L. Quite frankly, you need to look for people that have a strong desire to run and drive businesses. They're out there, you just have to unearth them.

And, how do you know that they have those abilities?

You can uncover these abilities by spending a lot of time with the candidate and assessing them for those capabilities. You can use deep dive interviews, and excessive referencing from people that they've worked for and people that have worked for them. The interesting thing is, people always say, what do you spend your time doing? And I say, in the research business, you should be spending about 50 percent of your time recruiting 40 percent of your time doing due diligence on the people that you've recruited, and 10 percent of your time dealing with your client to best understand their needs. It is a little bit different today, there have been changes in the way people travel, remote working, and how they conduct meetings and interviews.

leadership to ensure their portfolio's future success. I believe that sponsors realize that in the future we could be exposed to additional events that could stimulate an economic slowdown. As a result they are looking for leaders that are able to perform in all types of market conditions."

Many of these ineffective leaders, says Mr. Marshall, fell short in three main areas: communication, inspiration and motivating their workforce. Senior executives "have got to have that 'it' factor," says Mr. Marshall. "They have to be leaders. That means being out front. Inspiring their teams. And most importantly

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keeping their employees focused and motivated. Constant communication is critical. These soft skills have become increasingly important. When you have half a million people in the United States die in a year it does cause people to stop and reflect. This caused many employees to look at their lives and their careers differently. Leaders have to realize that reflective mindset and be able to continue to inspire their employees the importance of still performing .”

“For PE firms, the trend right now is there is a strong focus on their own internal culture,” says Mr. Marshall. “There is a strong emphasis on diversity. And there is a strong push for going out and attracting the best talent. And they are willing to pay for that talent. There’s a lot more flexibility around compensation today than there has been in the past.”

The pandemic, of course, has changed the ways of life and the course of work for billions of people. Against this backdrop, organizations have the ability and imperative to improve diversity, equity, and inclusion (DE&I) in the workplace – and for good reason. It turns out that doing so may provide additional levers for financial outperformance, says Johnathan Medina, head of inclusion and diversity for **Apax Partners**. The scale of potential value creation within PE firm’s portfolios by moving from laggards to leaders in diversity and inclusion, he contends, is enormous.

According to Gemma Gucci – global head of talent acquisition at **Apollo Global Management**, broad and lasting changes to the workplace have advanced a more integrated approach to talent management built around culture. “Organizations that once synchronized their talent to corporate vision, core values, and strategic objectives are now aligning people around purpose,” she says. Building sustainable cultures in the long run, she argues, will attract, engage, and retain talent – and give

organizations with strong cultures a key competitive advantage. How private equity talent leaders leverage culture as an investment advantage she believes will be a growing consideration as we evolve into a post-pandemic era.

Jeff Warren, who co-heads the private equity practice in the Americas for **Russell Reynolds Associates**, says that private equity is a major focus for his firm and that even after a year of crisis, their PE business is booming. “When we look at our private equity business – including board, CEO and CFO hiring at portfolio companies and across industry groups

– activity will be up by 30 percent or more this year compared to pre-pandemic levels,” he says. “We’ve had a huge focus on private equity. It’s now roughly 25 percent of our total engagement activity. Our consultants are focused on how we deliver our firm broadly to private equity, whether that’s executive search or advisory services.”

“Every one of our industry practices that covers portfolio companies and our colleagues that cover the PE firms themselves are running at a pace above pre-pandemic levels. And, diversity, equity and inclusion considerations are impacting every search.

SPOTLIGHT

The Old CFO Hiring Playbook is Holding You Back



The critical role of the chief financial officer (CFO) in a PE-backed business is well-documented. Despite this outsized importance and the frequency with which PE investors hire CFOs across their portfolios, there remains significant uncertainty around which characteristics and core competencies to look for in candidates. To better understand CFO hiring trends across the European PE landscape, **Russell Reynolds Associates** analyzed a representative subset of 150 of these companies, using sponsors’ fund sizes as a proxy for company scale.

Why are you ignoring internal talent?

It is a well-known fact that the CFO is the most frequently upgraded function following a buyout, with sixty percent of companies in our dataset having replaced their CFO post-acquisition. Where a new CFO was hired, the successful candidate was overwhelmingly likely to be externally hired, with promotion prospects for internal candidates slim at just seven percent. Promoting the number two to the CFO role can lead to a quicker transition and smoother onboarding if the bench is strong enough. Identifying and nurturing high-potential internal talent should be at the front of your mind from day one.

Why aren’t your CFO’s more diverse?

On average, 14 percent of portfolio company CFOs are female, slightly trailing both the FTSE 350 and the Euro Stoxx 50, each at 17 percent. There is significant variation across fund sizes, with smaller funds having made greater strides towards more female representation.

What trade-offs are you willing to make?

PE investors love to hire CFOs who have already done the job, thereby limiting their talent pool and denying their portfolio companies innovative next-generation talent. While businesses owned by funds in the €1-4.99bn range are 14 percentage points more likely to hire a step-up CFO than larger portfolio companies,

two-thirds of current CFOs have served as a CFO before. Integrating psychometric assessments and leadership coaching into the hiring process can mitigate the risk of hiring an unproven candidate. Psychometrics also allow for a wider net to be cast, leading to a more diverse talent pool. Given the relative dearth of female CFO talent, it is interesting to note that almost 50 percent of female CFOs were step-up candidates compared to just 30 percent of male candidates. Similarly, female CFOs were 20 percentage points more likely than male CFOs to be hired from outside of sector, highlighting the trade-offs that investors will make to bring in more diverse talent.

Is experience really better than potential?

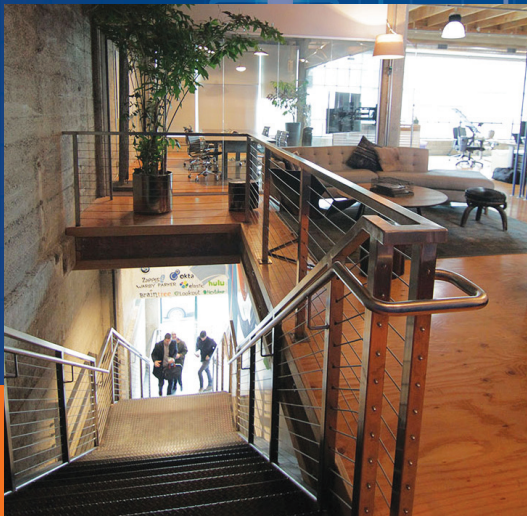
“But have they ever worked in PE before?” is the most common question when screening CFO candidates. PE is one of the most challenging environments in which a CFO can operate, and proven comfort with high leverage, frequent reporting, and working capital pressures is seen as crucial. Contrary to conventional wisdom, most portfolio company CFOs have never held a PE-backed CFO role before, and this is especially true for portfolio companies of funds in the €1-4.99bn range. Similarly, the CFOs of smaller portfolio companies are 14 percentage points less likely to have led a business through an exit than those at the helm of large-cap portfolio companies. The PE market was extremely buoyant between 2018 and 2020 but funds have recently fallen back on old habits, increasingly hiring based on experience rather than potential.

Source: Russell Reynolds Associates

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That could be specific searches focused on recruiting DE&I leaders to the firms or portfolio companies. We are ensuring diverse slates are brought forward in every search that we do.”

Russell Reynolds has also seen a strong effort by private equity firms to focus on adding diverse representation to their portfolio company boards, which for many had not been the case before last summer’s social justice protests. “I think the publicly traded and global, multi-strat alternatives firms had some diversity on their own boards,” says Mr. Warren. “But that was not the case on their portfolio companies’ boards. They are laser focused on that now. And, we’ve had numerous clients who have said, ‘We’d like to retain Russell Reynolds to recruit diverse directors,’ on just an open ended retainer. Also with less than 15 percent of senior roles being held by women at the GP level, most GPs have diversity and inclusion as one of their top talent management priorities.”

In many ways, the crisis has bolstered Russell Reynolds’ private equity relationships. “The pandemic has brought us closer with many relationships where we have done work across different industry teams and are viewed as a strategic adviser,” says Mr. Warren. “That’s only been heightened by the pandemic.”

“Our private equity clients are embedding us in their investment processes as they looking at potential investments and want to speak to industry experts,” he says. “They’re looking for insights on potential acquisitions and leaders in those industries that have perspective on strategy and execution, as well as talent. That pre-deal, talent advisory approach has become more programmatic. Post-deal, some private equity firms are also taking a more systematic approach towards onboarding; they realize it’s not just about getting the right CEO recruited, but also about

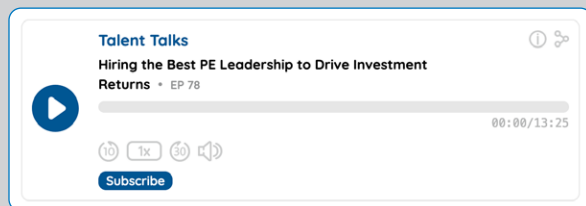
TALENT TALKS

Hiring the Best PE Leadership to Drive Investment Returns



In this episode of 'Talent Talks,' Hunt Scanlon Media host, Rob Adams, is joined by Larry Hartmann, CEO of **ZRG**. Mr. Hartmann is a results-driven leader with a broad business background in executive search. As CEO, Mr. Hartmann is responsible for driving overall growth, client engagement and profitability of the firm. Another key focus of his is engaging and recruiting top talent to join the firm as well as selectively pursuing additional acquisitions that fit the ZRG culture.

In this podcast, Mr. Hartmann discusses the role of executive recruiting in the private equity sector. He also touches on the importance of culture, diversity, and engagement and shares how talent leads to investment returns for private equity clients and their portfolio companies. Listen Now!



what they do in those first 150 days in order to ensure a CEO's success."

The Talent Imperative

Keith Giarman, managing partner of the private equity practice for **DHR International**, says that the pandemic brought a dip in business for about 60 days in 2020, but before long things began picking up again. "We were at pre-COVID level very quickly, probably around September," he says. "I actually had one of the busiest years I've ever had in 2020. A couple things slowed down. One search got cancelled, I finished a couple, and by the time I had those done, things just took off."

For private equity firms and their portfolio companies, finding good people is imperative no matter what the



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circumstances. “The system is so flush with capital that whether PE firms are putting a lot to work, or they’re working their companies through a difficult time, or they’ve been trying to sell the company and they can’t and they have to change management, they need superior help on the talent side at every point in the cycle,” said Mr. Giarman.

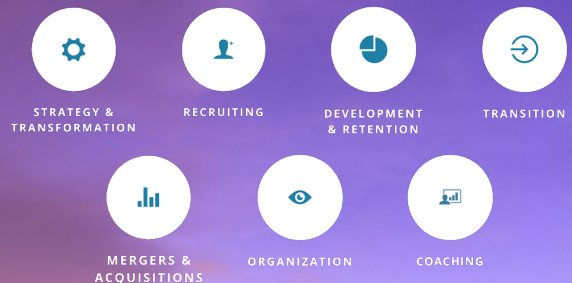
Clearly, COVID-19 had a drastically negative impact on sectors like entertainment, hospitality and dining, says Mr. Giarman. But then other areas thrived. One of the more obvious examples was E-commerce, with the accelerated shift to digital in both market-facing sales and on the back-end in everything from supply chain to warehousing. Other sectors that thrived during the crisis were food manufacturing, healthcare, life sciences and pharma, to name just a few. “If you net it all out, it’s no surprise that we got busy really fast and continue to be going into 2022,” says Mr. Giarman. “This year, it has gotten dramatically even more so. But I think that’s true more broadly across all industry sectors as some of these other sectors come back with vaccines.”

Virtually all PE firms, says Mr. Giarman, have come around to embracing the talent management function as integral to success. “Some people might say, ‘Well, we’ve always known it was critical,’” he says. “But personally I see companies building internal capabilities with a focus on talent management as evidence in private equity by a much more profound focus on the CHRO in a way that is different from 10 years ago. Talent has just continued to get more and more important as people have figured out that it’s all about execution and culture. You need the right people at the top that can motivate the people in the middle of the organization and all the way down through so they buy in and they get the job done. And you better be measuring that along the way. Things have shifted to much more of a view toward

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organizational health, adaptability, innovation. Those are all things that rely on the right people and the right processes relative to how you think about a business.”

Frenetic Activity

Dan Hawkins, founder and CEO of Summit Leadership Partners, says that by and large the private equity clients that Summit advises are doing well coming out of the pandemic. “The deal making activity is absolutely frenetic right now,” Hawkins says. “There’s a lot of capital to deploy, impatient investors and valuations are probably overheated. Everyone is in very active deal making mode - more active than it has been in a couple decades.”

Recruiting has been robust, Hawkins says, but a shortage of talent is affecting everyone. “Hiring managers are moving faster to get the right people on the management team early in the hold period than ever before,” says Hawkins. “Speediness has become critical when putting the value-creation plan, management team, and talent strategy in place. Previously, getting the talent and human capital plans in place was a nice to-have, or maybe it was even addressed in year two. But it is now seen as much more critical, and it is happening in the first 90 to 120 days. From Summit’s vantage point, our team often gets pulled into talent due diligence after the letter of intent was signed. And there’s almost not enough time to get us in there because the deals are closing so fast, so they’re bringing us in the first 30-to-60 days following the transaction to get the right management team and organization put in place.”

Diversity and inclusion, meanwhile, has become a central tenet of the consulting firm’s work for its private equity clients. “We do a lot of work around talent assessment, CEO coaching and transition, management team development, and our private equity firms are now asking us to have a point of view around diversity and inclusion,” says Hawkins.

IN THE NEWS

DHR & Harvard Business School Latino Alumni Association Launch Program To Grow Latinx Representation on Boards



Global executive search firm **DHR International (DHR)** has partnered with Harvard Business School Latino Alumni Association (HBSLAA) to create "21 in '21" – a program aimed at placing 21 Latinx executives in board roles in 2021.

Today, Hispanics represent 18 percent of the U.S. population, yet only 2.7 percent of board members at Fortune 1000 companies are Latino, according to a report by **KPMG** and **Latino Corporate Directors Association**. At the same time, research from **McKinsey & Company** shows that diverse firms outperform their less-diverse competitors by up to 36 percent in profitability.

A diversity proponent and proven resource to board decision-makers, DHR is well-positioned to support the 21 in '21 initiative and influence a positive shift toward increased board diversity throughout the U.S. The company will engage its Latino Diversity Network of board-ready executives and its clients to bring more Latinx executives to public and private company boards across sectors.

While all industries have a need for greater diversity, the 21 in '21 program will place a focus on the private equity sector, where Latinx representation is especially low and there is a great opportunity to effect change. Thirty Percent Coalition states "sound corporate governance practices that include diversity as a priority is also rapidly becoming a prerequisite for institutional investors who represent today 80 percent of the equity market cap."

"It's an honor to partner with HBSLAA on our 21 in '21 program, demonstrating our commitment to increasing Latinx diversity in the boardroom," said Keith Giarman, managing partner, global private equity practice at DHR and an HBS alumnus. "The economic value of the U.S. Latino community in 2017 was \$2.3 trillion, comparable to the eighth-largest GDP in the world according to LDC Latino Donor Collaborative. This group will continue to drive the economy, and companies that understand the Latinx perspective will be poised to succeed."

"With an increased national conversation on diversity, equity, and inclusion, we are pleased to launch 21 in '21 in partnership with DHR," said Lulu Curiel, president emeritus of HBSLAA. "By engaging HBS board-ready alumni and board decision-makers, we will move the needle on driving diversity into the boardroom," said Melissa Hart, HBSLAA board member.

Leading this effort for DHR is Giarman; Christine DeYoung, managing partner, commercial growth practice, private equity practice leader, and an HBS alumna; and Heather Smith, partner, global board & CEO practice. Working with them is Lizette Ibarra, managing partner of DHR's Miami office and leader within the firm's diversity practice with deep connections to the Latinx community. This team brings demonstrated success placing board directors for public and private companies across industry sectors and market capital size to drive shareholder value. They are also prominent advocates for diverse candidates, sharing their expertise to ensure more executives are board-ready.

"We believe promoting a DEI culture starts at the top. Now when we do our assessments, we assess a person's capability around leading inclusively, which is something that our clients have asked for, because they now are looking to hire inclusive leaders, or they are looking for ways to develop the leaders they currently have to lead more inclusively."

Culture Focus

For many CEOs, the trauma of the pandemic, along with DEI concerns, have led them to take a greater pause and focus on their company's culture and engagement of their employees. "I just see more private equity owned company management teams

making culture and employee engagement a greater priority," says Hawkins. "One of the top three things that one of my portfolio company CEOs talks about with me on a regular basis is how do I shape culture, and how can I do it in a hybrid or virtual working environment? It's a big deal, and it's something that many leaders are not prepared for as we exit the pandemic."

There is also a heightened awareness and need for executives with soft skills such as emotional intelligence, active listening, leading inclusively, respecting differences, etc. "It is coming up on job profiles and scorecards now more than ever," says Hawkins. "It's something that has definitely increased

in the prioritization of skillsets they're trying to bring to the CEOs and the management teams."

Scott Gregory, chief executive officer at **Hogan Assessment Systems**, says that over the last year, between the pandemic and protests over race, that PE firms have expanded their requirements for leaders. "It seems like the ESG kinds of requirements, the broader stakeholder kind of requirements, are really getting a lot more attention in the PE world now," he says. "I don't think it's really clear what the impact of that will be in terms of the kinds of people, the kinds of leaders, the kind of skill-sets they're looking for, but I expect that there will be an expanded profile that that we're looking for in that world."

The basic requirements remain the same, but circumstances have in many ways pushed PE firms to look deeper. "It varies, but I think there is widespread recognition that firms need something beyond the financially savvy operator perspective because there are still lots of open issues about returning to the office, for example, or hybrid work," says Mr. Gregory. "There's lots of survey data floating around out there. I saw one from Ernst & Young, for example, it was a large survey of employees about their desires. And I think it was around 90 percent said they want flexibility in their work arrangements, meaning work from home or work from the office, and so forth. And about half of those said that they would consider quitting their current role if they weren't given that flexibility. So it's a new dynamic there, where employees probably have a bit more power and a bit more flexibility than they had 18 months ago."

"From our perspective, our research has shown that leaders who are humble and are willing to listen, who are interpersonally sensitive, are better leaders overall," says Mr. Gregory. "But I think the importance of that has been heightened certainly over recent months as we start thinking about reopening, and



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how will this look the same and how will it look different?"

Investing in Search Firms

"It's a growing trend. And this may not be exactly right, but I would say over the past five years we have seen many more firms in the PE space thinking in a broader way about the leadership they need and what it means for a leader to be able to really forge an effective team, and sustain that team over time. I don't think there's any less emphasis on drive, profitability, cost management and all the things you would expect. But it has expanded more to recognizing that these soft skills, for lack of a better word, really are critical for sustaining that drive and organizational improvement over time. It's a trend that I expect is going to really accelerate."

In fact, PE's recognition of the all-important role that human capital and search plays in making portfolio companies successful is a major reason why PE investors have become increasingly interested in search firms as an investment, says Eric Walczykowski, president of San Diego, CA-based **Bespoke Partners**, a retained executive search and leadership advisory firm dedicated to partnering with leading private equity firms. "Years ago, private equity firms focused on financial engineering and the chief way to build value in a portfolio company," he says. "You went in and looked for ways to drive down costs, boost margins, fuel expansion, identify inorganic growth opportunities, and so on. A few years ago, that changed and the industry shifted to focusing on the impact of people in making a portfolio company successful. Now human capital management is a chief value creation lever. This has naturally led private equity firms to recognize search firms themselves as a growth area and a key potential for investment. It's recognizing and acknowledging the essential role that finding and placing leadership has in achieving growth."

Chris Benz, managing director of **Corsica Partners**, says that private equity firms are investing in executive search organizations because of the tremendous demand for top talent to drive strategy, innovation and execution. "All things being equal, human capital is at the crux of success and the highest performing PE firms demonstrate they lead with people first," he says. "On the tail of the COVID-19 pandemic, there is substantial momentum in the hiring landscape as organizations feel the heat of a hotly contested talent pool. The pandemic opened up market share for smaller, more agile and progressive firms to capture a significant piece of the pie. Discerning executives and board members are looking for a more bespoke, advanced and humanized solution when selecting strategic search partners and there are times when buy vs. build is the better choice."

"Organizations are looking to search firms as strategic advisors that do more than just fill roles," says Mr. Benz. "Anchored in technology and AI, executive search firms are diversifying their service offerings to include interim solutions, leadership assessment and advisory, compensation benchmarking and culture shaping, creating multiple revenue streams and opportunities to cross sell. As search firms capitalize on an increased demand for customized solutions, so too will the private equity firms with the foresight to make an investment. In the world of professional services, executive search firms are uniquely positioned to deliver exponential gains to their investors."

Dave Westberry, managing partner of **BridgeStreet Partners** in New York City, said that while executive recruitment firms may be an attractive investment, they pose certain challenges for private equity investors as well. "PE buyers generally look for organizations that have value enhancement potential and acquire it at a favorable price with financing," he



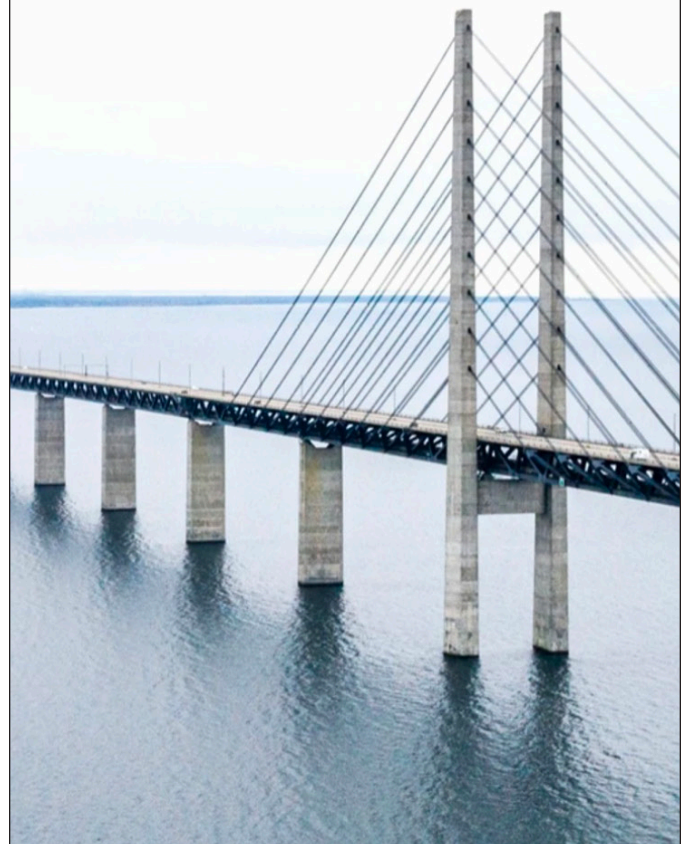
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INSIGHT

The Attributes of a Successful Portfolio Company General Counsel

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General counsel at a portfolio company is a uniquely challenging role. From **Spencer Stuart's**

experience, the most successful are change agents with exceptional leadership and executive communication skills — who also possess business acumen and a hands-on orientation focused on value creation and business enablement, whether offensive or defensive.

Below are some of the key attributes:

- **Business acumen.** Private equity owners are looking for bottom-line results, and they expect the same from their general counsel. Ideas grounded in an understanding of what the business needs, and backed by strong data, will have a much better chance of being heard.
- **Executive communication.** Private equity firms almost always make important changes to the business, and the general counsel must be adept at managing the often-delicate conversations he/she will be privy to and have the confidence and gravitas to simplify issues and speak in practical, non-political terms.
- **Breadth and hands-on orientation.** The legal function, like others inside of PE-backed companies, will likely be smaller than you might find in a large public company. The successful general counsel needs to be a quick study and be adept at mastering a broad portfolio, often with minimal resources. A wide range of skills including M&A, litigation, employment, regulatory and IP will often be relevant, depending on the context.

In dozens of assignments with private equity firms over the last few years, Spencer Stuart's legal, compliance & regulatory practice — all former practicing attorneys, with firsthand understanding of the demands of legal roles today — has helped find strong general counsel to address portfolio companies' unique needs. And as private equity continues to expand its impact across the globe, these general counsel will be key players in creating value and the best outcomes for portfolio companies and their private equity owners.

Source: Spencer Stuart

says. "Search firms offer relatively high profit margins and the potential for high growth. However, retaining the talent that made the firm an attractive investment can be challenging. I was with a major firm in the early days of it being public when it started its acquisition spree. The anticipated growth was short lived because once the partners that built the acquired

firms earned their payout, they left and started another boutique with their clients following them. To make search firm investments payoff, PE firms will need to find a solution to this challenge."

Still, the appeal is hard to deny. By all indications, the current state of recruiting in the private equity industry is strong, with the post- COVID economic recovery well underway. "The search firms who recruit in certain sectors that PE firms invest in, are doing very well," says Tim Russell, CEO and managing partner of **The Tolan Group** in St. Augustine, FL. "GPs are shifting their focus back to growth and scale in preparation for exit, as opposed to crisis management focusing on liquidity and cash flow concerns and strategy adjustment, which is what most of the focus was on in 2020 (for obvious reasons)."

Business started to heat up in October, Mr. Russell says, and the pace picked up considerably come 2021 and a familiar velocity of deal activity resumed. "At the end of 2020, it seemed everyone was busy," he says. "As stated by one of my clients during a late-night email exchange, '10 p.m. has become my new five o'clock.' Towards the end of 2020, as dry powder deployment deadlines loomed, PE deal flow created extended hours for all involved in PE activity... recruiters included."

In many ways, the cadence of recruitment today reminds Mr. Russell of 2019. What differs is the roles requested by clients and the focus of core competencies possessed by prospective candidates. "In 2019 senior operations roles such as CEO and COO positions were in high demand," he says. "In 2021 the role most requested is in the finance arena. Titles such as CFO, controller and VP of finance are common requests we are fielding from our clients these days. In 2019 a common attribute being sought in ideal candidates were leaders who had a strong background in ESG. Leaders who were solid on

environmental, social and governance were highly sought after in 2019 as many investors pursued portco options in the energy and environmental sectors. Though still a high priority, ESG is just one of the traits desired in leaders. Heavy emphasis today is on candidates with verifiable experience in crisis management, creativity and DEI during their tenure.”

Others, too, are seeing reflections of two years ago in the flow of work coming from PE firms and their portfolio companies. Yet, as others have noted, there is a significant change underway in the types of leaders being sought. “Ultimately, the business is coming back very robust and very strong to mirror its performance in 2019,” says Bernard Layton, managing director for Chicago-based **Comhar Partners**. “The theme that Comhar Partners is seeing is that there will be a substantial turnover in leadership and mid-level roles due to people viewing business

differently and in a more humanist way both from an employee standpoint and from the PE standpoint. The performance still needs to be there. It is part of the role. But ultimately, taking a more humanist approach with the activity level, number of searches, etc., are very robust and coming back just as strong.”

Nor is that outlook likely to dim any time soon. “The money is still there,” says Mr. Layton. “The cost of capital to leverage the equity participation and the cost of capital to do the debt portion of the deals are still in great stead. The cost of capital will gradually start stepping up, and that will create some interesting challenges for debt services for some of the tighter margin industries that PE is living in and dealing with. At the end of the day, from a leadership standpoint, it will be a robust time, at least for the next four or five years,” he adds. “There is a massive amount of capital to invest in deals. Prior history with successful

SPOTLIGHT

Women Taking the Lead in U.S. PE Sector



New York-based **Carlyle Group**, one of the world’s biggest private equity and alternative investment firms, has appointed Sandra Horbach as one of two co-heads of its main U.S. buyout arm. The firm’s most prominent business, buyout has nearly \$40 billion assets under management. This makes Horbach the first woman co-leader of a U.S. buyout arm, and one of the most senior women in America’s private equity sector.

Private equity firms in the U.S. have made efforts to add more women to senior management teams in recent decades. Adena T. Friedman served as chief financial officer at Carlyle, leaving after three years to become president of the Nasdaq stock market. At the **Blackstone Group**, the largest alternative investment firm in the world, Joan Solotar leads multi-asset investing and external relations, and is a member of the management committee.

Larger firms are outpacing the industry as a whole in appointing women to senior management positions. Data from research firm Preqin show that among the biggest buyout firms, 15.3 percent of senior employees are women, up from 11.9 percent in 2013.

However, across all of private equity only 12.6 percent of top executives are women, according to *The New York Times*.

“This continues to be a work in progress”, said Nancy Sims, chief executive of the **Robert Toigo Foundation**, a non-profit focusing on diversity in financial services firms. “Examples like Sandra are a way to refresh and energize the movement. But we cannot wipe our hands and say the job is done.”

The co-head appointment is not Horbach’s only first. Early in her career, she was the first woman to be named a partner at a major American private equity firm, **Forstmann Little & Company**. Since joining Carlyle in 2005, she has had a string of successes leading consumer investment deals, including **Acosta Sales & Marketing**, **Dunkin’ Brands**, **NBTY** and most recently, **Beats Electronics** and **Vogue International**. Beats, the popular headphone maker, was sold to **Apple** for \$3 billion, and **Johnson & Johnson** picked up hair care company Vogue for \$3.3 billion.

“Sandra Horbach got this job because she’s an outstanding investor, and she was the best person to get it”, said William E. Conway Jr., Carlyle’s co-chief executive and chief investment officer.

Source: Boyden



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PEs is still the principle mandate of talent and leadership and secondarily the ability to roll up the sleeves and have good strategic capability with solid initiatives. The market will remain incredibly strong."

Chase Harrison and Alison Woodhead, senior partners with **Kingsley Gate Partners** in Dallas, TX, say that the current climate for private equity/ venture capital talent has been even more intense than the past few years. "While 2019 and 2020 were both years in which PE firms had to fight for strong talent, an incredible number of transactions and movement coming out of the pandemic has led to an even more competitive talent landscape coming into the second half of 2021," they say. "Many senior-level executives in the PE world have made a move within the past six to twelve months and are not in a position to consider outside opportunities. Those who are willing to explore opportunities have recruiters knocking down their doors with 'unique and amazing PE-backed opportunities.' Hiring managers need to move through the recruitment process with alacrity, or they will find the strongest candidates are swept right out from under them."

The future will likewise be competitive as well. "We have a historically large amount of capital on the sidelines, thus fueling more deals and driving the already highly competitive need for available talent," say Mr. Harrison and Ms. Woodhead. "The need to be quick yet still fully evaluate solid talent has never been greater. Being able to move at pace is paramount. The days of starting a search and having eight to 10 candidates to choose from when you get to offer a month or two later are over. You can have a terrific candidate for a particular search on a Monday, and then they might be gone by the end of the following week as it took too long to get him/her into your process. The companies that can continue to invest in technology to enable them to be more efficient will be

the ones standing when/if this slows down.”

Embracing the New Reality

Dominic Levesque, president of Atlanta-based **Tatum by Randstad** says that the private equity industry has for the most part weathered the storm of the pandemic well, but that the crisis has posed its share of difficulties. “Like middle-market companies, PE firms and their portfolio companies have remained by and large remarkably resilient throughout the global pandemic,” he says. “That’s not to deny there have been (and will be) challenges, of course. Many portfolio companies are facing tough decisions around financial and cash management, for example. Still others are undergoing complex restructurings. And nearly all will have to continue to rethink one or more aspects of their business strategies.”

“But PE is clearly rebounding — to put it mildly,” says Mr. Levesque. “The predictions in Pitchbook’s 2021 Private Equity Outlook, for instance, read like a laundry list of record-shattering achievement: PE fundraising tracking at an all-time high. Deal value for carveouts approaching the highest levels on record. Add to that the phenomenal reserves of dry powder on tap at most PE firms, together with the sky-high valuations we’re continuing to see, and it’s hard not to feel fundamentally sanguine about what’s in store for PE in 2021.”

David Law Man Co, partner, China; and APAC leader, private equity and venture capital practice for Purchase, NY-based **Boydén**, says that for all the hardship it has produced, the pandemic has also hastened certain change for the better. “COVID-19 has been a major crisis in our modern times with unprecedented challenges,” he says. “Like many other industries, the PE industry was not immune. However, PE firms were able to embrace this new reality by adjusting their business and improving their operating models to become more agile and



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SPOTLIGHT

Private Equity CFOs Share How to Make the Right Exit

Egon Zehnder

Before the pandemic, **Egon Zehnder** had planned a dinner for private equity CFOs on the topic "How to make a good exit."

Instead, the CFO team, led by Barbara Kroll, hosted a series of virtual interviews with the Phil Marshall, CFO of Avast, Hilton Hess, CFO of VISTRA, Peter Van Tiggelen, CFO of Itiviti, and Jonathan Gomer founder of Burwash Investment Group. Key findings from their conversations follow:

Aligning and managing stakeholders

The first key message that emerged from the firm's interviews was that there should be strong chemistry between the PE fund and the CFO. "You want to be able to work with a PE fund that really wants you," one CFO said. Another CFO emphasized the need to consider how the initial role specification fits with your personality and what you want from a role. Another suggested asking direct questions from the outset such as, "What do you expect from me?" and "How shall we communicate?" to set the tone for a healthy relationship. It is also crucial to be spending extra time with the senior fund managers.

Identifying a path to value creation

Prior to taking the exit, value identification and creation is crucial. Our CFOs underscored the importance of making the leap from acting as simply a "financial accountant" to becoming "a true business partner." Spending a great deal of time with the CEO co-running the business and remaining close to the customer were deemed important by one CFO. Another pointed to the motto "done is better than perfect" —, focusing on the prioritization of three to four topics rather than trying to do everything at once.

The role of 'storytelling'

A strong theme throughout all the discussions was the importance of crafting a compelling narrative during an exit process. What proof points does one need to build case studies? Why are margins

sustainable? All of the CFOs agreed that one needs to write the story first, then fit the details and numbers back into it, and that often strategy consultants can help identify the building blocks for this. They also recommended anticipating the kinds of questions that you might receive from groups of investors.

Going towards a sale

One CFO reiterated the importance of "not being blinded by a high bid." He recommended spending time to understand the mechanics of the buyer's plan with the company, how integration may or may not be happening and the rationale behind the bid. Also, in strategic sales one might need to answer questions around leveraging synergies and long-term value; whereas if selling to another fund or in a public-to-private scenario, the exercise will feel more financial than strategic. Being prepared for how the different contexts will stretch one's knowledge is vital.

Staying Energized

All of the firm's guests spoke animatedly about needing a great deal of enthusiasm for these kinds of processes, as they are arduous and long.

Personal learnings

Reflecting on the process, one CFO pointed out just how important flexibility has been in terms of getting through the exit scenarios he's led. With this comes the need for a low ego, he said: "It's not about you; you're there to facilitate the transaction and create value for shareholders." Another key characteristic is resilience and staying calm through the inevitable stress, workload and turbulence of the situation. Whether standing in front of private equity partners, investors or the management team, one needs to know enough to exude a level of knowledge about the business, but there is no need to fret over not knowing the minutia. A good number two is always recommended as well.

Source: Egon Zehnder

resilient." He cited a recent EY global PE survey that showed that the industry navigated the pandemic challenges fairly/quite well. "Some performed very well, especially for those who were able to accelerate digital transformation and enable technology platform to support remote/virtual working environment in this new normal," says Mr. Law Man Co. "Having an agile management team has been also critical to able to respond quickly and to mobilize team and resources."

COVID-19 has no doubt accelerated digital transformation in PE firms and in their portfolio companies. "Before the pandemic, technologies like AI, big data and web analytics were already deployed in some PE firms to make smarter, faster decisions about companies and their prospects, including in the due diligence process," says Mr. Law Man Co. "Following the pandemic, these digital tools have helped significantly in providing deeper insights on shifts of industry trends, understanding disruptions,

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“Looking into 2021 and forward, PE firms will be expanding their scope to focus on new areas such as ESG and sustainable investing, as well as further initiatives in D&I,” says Mr. Law Man Co. “As ESG is becoming an important factor in driving value creation, PE Firms will need to recruit the right talent to deliver sustainable value creation in their investment strategy.”

Karen Swystun, president and CEO of Winnipeg-based **Waterford Global**, which specializes in recruiting mid-to-senior professional and executive level talent, says that the PE sector was able to recover from the initial disruptions caused by the pandemic and perform credibly in the second half of 2020. But pandemic-related challenges have continued into 2021, impacting both lives and livelihoods and leaving businesses with a number of longer-term issues to deal with.

“When a crisis turns into a recovery, or vice versa, PE leaders must manage between present and future,” says Ms. Swystun. “Investing with courage is essential. PE firms are continuing to identify opportunities for value-based investing based on in-depth research and industry insight and are incorporating new and digital business practices in-house in a remote working environment to drive success.”

“Leaders in PE firms are centralizing shared services including search and recruitment, and are also centralizing shared contracts across portfolio companies,” says Ms. Swystun. “PE firms have been more deliberate during the pandemic in developing their own strategic and financial reporting capabilities apart from the information that is being supplied to them by their portfolio companies, thus giving rise to an increased demand for professionals in the risk and

analytics space. Based on the lessons learned in the pandemic, PE firms are also making thoughtful talent decisions that bolster the supply and delivery chains of their portfolio organizations.”

Talent at the Core

And while top-tier executives continue to take up new roles, the length of the pandemic has also impacted the overall talent pool. “Changes in the deal-flow pattern have slowed the availability of sitting executives for their next roles, and pre-existing health challenges have had other executives removed from active consideration,” says Ms. Swystun.

At the very core of the way forward is talent. And it is talent management and leadership that is driving returns for private equity. “Strong leadership combined with strong talent management processes dramatically improves the odds of success,” says Scott Hoffman, national practice director of private equity for **Patina Solutions** in Brookfield, WI. “Those human capital elements, combined with solid processes, is a value creator. If you have the best leaders and people, but weaker operational rigor, you often find yourself maxing out at ‘B’ results. And vice versa. If you have great talent and processes, you can be ‘A+.’ Combined, they work together for your best business return. Of course, if you don’t have strength in either, you’re in trouble.”

Ruben Moreno, founder and HR and higher education executive search practice leader, for **Blue Rock Search**, with offices in Sarasota, FL and Knoxville, TN, says that people are a critical source of sustainable competitive advantage, particularly in the tech and services sector. “Exceptionally talented and committed employees help drive innovation, above-average growth and higher returns for private equity firms,” he says. “Thus, finding exceptional people and building that pipeline is one of the foundational responsibilities of the human resources department.”



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“This kind of work requires proactive work, not just reactive, but it’s possible that HR may not have the time to devote to proactive activities in this area,” says Mr. Moreno. “Those ‘proactive activities’ are defined as knowing people in the marketplace who are exceptional in a role, where they are, what they are doing, and why they would change positions (for instance, to your company).”

“This is not just a warm fuzzy position taken by leaders,” emphasizes Mr. Moreno. “It has been proven to drive profit many times by research studies. For instance, Forbes reported the findings from

one study (conducted by McKinsey and Company) stating, in part, ‘Companies with more culturally and ethnically diverse executive teams were 33 percent more likely to see better-than-average profits.’ Another study by Duke University and University of Waterloo researchers looking at language in job postings concluded: ‘Masculine wording in job advertisements leads to less anticipated belongingness and job interest among women, which, we propose, likely perpetuates gender inequality in male-dominated fields.’ Addressing these issues takes time and real effort.”

INSIGHT

Impatience and Private Equity Executives: A Fine Line

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While impatience lends itself to getting things done, it must be coupled with its mirror opposite to be truly effective.

The operating performance of a portfolio company certainly can be improved by a set of rapid and directed changes. But rushing into those changes too fast can lead to second-rate execution and unrealistic expectations — both of which can give way to *disruption*, disengagement, and chaos. Uncertainty often comes at a cost.

As is the case with most things, it all comes down to balance. Operating partners must possess the willingness and confidence to make speedy, calculated decisions with the depth of experience and proven track record to back them up. There’s a fine line between strategy and execution. You may need to pull the trigger in an instant and then work to convince others to wait patiently for another six months to a year before an investment reaches operational success. Finding this balance can be a challenge, of course. Here are a few examples of times when a good mix of impatience and patience will serve OPs and their businesses well:

Firing

It’s tempting to attribute operational inefficiencies to leadership. If your gut and the numbers are telling you that certain people are to blame, then it’s good to be impatient. You don’t want to have leadership dragging the rest of the company down, but it’s not always the best plan to dismantle your management team hastily. Remember, all decisions should be informed ones.

Hiring

Most people are susceptible to “shiny object syndrome,” especially when it comes to résumés. It’s great to see candidates with Ivy

League schools or blue-chip companies on their CVs, but those aren’t the be-all and end-all. With hiring decisions, these shiny objects can cause you to rush toward a certain type of talent — usually candidates with more generalist backgrounds. As a result, you have to dig deeper. It’s good to trust your judgment of talent and sense of urgency, but remember you are hiring a person rather than a résumé.

Stakeholder Communication

The transformation process, by definition, brings disruption, friction, and frequently a crisis or two before things level out. Creating value takes years rather than days, after all. While you’ll most likely be leaning heavily on impatience to lead the company, rely on your patience when communicating difficult issues to stakeholders.

Digital Transformations

The speed of digital disruption has placed an increasing amount of operational pressure on global firms, forcing companies to restructure and evolve continuously to remain competitive. It also has increased IT operating costs, with an average of 40 percent of technology spending going toward digital transformations, according to CIO Magazine.

Impatience has its place in business. It can be a tool to get to the bottom of things quickly and confidently. Once there, however, patience should take hold and help you execute major transformations and ensure the expected results. Impatience might lead you to the right choice, but patience ensures that your plan has the space it needs to succeed. Finding the right balance is the key to increasing ROI.

Source: Acertitude; Kevin O’Neill



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Jeff Herzog, president of **FPC National** in New York City, underlines the difficulties that can ensue from a failure to deliver when it comes to talent. "Turnover is expensive and if a company's leadership is unable to create an empowering, diverse, inclusive culture they will lose people," he says. "Additionally, in today's economy, recruiting top talent that can drive innovation, profit and ultimately investment returns is a complicated process. If there isn't a strong talent acquisition/management program in place, companies will lose out to their competition."

Some would argue that in hiring, private equity firms should look internally first. But there is no denying the benefits that come with bringing about an executive search firm that knows the industry and the external market inside out. "PE firms will sometimes have success with their internal networks, but that can naturally lead to a team with limited experience," says Jim Urquhart, managing director, fintech at The **Bowdoin Group** in Waltham, MA. "Therefore knowing when to partner with an executive search firm with knowledge of a specialized market is paramount."

"Most firms prefer to compare candidates who have been vetted against a slate of other qualified candidates, vs. one data point when dealing with internal referrals," says Mr. Urquhart. "There will always be competing factors and priorities, but in terms of success with high caliber executives over the long term, an executive search firm is the most compelling route. Search firms bring a holistic view of the landscape and specialized industries, leveraging robust pipelines in every vertical. The right executive search firm will allow you to find the best candidate available on the market, while internal searches can be limited to the best candidate in your network."

Growing Reliance on Recruiters

David Clapp, managing partner with **CarterBaldwin Executive Search** in Atlanta, points to the value that

search firms provide in having dedicated recruiters focused solely on filling a role as opposed to also contending with the pressures of running a portfolio company. “The pace of PE is unlike anything else,” he says. “Management is focused on driving value quickly. The rigor and intensity for the executives is high. When a new executive is needed, the right search firm can map a desired executive’s traits with the business outcome the sponsor needs. This is tricky and being able to work alongside the company and its sponsor without being encumbered by the daily work of growing a portfolio company is incredibly valuable. We find that we can focus on solving these tricky leadership needs for the client while they keep their focus on the countless variables they have to juggle to build and operate their company. The alternative too often yields a rushed hire that needs to be replaced or a role that stays open too long. Both of these scenarios delay value creation and undermine exit value. A great search firm builds shareholder value for the client.”

Look at it this way, says Scott Page, a founder, partner and managing director with New York City-based **Solomon Page**: “For private equity firms, employees’ day jobs are to invest, not to recruit. Although some firms may have an in-house recruiting team, private equity firms should use executive search firms to help solve their biggest challenges, including to fill positions on their leadership teams and portfolio companies. In addition to sourcing, screening, and placing top talent despite a very shallow pool of candidates, an executive search firm can provide unmatched insight on the competitive landscape as well as trends within the marketplace. Search firms can provide research mapping and a comprehensive evaluation of candidates – a task that private equity firms typically do not have the time or resources to do.”

IN THE NEWS

Korn Ferry Partners with NAIC Focused on Talent Acquisition & Leadership Development for the Alternative Investment Industry



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Korn Ferry, a global organizational consulting firm and the **National Association**

of Investment Companies (NAIC), the largest network of diverse-owned private equity firms and hedge funds, have formed an exclusive partnership to collaborate on a suite of transformational initiatives to improve diverse talent distribution and create more inclusive organizations in the alternative investment industry.

The partnership brings Korn Ferry’s vast global resources and innovative approach to inclusive talent acquisition and leadership development to the diverse investment manager space in a thoughtful and intentional way. It also leverages NAIC’s robust professional network and comprehensive insights as the premier diversity thought leader in the alternative investment industry.

Through this collaboration, Korn Ferry will support several key NAIC initiatives designed to increase representation and foster success for diverse professionals in the private equity and hedge funds space. Moreover, the relationship will focus on future programs that will provide substantive solutions to increase diverse representation in financial services and place executive talent with NAIC member firms and their portfolio companies.

“We are very excited to collaborate with Korn Ferry, a global leader in organizational consulting and leadership development,” says Robert L. Greene, NAIC president & CEO. “The complementary capabilities of our respective organizations will undoubtedly lead to meaningful and much-needed progress in our industry.”

“We’re pleased to partner with NAIC to help broaden opportunities for professionals of diverse backgrounds and support the development of future leaders in the financial services industry,” said Mark Arian, CEO of Korn Ferry’s consulting business. “Today’s organizations recognize that diversity and inclusion are business imperatives that accelerate performance.”

Chris Smailes, a managing director within the asset management practice at **Sheffield Haworth** in New York City, sees the value of PE firms hiring internally. When asked why they should choose search firms over internal candidates, his answer is straight forward: “They shouldn’t. At least not all the time. It

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might be an unpopular viewpoint from an executive search firm but sometimes the right talent is sourced internally." But that doesn't mean that recruitment firms should be left out of the process. "It is vital to assess that talent against the external market and executive search should be used to validate and qualify your internal talent vs. external," says Mr. Smailes. "In the event that you already know you do not have the requisite skills internally, then using executive search is the best way to source the right caliber of professional."

None of this is to say that search firms don't have their work cut out for them when taking on a private equity assignment. Indeed, there are nuances to finding talent for PE clients. "One of the biggest challenges or recruiting the 'right' talent is to make sure that the executives being selected is truly someone who understands what it means to be a PE-backed CEO," says David Nosal, CEO and managing partner of **NGS Global**. "It can be difficult for a first-time CEO coming out the major corporations to step into a PE-backed environment because they truly don't understand the pace and many of the other dimensions associated with such a business. However, finding a CEO who has had one or two successes driving a PE-backed platform typically indicates a high probability of success in the next PE-backed opportunity."

Dean Nacey, a partner with **SPMB Executive Search** in San Francisco, says that oftentimes operators have a misconception of private equity and equate it to an industry that is solely focused on cutting costs and creating efficiencies. "In many instances this is true, but there are a number of strategies and tactics PE firms implement to generate value that can include a combination of top line revenue growth, increasing EBITDA and complementary M&A," he says. "Prioritizing these outcomes are foundational, and unique, to every investment. When recruiting

operators you must be deliberate in who you target and how you position the opportunity and potential outcome. It is equally essential that the equity component of an offer, and thus the wealth creating opportunity, is specifically and comprehensively communicated as the financial mechanisms of each PE firm and deal are unique."

Andy Towne, CEO and co-founder of **Hobbs & Towne**, which pioneered ESG recruiting and sustainability-focused executive search, was recently retained to conduct a CEO/CIO/global head of investments assignment for a billion-dollar climate focused fund. "The biggest challenge we see in attracting highly successful investors is meaningful content," he says. "Top PE leaders, for the most part, already made significant income, so many of them will be seeking more in life. Fortunately, our category allows a CIO or managing partner to impact their own personal legacy and mankind on a global scale. We are actively recruiting for that specific profile today."

Private equity firms have different criteria and skill-sets that they are seeking from their portfolio company leadership, many of which go beyond the pandemic and speak to the changes that have occurred in the industry itself. "For the future leaders of the private equity Industry, it's no longer enough to be a smart investor with the ability to raise the money," says Joe Healey, senior client partner and private equity practice leader for Korn Ferry. "Running a PE firm today is exponentially more difficult than it was 10 years ago. Today's firms are much more institutional in scale and have increased in size, complexity, geographic footprint and routinely includes multiple strategies. This means the new leaders, in addition to being credible investors, have to be better managers of people and better managers of the business than in the past. It is now a requirement for PE funds to institute 'intentional leadership' as opposed to

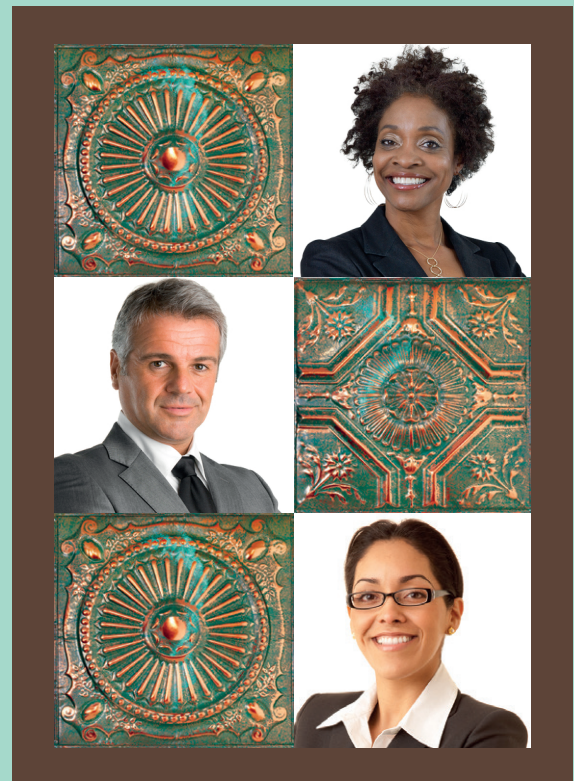
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'passive leadership, which is the way many PE firms have operated in the past.'

Chris Bull, managing partner and co-founder, executive search, of **McDermott & Bull**, and Paul Gibbons, managing partner, executive search of **McDermott & Bull + Canada** say that the skill-sets required in PE leaders have only been amplified in recent years. "When we think of PE sponsorship, the key element to remember is that there is a team of leaders within that PE firm who need to be kept in the loop on all important activity," they say. "They are leading many stakeholder groups — including investors, portfolio executive teams and customers — so they expect KPIs, detailed metrics and more detailed strategic planning. They are also held accountable at a different level than a typical board. Table stakes for top-performing PE leaders include agility and the ability to be forward-thinking and inspire confidence. These skill-sets aren't different from the past. However, many more people are adopting a buy and build strategy, which wasn't necessarily the case three to five years ago, so that roll-up strategy is prevalent in the marketplace."

Jeff Hocking, a partner at **ON PARTNERS**, points out that in the past financial skills and CEO leadership/ advisory experience were sought after. "These are still in demand," he says, "but many PE firms are increasingly hiring specialists such as sales leaders, sales ops leaders, CTO's etc. to 1) further differentiate themselves and 2) many PE firms are focusing even more on the operational aspects of running their portfolio companies." And partner Tindall Sewell says that knowing how to deliver results is also not to be underestimated. "Growth equity PE investments have become more rampant than turnaround firms," she says. "The PE firm talent must have a fast-paced mindset, understand the Rule of 40 and drive growth in a profitable way."

INSIGHT

Operating Partners of the Present & Future

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Tindall Sewell, a partner with **ON Partners** who builds executive leadership teams at growth equity, private equity, and Fortune 500 companies, offers insights on the state of the operating partner (OP) role, its relationship to the CEO, and how OPs can help to build more diverse boards. She also shares how she made her way into executive search, her favorite engagements, and what she learned in 2020. Ms. Sewell's work in the last year has included executive search engagements for growth and private equity organizations such as Marlin Equity Partners, Tailwind Capital, Littlejohn, Francisco Partners, and Sunstone Capital.

Following are key observations from Ms. Sewell while working with a range of leading organizations, OPs, and CEOs over the past year.

Insight 1 – While the OP role is typically a step before retirement given the needed experience, the OP's I've been talking to and working with say they're working harder now than ever before, balancing the role of coach with being deep in the weeds of three or four companies.

Insight 2 – Operating partners can be an interesting way to build more diverse boards: When a PE firm hires an OP, that person will likely serve on as many as four boards because it's a full-time role. Hiring a diverse candidate as an OP therefore automatically creates several more diverse boards.

Insight 3 – PE firms are typically backing management teams, not companies, so putting the most experienced and talented candidates in place is key. An OP must balance being trusted by the

portfolio company while also serving as an advocate for the investor and acting as a liaison between them.

Insight 4 – When an OP is a former CEO with multiple exits, it can potentially give more leeway to a first-time CEO, who is typically not coming in with his or her own playbook and can learn from the OP's experience. This creates a nice balance when you need to recruit a first-time CEO with specific industry knowledge or drive to get his/her first exit.

Insight 5 – Investors kept CEOs in place through COVID to lead through the pandemic so expect the market for CEOs to heat up during 2021. For example, just in Q1 2021, I've placed two CEOs and one operating partner.

Source: ON Partners

To attract, hire and retain top talent, however, private equity firms have also come to embrace an array of other ingredients that increasingly matter to job seekers. Culture, DEI and inclusion and engagement are all becoming integral to PE firms and their hiring process. "Culture, DEI and engagement are three of the top five elements the best companies are leveraging these days," says Mike Silverstein, managing partner and executive search leader of the healthcare IT division and life sciences practice for **Direct Recruiters Inc.** in Solon, OH. "Lots of groups can spend big but news of poor culture spreads like wildfire. If a company isn't actively pursuing even greater diversity (gender, race, sexual orientation) at all levels of their firm, the best candidates are assessing that there are limitations to their career trajectories at those firms. As a result, firms not aggressively making it a focus (and not

making it known to their employee population that it is a genuine focus) will struggle to attract the best and their homegrown talent will look outside the organization if they observe that their trajectory will be stifled internally. "

Culture, in particular, is extremely important as the best candidates have choices. "When the money is comparable, culture of the investors and their governance style is playing huge in where the best candidates decide to go.," says Mr. Silverstein. "Micromanaging investors are going to have a tougher and tougher time attracting and retaining the best talent because there a plethora of well funded and talented boutique firms that are making big moves and attracting tier 1 leaders."

Mr. Healey, of Korn Ferry, says that continuity of the investment team has very significant value, and conversely, discontinuity has a high cost.

“Investment firms need to give people a reason to stay, well beyond compensation,” he explains. “A healthy, sustainable intentional culture is central, not surprisingly. This dovetails naturally with trends in D&I and ESG. Firms that have a mission and are diverse and inclusive have stickier cultures than those which are not. From an employee level that’s what people want, and clients are demanding it as table stakes for doing business with your firm. In addition, people want to know their bosses are vested in employee career development. If there’s a reputation for high turnover, fewer people will join the firm in the first place.”

Dave Hardie, managing director at New York City-based **Herbert Mines Associates**, which is focused

exclusively on the consumer and retail industry, says that although factors like culture, DEI and engagement are seldom front and center at PE firms, they cannot be taken lightly. “The C-suite teams at PE-backed portfolio companies are united first by their shared focus on achieving a successful future transaction,” he says. “Having said that, culture, DEI and engagement help management teams deal with the rocky road of getting to that transaction. And for those below the C-suite who may not have an equity stake, factors like culture, DEI and engagement can be primary reasons why they join a company and stay there.”

Steve Hochberg, founder and CEO of **Caliber Associates**, a boutique search firm focus exclusively

INSIGHT

DE&I Strategies for Private Equity & Venture Capital

Private equity has predominantly been a white, male-dominated industry since its inception – that much is undeniable. And although the subject of diversity is discussed more frequently in PE today, the progress at many firms has been insignificant, wellstated intentions notwithstanding. Consider that just 2.6 percent of active U.S. PE firms are led by women, according to Pitchbook data. Among venture firms, the nonprofit All Raise reports that 71 percent of venture capital firms have no female partners. Minority representation is even more scarce.

Getting an Early Start

In order to understand the nature of the challenge facing VC and PE firms, it’s important to understand the diversity imperative within the larger context. Securing the highestquality leadership talent has always been a non-negotiable for PE and venture firms. Meeting the time-sensitive business goals set for portfolio companies requires nothing less. But the tendency of PE and venture firms to return to a small population of tried-and-true portfolio company executives time and time again has effectively created a roadblock in terms of diversifying leadership teams.

New strategies for recruitment, retention, and leadership development are required to expand the strategic talent horizons for PE and venture firms. Diversity needs a robust pathway in, and talent management practices must address inclusion for retention beyond the mandate of hiring diversity.

Putting Strategies Into Action

As in all executive search, the key to broadening the pool of highly qualified candidates is widening the aperture. Relying on personal networks and referrals can be toxic to diversity, as those networks usually deliver more of the same. Acknowledging the presence of unconscious bias and potentially using blind resumes takes a step in the right direction. And PE and venture partners who will be

decision-makers in the hiring process should be counseled to work from objective standards when reviewing candidates, rather than citing cultural fit and other intangibles.

The Cost of Lacking Diversity

To build organizational support for this strategic shift to diversity, firms need only review the financial cost and opportunity loss that accompanies a lack of diversity. When it comes to both deal generation and access to funds, this cost is getting clearer. A growing number of institutional investors - including giants BlackRock and State Street - have adopted social value guidelines that influence their investment decisions. The lack of a diverse leadership team or board might prove exclusionary. KKR’s George Roberts has stated that the firm plans to have at least two female directors on every KKR portfolio company board.

Retaining a Diverse Team

The commitment to retain a diverse team must continue after the leaders are on board. Building a culture of inclusion, acknowledging and addressing unconscious bias, attending to employee personal development, and mapping out viable and attractive career paths are all part of retaining a top-performing diverse team. It’s no different than any other top performing team—companies need to work to build them, and to maintain them.

Source: Caldwell; Mercedes Chatfield-Taylor & John Blank

on the life sciences sector, says the importance of culture, DEI and engagement is paramount in finding and recruiting top talent today. "With the robust activity level and demand for key leaders as well as a heightened focus on flexibility, organizations that are able to speak to a candidate's needs will excel in their recruiting efforts," he says. "As we transition to a post-pandemic work environment, engagement of individuals interests will be a key factor in the ability to recruit talent."

And the focus on hiring diversity talent is an issue that applies to every organization in every sector. "One of the biggest challenges is expanding the talent pool when demand out paces supply," says Mr. Hochberg. "Unfortunately, there is no 'quick fix' to this challenge but what is needed is a sustained commitment and investment in this initiative by PE firms. The talent pool that PE firms draw from is extremely competitive including investment banking, venture capital, and life science companies."

Dan Dunn, executive vice president of Chicago-based **Slayton Search Partners**, says that diversity will continue to be a key factor throughout 2021 and beyond. "Against a competitive landscape, many firms are recognizing the need and business advantage to having a diverse team," he says. "A variety of backgrounds and experiences brings a different lens to a portfolio company and its strategy. The demographics surrounding the location of a portfolio company present a common challenge. If the location has little to no ethnic diversity, it can be difficult for a diverse candidate to relocate their family to that environment. A continued push will be made going forward to increase both gender and ethnic diversity among portfolio company leadership."

Lagging on Diversity

Andy Miller, president and CEO of **BrainWorks**, an executive recruitment firm in New Providence, NJ,

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BY THE NUMBERS

Diversity & Inclusion in Private Equity & Venture Capital

11% of U.S. venture capitalists are **women**, at firms with fund sizes >\$25 million. (Source: All Raise)

71% of U.S. venture firms have **zero** female partners. (Source: All Raise)

7% of U.S. venture firms have **equal** gender representation. (Source: All Raise)

10% of private equity senior roles are held by **women**. (Source: Prequin)

7% of emerging market private equity and venture capital is invested in **women-led companies**. (Source: International Finance Corporation)

4% of PE firms are **minority-owned**, managing 3.8% of industry assets. (Source: Bella Private Markets Research)

5% of PE firms are owned by **women**, managing 3.4% of industry assets. (Source: Bella Private Markets Research)

>3% of VC dollars flow to **diverse business founders**. (Source: Henri Pierre-Jacques, managing partner, Harlem Capital)

says private equity firms must take the long view and not lose focus when it comes talent. "The value of culture, DEI and engagement is a winning strategy both short and long term but unless there is a longer term commitment, these initiatives end up becoming a lower priority."

This is particularly true, Mr. Miller believes, when it comes to diversity. "I think the impediment to hiring diverse talent is that there needs to be a long-term commitment to the process, and oftentimes PE firms are impatient and don't think about the long term vs. short term," he says. "In fact, the whole business model of private equity investing is a short-term model which ultimately makes a commitment to diversity hiring a challenge."

Pamela Ruebusch, founder and owner of **TSI Group**, a boutique search firm in Mississauga, Ontario, Canada, agrees that the PE industry has lagged in

focusing on hiring for diversity. "Without diversity it will always be a potential gap and impediment to the overall business," she says. "If companies do not make intentional efforts to change this in an accelerated fashion, the change will be too slow."

"It may be worth noting that if you are to attract a diverse talent base, it should start with the entry level roles in the P/E space recruiting out of schools all the way to the boardroom level," says Ms. Ruebusch. "If the playing field is evened, it will create change that will be impactful to the business and keep in touch with where society is. This change will take time and is worth the effort."

It is vital to understand why there are so few women in the PE space, Ms. Ruebusch says. "Is there a perception that prevents them from choosing this as a career?" she asks. "If there is, what will the PE firms do to start to change that perception? As with many industries, the change to create a diverse workplace in any sector must be deliberate, without compromising on quality. An industry that lagged for many years was the Class 1 railroad industry. They took it upon themselves to create diverse hiring programs and today, it is a whole new landscape of diverse talent, which has paid off for the railroads. So too will it for the PE firms as they continue to evolve with diverse hiring."

John Marshall, of JM Search, puts an even finer point on it. "Culture and DEI are more critical now than ever," he says. "Candidates want to understand the culture of the equity sponsor and the portfolio company. The private equity sponsors gotten more engaged in evaluating their own culture."

Even just five years ago, Mr. Marshall says, equity sponsors had a less than ingratiating view of this softer side of the business. "I think there was a lot of ego involved with that," he says. "They felt they had all the control and they didn't need to worry about what

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their culture was like. They could be aggressive. They could be sharp elbowed. That has changed. I have seen a much softer approach within private equity firms and more of a focus on their own culture and really developing the right values and culture within the portfolio companies.”

These days, attention to DEI is extremely prevalent, says Mr. Marshall. “We now have an entire practice dedicated to DEI and to diversity fulfillment and how to go about attracting and finding diversity candidates,” he says. “The private equity industry—

similar to most search firms by the way—historically has been limited in diversity compared to, say, public companies. In the last couple of years there has been an increased emphasis on diversity and the metrics around it. Every client of ours has DEI at the forefront of their mind.”

“Right now there is a strong focus on internal culture. There is a strong emphasis on diversity. And there is a strong emphasis on going out and attracting the best talent. And they are willing to pay for that talent.”

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 six talent specialist firms 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 – 2021 was no ordinary year. As such, their 'Viewpoints' examine a multitude of topics this year, including: what your next portfolio company CEO needs to succeed; the future of the private equity workforce; ESR the ultimate purpose playbook in PE; strong resurgence in search activity in the private equity sector; and building effective PE leadership teams. All of these insights from top industry leaders, examine the increasing urgency to find the best talent. The pressure is on, as all of them make clear, for PE firms and their executive search and talent partners to find the leadership talent that can deliver growth, and drive value, results and returns.

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.

WHY HIRING LEADERS TODAY IS DIFFERENT THAN IT HAS BEEN IN THE PAST

John Marshall, Founder of JM Search, Reflects On His Experiences Working With PE Firms



John Marshall founded JM Search in 1980 and has been helping companies build exceptional management teams for over 35 years. Under Mr. Marshall's leadership, JM Search has grown to become one of the 20 largest retained search firms in North America and the premier firm dedicated to serving private equity and venture capital investors and their portfolio companies.

Mr. Marshall has been fortunate to have had the opportunity to be involved in the hiring of senior leaders for our clients for the past 45 years and has been able to observe what characteristics of leadership are most effective in delivering a well-run organization that is sustainable for not only the current equity sponsor, but will also benefit the eventual purchaser of the company. In this Viewpoint, Mr. Marshall shares his perspective on how hiring criteria for c-suite executives has evolved, particularly as it pertains to filling executive roles in a (hopefully) post COVID world.

Priorities for hiring leaders: historical vs. current

Historically, priorities for hiring senior leadership were strongly focused on an individual's technical (hard) skills, as well as focusing on candidates with direct industry and functional experience. This formula proved to be successful for many executive hires, but certainly not all. Under these requirements, we saw too many losses, and sponsors and search firms were challenged over time to become more analytical to understand what truly works (and doesn't work) when hiring individuals to successfully lead companies. My personal belief is that while a "tried and true" playbook may have worked well in the past, today's market landscape has grown in complexity and competition, and out-of-the-box thinking is now critical to drive results in a company. Today, we are seeing a significant increase in non-competes, counter offers, and overall demand for outstanding candidates and this has made the marketplace more competitive than ever.

We have all seen that COVID already has had a lasting impacting on the workforce. From my view, I've seen a paradigm shift where companies are seeing an increased value in assessing candidates that may lack some of the industry experience, but can demonstrate that they have the ability to successfully drive and lead businesses. I have seen numerous examples where a C-suite leader looks good on paper – checking all the boxes for what is believed to be the "right" background for an open role. They have run businesses the same size or larger, they know the industry, and appear to have been successful

in their previous endeavors. However, many of these very executives faltered during the last year, and one must ask why? In speaking with numerous equity sponsors and board members, I uncovered several critical skills that these leaders lacked during the global pandemic, a time of turmoil and market disruption. The exposure of leaders who were unable to navigate businesses through the recent periods of stress and uncertainty has set the stage for a new set of requirements that PE firms are focusing on when hiring leaders of their partner companies.

The growing importance of EQ

During this recent period of market disruption and uncertainty, we saw that in many cases, past experiences and successes do not always translate into prosperous future outcomes. It is critical to recognize changes in market dynamics, and truly understand why an executive may have been successful (or not) based on market conditions. Today, hiring managers should not only be assessing hard skillsets, but also the softer skills of their potential future leaders. It is the soft skills—like communication, teamwork, problem-solving, and critical thinking—that will help an organization assess how well the candidate will be able to steer their company through not only the good times, but potentially the bad.

The two soft skills of leadership that have been mentioned more than ever in the past year have been **communication** and **inspiration**. It is assumed that all leaders are required to be bright, decisive, strategic, etc. but now more than

ever boards, CEO's, and sponsors are looking for ways to assess how a leader will communicate and inspire with their teams. During the interview and referencing process there has been an increased emphasis on how leaders showed up for their teams during the pandemic and how their teams respond throughout remote working, decreased travel, and infrequent face-to-face meetings. Hiring personnel also are working to uncover how quickly their leadership adapted to a new environment and how they are anticipating handling potential changes in the future.

Testing and heightened interviewing techniques are playing a critical role in helping organizations with this new type of assessment. At JM Search, we have invested in increased training for our search consultants, including new questions and points of discussion for candidates, as well as questions geared toward official and back channel references that are structured to uncover what soft skills a candidate has demonstrated during their career. In today's market, it is essential that organizations obtain views from a variety of sources to truly understand how a leader has not only demonstrated success in the past, but also is well positioned to successfully navigate different types of market landscapes in the future. Furthermore, there are some key immediate term decisions that many organizations are currently grappling with, such as long-term policies around potential remote or hybrid working, and the future of office and real estate footprints. Views on these critical topics that are still in up for discussion should be an essential part of the dialogue taking place with executive level candidates.

Building a strong supporting team

In today's extremely competitive market for talent, effective leaders must clearly demonstrate their ability to build and retain the right team. Employees have become very comfortable working remotely and many believe this is the wave of the future. I have observed first-hand that it may work for some employees and functional positions, but it certainly does not work for all. The pandemic has opened a whole new thought process around work and what constitutes as the right work / life balance. The best leaders are listening to understand the needs and flexibility preference of their employees, while maintaining an eye on what is needed to best serve their customers and achieve

established business goals and targets.

Workforce dynamics may be evolving, however, equity sponsors still have an obligation to their LP's to achieve their forecasted goals – and this comes through hard, focused work. It is more critical than ever that company leaders maintain the drive and sense of urgency that has always been synonymous with success in the private equity world. Once again, **communication** and **inspiration** from all functional leaders should be a trademark for executives. Leaders today are required to be more hands on and they need strong supporting players that can help them execute under compressed / aggressive timelines. Furthermore, the current tight job market is highlighting the growing importance of both retention and attraction of candidates, both of which are very front of mind for organizations today.

Cross-functional expertise

Another trend we are seeing is increased demand from hiring leaders to attract candidates that can demonstrate cross-functional expertise. The best CEO's, Presidents, and General Managers have often been exposed to several different functional areas within an organization. Leaders that have worked across the organization have an increased understanding of what to look for during times of trouble and how to react to it in a more expedient manner. Exposure to different functional areas also demonstrates an individual's ability to adapt to different roles, which may allow the person to step in if necessary or effectively guide other leaders to improve their stature in the organization. CFO's are a prime example of a function that is looked upon by the equity sponsor as the eyes and ears into a partner company. Today's CFO must have a strong working knowledge of all the major functional areas based on the importance of their relationship with the equity sponsor. A private equity CFO is such a significant role that we built an entire practice around this singular function so that we could identify every equity backed CFO in the market, and have a true understanding of their track record, and the [attributes needed for success](#).

Long overdue momentum in prioritizing DE&I

There has been much written and discussed around how the recent pandemic will change trends and focus in the

hiring of their leadership. As much as the pandemic has had an effect on the types of skills and areas of focus that are important when hiring leaders, the [increased attention now placed on diversity, equity, and inclusion \(DE&I\)](#) during the hiring process is the most apparent change we have seen broadly across the market. I do not believe these are trends that we will see change or go away anytime soon, and they shouldn't. These two critical changes in how organizations assess and attract talent have opened the floodgates for widespread change in leadership teams that was not widely considered enough in the past. Emotional intelligence (EQ) and DE&I considerations are at the forefront of any critical hiring discussion in today's marketplace. If recruiting firms and hiring managers are not paying strict attention and are not being proactive in these areas, they will run into significant push back from not only their investors but their employees, and even their customers / clients.

Concluding remarks

Every individual that I speak with expresses a strong desire to get back to normal. Whether it is related to family functions, restaurants, travel, sporting events, or the elimination of wearing masks, people have a desire to return back to their way of living pre-pandemic in some regard. When it comes to assessing, choosing, and hiring talent, however, there will be a ***new normal***. This will include an emphasis on DE&I hiring at all levels and a new skill set as to how to best attract and develop this talent base. A remote workforce in some capacity will remain in effect as leaders determine how to best structure future workforces to meet both the needs and demands of internal employees and external customers. *Communication* and *inspiration* this will remain pinnacle requirements for individuals in leadership roles. Hard skills will remain important, but soft skills will increasingly be the factors that differentiate a *qualified leader* from a truly *successful leader*.

WHAT YOUR NEXT PORTFOLIO COMPANY CEO NEEDS TO SUCCEED

Sean Dineen, Carrie Ngo, Jason Steinert and Jeff Warren of Russell Reynolds Associates Discuss Setting CEOs of Portfolio Companies up for Success



Sean Dineen



Carrie Ngo



Jason Steinert



Jeff Warren

Sean Dineen is a managing director in Russell Reynolds Associates' Leadership & Succession practice. He is based in Boston. Carrie Ngo leads Knowledge for Russell Reynolds Associates' Private Equity practice. She is based in New York. Jason Steinert is a member of Knowledge for Russell Reynolds Associates' Leadership & Succession practice. He is based in New York. Jeff Warren is a managing director in Russell Reynolds Associates' Private Equity practice in the Americas. He is based in Los Angeles.

In this chapter, these four PE leaders discuss effective strategies for successful portfolio company CEOs. Russell Reynolds Associates shares qualities of effective company executives, what their findings can tell about portfolio company leadership and a look ahead.

What leadership qualities will private equity-backed portfolio company executives need in order to succeed in a post-COVID era? As PE investment professionals reassess investment and value creation strategies, it may be time to reconsider the talent required to achieve them.

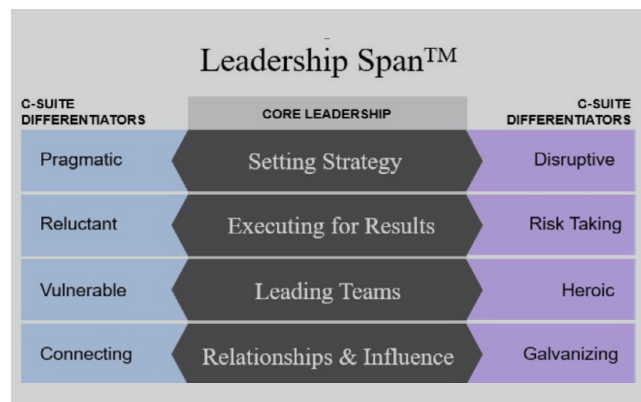
The pandemic has stretched leaders in new ways. Many now depend on workforces that are largely remote, and new strategies have been put in place to generate revenue. For PE-backed portfolio firms in particular, the need to shore up cash positions to weather a storm with an unclear endpoint was a primary concern. Some succeeded; others struggled. To borrow a phrase from Warren Buffett, when the economy plunged, it became clear who was swimming without their suit on.

Why have some leaders been more able to weather the storm than others? Certainly, industry matters, but it was also clear that some portfolio company leaders were able to flex new muscles to capitalize on the crisis. Others doubled down on their existing strategies, working harder and longer – but not necessarily getting the results they wanted.

As we reflected on this period, we wanted to understand how leadership behavior and style has played into these successes and struggles. To help uncover the answers, we analyzed CEO leadership data through the lens of our proprietary Leadership Span framework.

The model is anchored around the concept that the most successful leaders draw on a wide range of behaviors to respond to change at pace, while those with a narrower repertoire have less agility when conditions change.

Developed in collaboration with Hogan Assessments, Leadership Span assesses how well leaders perform in four key categories: Setting Strategy, Executing for Results, Leading Teams and Relationships & Influence. Within each category, it reveals how fluidly an executive can move between two complementary but often competing competencies: Pragmatic and Disruptive; Reluctant and Risk Taking; Vulnerable and Heroic; Connecting and Galvanizing.



One way of looking at these complementary categories is by “loud” and “quiet” leadership styles.

“Loud” leaders score higher on disruptive, risk taking, heroic and galvanizing; they tend to be outspoken, charismatic and quick to take action. “Quiet” leaders will lean more on the other four differentiators: pragmatic, reluctant, vulnerable and connecting. They will tend to analyze more deeply before taking action, filtering innovation for feasibility and staying close to people.

CFOs and other C-suite executives can help balance CEO strengths with quieter attributes



PE CEOs spike on “loud” attributes

PE CEOs exhibit differentiating competencies that get noticed



PE CFOs spike on “quiet” attributes

These more subtle competencies ensure sustainable effectiveness and impact



Source: Russell Reynolds Associates, 2021 analysis of 145 PE portfolio company CEOs and 85 PE portfolio company CFOs.

What our findings indicate about today’s PE portfolio company CEOs:

Our data suggests that PE firms tend to favor CEOs who excel in all the loud attributes. These executives fit the classic archetype of a hard charging, fast moving, results focused leader who enables outsized growth within the investment timeframe. In Leadership Span terms, portfolio company CEOs consistently score higher on loud characteristics than non-portfolio company CEOs, and notably higher on both disruptive and risk taking.

These loud characteristics serve a PE-backed organization well in a growth environment. However, as we learned during the pandemic, they may not be enough to weather a more volatile and complex environment. When growth slows or stops, leaders who can draw on quieter attributes like reluctance and pragmatism are able to thoughtfully take

stock of changes in the environment and consider the best path forward rather than rushing into quick changes. The ability to connect and empathize with employees, rather than just inspire or prod them, has also been paramount during the pandemic. A hallmark of top-performing leaders has been the effort to reinforce the value of the workforce through open communications (regular town halls, for example) and new wellbeing resources (such as additional paid time off, affinity groups and the like).

Forecast: More storms ahead

While the effects of the pandemic may be slowly receding, there is no shortage of disruption on the horizon. Looking out 12 to 18 months, PE-backed executives’ top concerns include the availability of key talent and skills, changes in consumer behavior, and technology change, as they noted in our 2021 Global Leadership Monitor survey of more

than 1300 global leaders, including nearly 200 global PE portfolio company executives. These top-of-mind threats will inevitably create the need for quick changes, not only in business models and marketing strategies, but also in people leadership and talent development.

TOP 5 CONCERNS

1. Availability of key talent and skills*
2. Changes in consumer behavior*
3. Uncertain economic growth*
4. Major health threats
5. Technological change

* Three-way tie for first place

Source: Russell Reynolds Associates, 2021 Global Leadership Monitor, n=195 PE portfolio company executives

To succeed in the future, PE investors will want to start by revisiting their investment theses to account for the likelihood of disruption. At the same time, they will want to revisit their hiring criteria for CEOs to look for more balanced leaders with true agility in the face of uncertainty. The goal is not to eliminate the loud characteristics but rather to screen for a leader's ability to tap into the quiet side when required by circumstances.

This notion of balance can extend to the entire management team. To the extent some leaders bring purely loud styles, it will be important to counterweight them with others who can add perspective from the quiet side. CFOs are the classic quiet archetype, as evidenced by their contrasting Leadership Span scores, but it is important to look at the entire leadership team, drawing on each member's strengths to optimize performance.

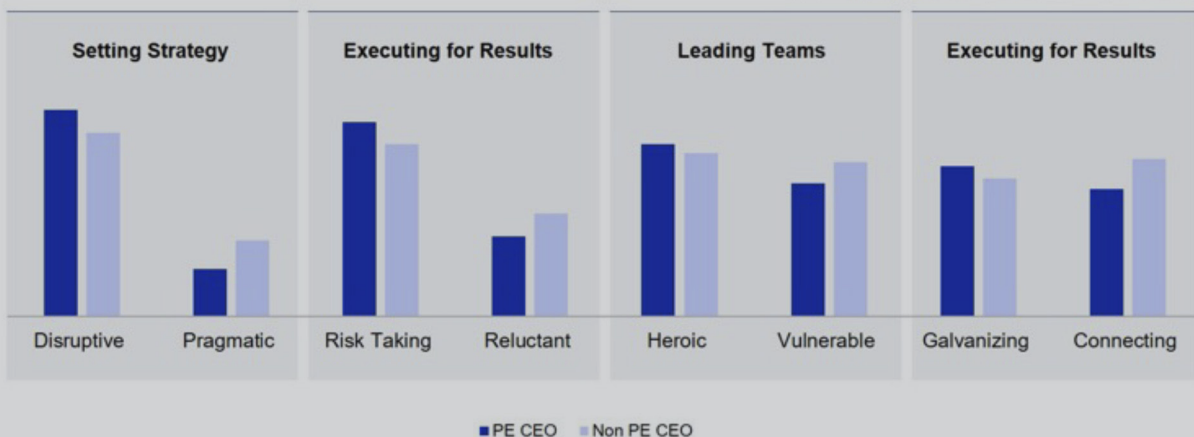
PE portfolio company CEOs are more hardwired for growth than other CEOs – but may struggle to adapt when challenges arise



PE-backed CEOs spike on “loud” attributes:
Disruptive, Risk Taking, Heroic, Galvanizing



Non-PE CEOs demonstrate more balance, with higher scores on “quiet” attributes:
Pragmatic, Reluctant, Vulnerable, Connecting



Source: Russell Reynolds Associates, 2021 analysis of 145 PE portfolio company CEOs and 932 CEOs at non-PE backed companies.

Opportunities for development

What can PE investors glean from these trends? Based on our experience in the market, there are three prime opportunities for improvement:

Make value creation plans and scorecards

multidimensional: The companies that lost the most ground in the pandemic were those who assumed a steady state and failed to plan for the possibility of disruption. To get ahead of the next wave of change, PE investment professionals will want to create more dynamic strategies and scorecards for their portfolio companies, rather than making one-dimensional assumptions about what will happen in the future.

Appoint more agile leaders: In keeping with more dynamic planning, PE investors will want to hire CEOs who can adapt their styles quickly when needed; shifting from the classic hard charging, growth-oriented mode to a more measured approach that shores up the organization for long term survival. In addition, when leaders are asking employees to go the extra mile in a crisis, it is critical for them to be able to show empathy and reveal their human side in order to win their team's loyalty and willingness to adapt.

Support leaders who are struggling to pivot: While many executives lean naturally to one side or another of the loud-quiet spectrum, most can strengthen their weaknesses with the right support. We see a number of PE firms employing coaches for their top portfolio company leaders for this very reason. Consider providing this type of support for leaders who might be struggling to pivot, making sure they have clear development goals and strategies that are in line with the needs of the organization.

Looking ahead

As businesses move into a post-pandemic era, it will be necessary for PE investors to recalibrate both value creation plans and the leadership competencies required to achieve them. While the classic growth-oriented portfolio company CEO archetype has many benefits, additional leadership competencies will be needed to succeed in the future; namely agility, empathy and balance. These qualities will allow executives to adapt quickly to a rapidly changing business environment and provide both the operational and people leadership required to move forward in the face of headwinds.

THE FUTURE OF THE PRIVATE EQUITY WORKFORCE

Dominic Levesque, President of Tatum, Looks into the Future of Private Equity and How it is Impacted By Leadership



Dominic Lévesque is the president of Tatum, a Randstad company. Mr. Lévesque brings more than 15 years of experience to the role, having most recently served as group president, Randstad Canada. He will now hold a dual role leading both Tatum in the U.S. and his Canadian team. Since joining Randstad as a staffing consultant in 2006, Mr. Lévesque has held several management positions within the company. His extensive team building skills propelled him to group president of Professionals in 2016 where he oversaw the Finance & Accounting, HR and Sales & Marketing specialties.

In this article, Mr. Levesque first reviews the impact of 2019 on all of recruiting and reflects on the resilience of the private equity community. He then explores the opportunities that executive search firms have in this industry to bring strong and influential leaders into these organizations. He then reflects on how diversity and inclusion mandates will impact the future of leadership.

Among the central paradoxes of COVID-19 is the disconnect between our day-to-day lived experience of the pandemic — in a word: “stagnation” — and the ways in which it forced the business world to actively adapt, change and evolve. In that sense, 2020 felt less like a moment of acceleration, as many commentators have suggested, than a year when the future was inexorably pulled forward.

Meanwhile, private equity (PE) firms have been pulling strongly in a direction all their own, not only bucking the challenges impacting other businesses but clearly passing key inflection points for growth. We’re seeing huge reserves of dry powder on tap, and along with it, sky-high valuations. Small wonder, then, that the 2021 Private Equity Outlook from Pitchbook teems with hints of broken records. Consider forecasts like the following, for instance:

- PE fundraising is on track to surpass \$330 billion in 2021, an all-time high.
- Overall deal value for carveouts this year could reach the highest levels ever recorded.
- At least 20 PE-backed companies are expected to enter public markets in the U.S. by way of reverse mergers with special purpose acquisition companies (SPACs).

Add to that the fact that SPACs themselves raised \$83 billion in fresh capital in 2020 — more than six times the previous record — and you’re looking at the lit fuse on a powder keg. So watch out. Things could get explosive.

Of course, that’s really just the overall industry outlook for PE. As strategic partners who deliver business-critical human capital solutions to our PE clients, where exactly does it leave us?

To answer that, we’ll need to take a closer look at some of the latest trends shaking up the world of PE. By calling out what’s new — and what isn’t — on the executive recruiting side of things, we’ll also spotlight opportunities where we can contribute even greater value.

Thinking Holistically: PE’s High-Level View

We’ve touched on some of the reasons we expect the remainder of 2021 to be action-packed in the PE space, but there’s a lot more to the story than just the Pitchbook predictions. And to prove it, let’s quickly flesh out the 30,000-foot view in a little bit more detail.

For starters, it’s worth reminding that everything about the PE experience during the pandemic ran more or less directly counter to the dominant narrative of businesses shuttering, of furloughs and layoffs, of gloom and doom and disaster.

Against, and yet concurrent with, such rampant economic decline, PE firms quietly went about their business. And what business they did: Firms in the venture industry as a whole generated an astonishing \$73.6 billion in funds during 2020, for example, shattering the previous high-water mark of \$68.1 billion in 2018.

What underpinned this unprecedented growth? Essentially, three factors:

- a thriving IPO market, which ensured that investors were ready with cash in hand
- strong demand for innovation
- the accelerated pace of digital transformation initiatives, largely fueled by the pandemic

Looking ahead, what's more, there are reasons to believe even more capital may soon be available for deployment in PE's already well-stocked coffers. Chief among them are two words that have not necessarily always sounded very sweet to the players in this space: regulatory change.

First, last June the U.S. Labor Department indicated that it would allow "defined-contribution retirement plans" — think: 401(k)s — to indirectly invest in PE funds, at least under certain circumstances. Second, in August the U.S. Securities and Exchange Commission (SEC) amended how it defines an "accredited investor" in such a way that provides greater latitude around who can legally invest in venture capital. Finally, an amendment to the so-called "Volcker Rule" ratified by the Federal Reserve Board, CFTC, FDIC, OCC, and SEC means that banks will have greater flexibility in investing in venture-capital funds going forward.

All good things — and good reason to expect PE firms will be chomping at the bit to make some serious investments. In fact, several appear poised to do exactly that.

Connecting the Dots: PE's Investment Outlook and Executive Search Opportunities

Where are PE firms most of all looking to deploy their stockpiles of dry powder right now? Startups, startups, startups.

Bain Capital Ventures, for example, recently raised \$1.3 billion in seed money to fund startups. But they're certainly not the only ones eager to get in on the action. Frankly, even astrology startups, part of the "mystical services market" valued at \$2.1 billion, are apparently fending off sedulous investors right now ("Investment in Big Zodiac seems ... preordained," quipped the New York Times).

But you don't have to read the tea leaves to identify the bigger-picture trend: Across the board, startups are seeing unprecedented, and truly historic, levels of venture capital investment. For those that are eyeing potentially lucrative IPOs, what's more, it's safe to assume internal capability-building is going to emerge as a priority in parallel. It usually does. And as a result, look for a number of cash-flush companies, in a bid to mature their financial management processes, to bring in their first-ever CFOs.

When they do, that will present an excellent opportunity for strategic partners like executive recruiting firms to step up to the plate and deliver value. Frankly, it's an opportunity that's here already. In the past 12 months alone, there's been a 95 percent increase in the number of CFO appointments at U.S. startups compared to the period previous.

For executive search firms recruiting top-notch financial leadership, of course, it should also go without saying that the competition is going to be tough. That's why we're saying it.

Meanwhile, one tier up in the org chart is another seat where we expect to see strong demand for executive recruiting services. Why? Because the road to organizational maturity is more often than not a rocky one. Historically, for example, one study found that firms transitioning between the first rounds of venture capital financing and their IPOs, changed CEOs more than 40 percent of the time. Rocky, indeed — but also a clear opportunity.

Compensation, Executive Recruiting — and Implications for Talent

So fearless, responsible and experienced top-level leaders (always a safe bet) should be a particular focus area for strategic partners, as we just discussed.

But there's also an interesting caveat here. That is, physical distance — literally the number of miles separating the location of a startup from that of a venture capital firm — has been historically cited as a key driver of CEO turnover. So the question naturally arises: Is it possible that our "new normal," and the sweeping normalizations of digital collaboration and remote work it has engendered, will make for smoother sailing, and potentially even minimize the distancing effects of physical distance going forward? What impact might that have on client-side demand, at least at the CEO level?

Only time will tell. But for our money — and based on our experience — we're wagering on the side of "little to none." Fast-moving executive recruiting firms, those that can come to the table with a stable of vetted CEOs with relevant industry experience, will likely find that their value-propositions require just that much explanation: little to none.

At the same time, executive search firms will need to be attuned to some of the ways that operating in such an explosively charged, dynamic environment is going to have fallout for talent as well. In the venture-backed startup context, for example, seasoned finance leaders who are open to taking on new challenges — and willing to bring greater maturity to the operations of fledgling startups, in particular — will discover they have a lot of leverage in doing so. The choice of title, for example, will be pretty much at their discretion. Ditto how their compensation gets structured. Cash, as mentioned, seems to be no object right now.

Yet again, this is an area where executive search firms and other strategic partners can shine right now — it's actually a pretty interesting new lever. That is, PE firms these days are rethinking compensation wholesale. Within the C-suite especially, firms want to connect pay to a raft of performance-related KPIs, and environmental, social and governance issues in particular.

At least, that's the plan. In reality, many don't know how to do it.

If strategic partners can counsel clients on the process from end to end and wrangle the ensuing negotiation to speedy closure, they will have more than earned their right to a place at the table.

Finally, and shifting our focus somewhat, it's worth thinking about PE firms that continue to be run by founding partners, in which case, inevitably, there's the always-thorny question of how to proceed when the time comes to hand the reins to a newer, younger generation of leadership. Passing the baton is seldom easy. One recently released report of a successful leadership transition at the PE firm White Deer Energy, for example, which made all of this sound like smooth sailing, likely only papered over some of the more complex discussions that had to take place behind closed doors.

Today, as always, of course, facilitating those transitions — and ensuring they go seamlessly — is also a proven sweet spot for many companies in the executive search space. And when the action really starts to pick up in the PE space, expect them to start happening even faster and sooner.

The New Diversity, Equity and Inclusion Mandate

From a diversity, equity and inclusion standpoint, the PE space has made measurable gains of late, to be sure. But even a cursory, over-the-shoulder glance is enough to tell you that there's still ample room for improvement. For starters, female partners remain a relative rarity in the world of startups and PE in general: Most estimates put the numbers at one in 10 and one in five, respectively.

In terms of racial diversity, the numbers are even worse: An estimated one to two percent of managerial roles in PE are currently held by Blacks, , trailing behind the ethnic and racial composition of the larger US population

These are narratives that your PE clients are desperate to change, of course — and as a strategic partner, you'll help drive that. But there's also reason to think the fundamental challenge cuts even deeper. The problem can't just be accounted for as a matter of representation anymore, in other words. Indeed, the data suggests that women in the PE space may be disadvantaged in other ways as well.

How so? Take the fact that PE-backed startups founded exclusively by women currently claim only 2.3 percent of overall total capital investment, for one thing. Add just one man into the equation, however, and the picture suddenly changes dramatically: Mixed-gender founding teams, by comparison, saw roughly 11.4 percent of total VC and PE investment, for example.

No doubt, data points like these are part of what keeps HR leadership in PE up late at night.

Finally, it's worthwhile to note that, despite some evidence of modest region-by-region variation, the lacuna of female leaders appears to be more or less broad based: that is, the numbers look fairly consistent across all 50 states. For recruiting firms catering to PE clients with aggressive timelines, that means the challenge of delivering an appropriately diverse slate of candidates is going to be just as tough in, say, Des Moines as it will be in New York, Austin or San Francisco.

Proactively pipelining right now is probably the only way around it. What's more, given the deeply rooted, coast-to-coast nature of the problem, it might also be the only

way to put yourself at a competitive advantage when clients invariably come knocking. But whatever approach you ultimately take, consider this fair warning — because delivering greater gender diversity for your PE clients is guaranteed to be a cornerstone of their ask.

Closing Thoughts

After an absurdly challenging year, the current outlook should have PE leaders everywhere smiling. And their strategic partners, too. Perhaps most excitingly, at least from where we sit, are all of the new opportunities on the horizon for us to create value. Hopefully, this has helped you think through some of the different ways your company can rise to the occasion and take advantage.

Plus, with that smile still fresh, let's close in a somewhat lighter vein.

Doesn't it sometimes seem like the very nature of the relationship between PE clients and their executive search partners seems to be changing? It's as if the theme of cannibalization, always in view in the context of PE, is taking on new dimensions and going in places that can border on the postmodern ironic — take the fate of these executives at a PE-focused executive recruiting firm, Mercury Capital, for example. After their firm was acquired by a large investment bank, the recruiters themselves were poached for leadership roles with another large investment bank. The Wall Street Journal reported it all with a straight face: Just “the latest in a string of departures from the executive ranks of the placement agent.”

Hey, when you gotta go, you gotta go. We get it. We just wonder which executive search firm was working behind the scenes to make it happen.

ESG, THE ULTIMATE PURPOSE PLAYBOOK FOR PE

Guy Barnes, Rick DeRose and Hannah Taylor of Acertitude Explain How ESG is Impacting Private Equity



Guy Barnes



Rick DeRose



Hannah Taylor

Acertitude knows that 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.

Guy Barnes, managing partner brings over 20 years of executive search and assessment experience to his role as managing partner, and co-leader of the Private Equity practice at Acertitude. As co-founder & managing partner, Rick DeRose leads the team's delivery of a superior experience for global business leaders in their search for executive talent and sustainable talent solutions. Hannah Taylor, is an associate and member of Acertitude's global Technology and Private Equity practices, based in London. Leaning on a strong track record of working in the private equity and venture capital spaces, she works with leadership teams and investors to build out high-performing executive management teams, enhance board composition, and drive pre-deal efforts.

In this article, Acertitude's team of private equity professionals shares their perspectives on the maturing role of ESG. They then explore the effects this role has had on talent as well as which roles are emerging. The team then explains where the future of ESG leaders will come from and where to look.

The maturing role of ESG

Making the world a better place is now a top-of-mind private equity strategy. Over the last decade, the focus on ESG – environmental, social, and governance criteria – has shifted significantly, driven by regulatory developments, increased pressure from LPs, and higher expectations of company values from employees, candidates, and society at large. Meaningful commitments, investments, and actions around ESG initiatives are more important than ever for funds to differentiate themselves — and create greater value.

As the ESG definition matures, the scope is broadening, with firms moving from addressing the “E” and “G” to tackling wider social issues; the pandemic and the Black Lives Matter movement have specifically brought diversity, inclusion, and social impact into the spotlight. As a result, organizations and investment firms alike face pressure to demonstrate transparency and action. Additionally, they face pressure to have the data to back up their positions.

Greater scrutiny requires more forward-thinking measures, and most companies will need to progress their ESG focus substantially to not only adhere to new regulatory developments but to go beyond them if they are to attract capital, talent, and deals in a highly competitive market.

Regulatory changes are creating an interesting ripple effect

A particularly significant change is represented by the introduction of the SFDR, or Sustainable Finance Disclosure Regulation, which came into effect earlier this year. Lip-service and “greenwashing” will no longer go unchallenged: there is now an obligation on behalf of asset managers and other financial market participants to disclose precisely how they are considering ESG risks in their investment decisions. This includes citing information in fund documents such as periodicals and investor reports, as well as online – consistently, publicly, and thoroughly. For the first time, all institutional investors will be required to divulge precisely what the ESG risks across their portfolios and targets are. And if they are found wanting, they will have a duty to explain why. Further changes are likely to take place over the next few years as the remaining objectives stipulated by the EU Taxonomy come into force, and the Biden administration plays out: companies must act swiftly and proactively to prevent themselves from falling behind.

The consequences are far from immaterial: should they fall short of adequate disclosure requirements and substantive ESG efforts, investors stand to lose their access to capital. As standards are raised and more investors

make commitments to reduce investments in companies and industries that do not meet ESG criteria, the pool of capital available to companies that do not score highly on these metrics is shrinking dramatically. Adherence has progressed from a “nice to have” to a critical aspect of an investor’s decision-making process. Greater transparency around such issues will be imperative not only to a fund’s access to capital but also to the value of assets at exit.

This push is reflected in the scale of capital being invested in ESG-oriented funds and their subsequent success (relative to non-ESG funds), alongside an increased awareness and urgency to step up efforts to address environmental and governance issues. According to the Pitchbook 2020 Sustainable Investment Survey, 95 percent of LPs are either already evaluating ESG risk factors or will be increasing their focus on ESG risk factors in the coming year. The Principles for Responsible Investment (PRI) signatory list now includes close to 3,000 investors, pension funds, and asset managers globally: signatories must have ESG criteria integrated for 50 percent of the assets under their management – a considerable commitment given that noncompliance or failure to sign the agreement could result in the delisting of asset managers.

The underlying force behind many aspects of this sustainable finance “revolution” can be attributed in part to the world embracing sustainability goals such as Net Zero 2050: but at a micro level, to financial markets acknowledging that investors have a responsibility to account for potential harm caused by activities they are financing. That upside cannot be the only consideration in investment decisions. To manage risk, you need tools, data, and information to report on it reliably.

There is also a growing recognition that, contrary to historic claims, ESG investment comes at the expense of fund performance, ESG factors can reduce costs, improve productivity, and create enhanced opportunities around customers, LPs, and government relations, directly contributing to top-line growth. This is something that “return first” funds cannot ignore.

Until now, there has been limited data on sustainable fund performance over the long term. But new studies

are beginning to emerge, demonstrating the companies that rank well in ESG measures regularly outperform the market and that their employees are more engaged and satisfied. Although such reports are nascent, the increasing demand for data from new regulatory developments will add considerable weight to such findings over the next few critical years.

Emerging ESG roles

Institutional investors are steadily building up their ESG capabilities by hiring a head of ESG or entire teams dedicated to the function. In the case of private equity, the head of ESG role is expanding to one that is strategic, operational, commercial, and importantly plugged into all portfolio companies, management teams, and investment decisions.

It is a role that requires breadth as well as depth – subject matter expertise in one area of ESG will no longer suffice, and more advanced funds have taken to forming a bench of professionals with complementary backgrounds to seamlessly work across a fund’s portfolio. To be considered a leader in such initiatives, firms are moving from assessing basic compliance and risk management to forming a longer-term approach to creating value, embedding these practices across the investment life cycle and at all levels, including the advisory ecosystem that surrounds private equity. ESG percolates due diligence, value creation, deal strategy, finance, and operations, and is impossible to avoid for those in the orbit of investment activity.

Another ESG challenge that global investment firms are turning to executive search and leadership consulting firms to solve is cybersecurity. In fact, cybersecurity is cited by institutional investors as the top ESG concern their investments face. The “S” of ESG now includes data and technology failings and will require greater consideration than previously allocated. Although the appointment of Diversity and Inclusion-focused professionals has been on the rise for some time, the position of chief information security officer remains scarce. Only 16 percent of private equity portfolio companies have a CISO or equivalent function in place. Of these, 46 percent were inherited. This suggests investors do not prioritize cyber capability in the same way they would the role of the CEO or CFO at the

beginning of an investment cycle. Investors are beginning to address this by appointing a CISO, and/or augmenting technical due diligence pre- and post-acquisition to mitigate risk accordingly. But few are fully prepared for this element of risk assessment.

More generally, companies have begun to focus on building out sustainability committees and have even gone so far as to name board members who are advocates for change, whether preemptively, or as the result of shareholder pressure.

Consider, for example, Exxon's recent board turnover where Engine No. 1, an investment firm "purpose-built to create value by driving impact" landed three board seats. Although eight Exxon nominees were re-elected to the twelve-person board, the firm shocked the street by winning these board seats. Time will tell if Engine No. 1's methods can be mirrored by others looking to make a big impact, and quickly. After all, if it can happen to a fossil-fuel giant like Exxon Mobil, is any company immune to the groundswell of support for ESG initiatives?

Where will ESG-savvy experts come from?

The vital importance to private equity of rapidly addressing these topics raises the question: where will these environmental, social, and governance experts come from? ESG-focused consultancies pre-date the current rhetoric around climate change and sustainability. ERM (Environmental Resources Management) was formed in 1987, itself a private equity portfolio company of Charterhouse, OMERS, AIMCo, and more recently KKR. And many firms that now have a dedicated ESG consulting offering – Jacobs, AECOM, and Ramboll, as some examples – were born out of Environmental, Health and Safety efforts around industrial and engineering activity more than twenty years ago.

More recently, leading strategy consultants have forged sustainability practices, largely comprised of consultants from traditional sectors with a high carbon footprint (such as oil and gas), and consultants focused on specialist topics such as circular economy, or else heavily focused on climate change. Few have truly addressed all topics contained by the acronyms – something we are likely to

see a shift in over the next few years to address increasing demand from core client bases.

Already, we are seeing consulting firms form partnerships with or invest in third parties: for example, consider Accenture's investment in ESG data platform Arabesque S-Ray, BCG's collaboration with Italian business Eni and Google Cloud to launch a sustainability data platform focused on supporting companies in their energy transition journey, or Bain & Company's investment, alongside CVC, in the French-based sustainability rating provider EcoVadis. There's a growing trend in the professional services sector of enhancing environmental, social and governance credentials quickly. Yet revisiting the idea of ESG professionals needing to work cohesively across all aspects of a fund's investment activity and acknowledging that to do so requires breadth and depth around ESG content in addition to a cornucopia of strategic, financial, and operational skills. Investors need to look beyond the usual talent pools to find such individuals.

In another decade or so, we may well see the emergence of fully-fledged sustainability professionals well-acquainted and equipped to tackle all topics under the ESG umbrella – the number of sustainability degrees and courses offered by higher education institutions has risen dramatically, and now encompass ecological, economic, policy, and social studies, combined with certificates in sustainability leadership and management. But at present, such experience is likely to come from a handful of sources, including funds that were early to onboard ESG appointments, who have since flexed their consulting muscles in an operating environment and developed in parallel with the widening definition of sustainability. In light of increasing scrutiny, such executives are likely to need specialist expertise (for example, human rights knowledge or cybersecurity credentials) to meet new requirements and bolster their efforts.

Time will tell what the future holds regarding the ongoing ESG evolution. In the meantime, focus on opportunities today to enable transformation and impact worth being proud of tomorrow. This is the era of standing up to stand out, and of migrating from selling goods and services to doing good and being of service.

STRONG RESURGENCE IN SEARCH ACTIVITY IN THE PRIVATE EQUITY SECTOR

Tim Russell, Managing Partner of The Tolan Group, Discusses the Current State of PE Recruiting



With a focus on helping PE/VC backed healthcare organizations, Tim Russell, managing partner of The Tolan Group oversees the business development and recruitment activities for Private Equity and Venture Capital Clients. Using market demographic data, Mr. Russell consults clients on candidate dynamics, compensation arrangement and hiring probability. Using data driven analysis, Mr. Russell is able to provide real time intel as to what is needed for completing a search assignment expeditiously with candidate retention as a byproduct.

In this article, Mr. Russell shares his views on the current market for recruiting at private equity firms and their portfolio companies. He focuses on the strong rebound that he is noticing for this market. He then shares what roles and skill-sets are in high demand as search activity surges.

The current state of recruiting in the PE industry is strong. The post COVID economic recovery initiative is well underway. The search firms who recruit in certain sectors that PE firms invest in, are doing very well. GP's are shifting their focus back to growth and scale in preparation for exit; as opposed to crisis management focusing on liquidity and cash flow concerns and strategy adjustment, which is what most of the focus was on in 2020 (for obvious reasons). Things started to heat up in October of last year. The pace picked up considerably as 2021 rolled around and a familiar velocity of deal activity resumed. At the end of 2020, it seemed everyone was busy! As stated by one of my PE clients during a late-night email exchange, "10:00 p.m. has become my new 5 o'clock." Towards the end of 2021, as dry powder deployment deadlines loomed, PE deal flow created extended hours for all involved in PE activity... recruiters included!

There are a number of reasons for the recruitment activity but suffice it to say certain sectors are red hot right now. Investment dollars are pouring into the health care ecosystem which is the area of focus of The Tolan Group's recruiting efforts. Our firm supports private equity-backed healthcare organizations in securing executive level talent in the health care services, health care tech and behavioral health sectors. We work at the C-suite level, VP's and Directors for the most part.

The lion's share in the last two quarters have been for our clients and PE firms focused in the healthcare services sector. This is where management services organizations are formed to help manage the business side of provider

organizations. Common specialties that are invested in include: gastroenterology, ophthalmology, orthopedics, rehab, dental, urology and dermatology.

We are grateful for our involvement in the healthcare environment. Due to our focus on recruiting in that space, we remained stable throughout last year. In fact, 3 of our C-level hires actually started at the very beginning of the COVID shutdown. I reached out as a 90-day check in call with a CFO candidate that we placed just as the lockdown went into effect. When I inquired as to how things were going, he responded that things were great even though he had yet to walk the halls of his new employer's office and hadn't yet shaken the hands of any of his new direct reports. That was 3 months into his tenure.

What to Consider

When recruiting into healthcare portfolio companies, a fair number of executive roles are needed to round out the team. This includes operations, IT, HR, finance, business development, sales and revenue cycle to name a few. But a growing need of late is the need for clinical help. Everything from physicians to advanced practice professionals to nursing staff and even medical assistants are in demand at many healthcare companies. When growing clinically oriented investments, private equity firms must consider both executive staff and clinical staff in their hiring plans.

There were some recruiting firms that didn't enjoy the same level of stability in their activities. Certain sectors like hospitality, entertainment and travel were severely affected. Not unlike some manufacturing organizations

who retooled and renovated their production facilities to help create PPE during the pandemic; some search firms revised their focus and took their recruiting process into new sectors. Sectors such as life sciences, health care services and healthcare tech all remained active during the shutdown. Some search firms pivoted into the healthcare ecosystem as a means of survival. The healthcare sector is robust right now but there certainly is a learning curve to effectively recruit in the space. Though a recruiting process may exist, applying it in a different sector may present a challenge for the recruiters who need to adapt to the nuances of an unfamiliar sector as healthcare. Those search firms who pivoted into the healthcare space as a means of survival are now glad they did.

Big Opportunities Ahead

Another dynamic of the current recruiting climate is the roles being hired. CFOs top the list of the most requested role we are asked to help our client's hire these days. To date, CFO search requests are up almost 300% from pre-covid levels at our firm. As GPs continue to plan for post covid recovery and exit timelines, the skill set of the CFO is paramount. Incidentally Controller requests are also on the rise. Over the last 6 months we've seen a 120% increase in Controller search requests from our clients when compared to the same time period in 2019. Revenue Cycle search assignments are up 80% from pre-covid levels and show no sign of slowing down for the balance of this year. Lastly, M&A roles have been requested at a 200% increase from 2019. Suffice it to say, top level finance talent is in high demand.

Not only is a specific type of role in high demand at the executive level, but also there is a specific type of skill set requested. No one had a page in their playbook for how to manage through a national pandemic. Many executives have described last year as "uncharted waters" in their career. Stories abound of innovative C-suite leaders leading their organizations well during the uncertainty. Others not so much. A growing request from our clients is a desire to know how a prospective candidate led through the events of 2020. We have been screening for core competencies of not just operation and financial management - but now for crisis management as well. Clear, consistent communication and agility and willingness to "flex" have been characteristics moved to the top of hiring manager's wish list of ideal candidate parameters. Leaders with experience in quickly adapting and making adjustments while offering assurance to the team while delivering outcomes are not without opportunities.

As we look ahead at the coming months, we are bullish on the future. Healthcare investments are ongoing and PE deal teams are evaluating new platforms at a feverish pace. Many of these organizations will need additional team members on the executive team to help scale and accomplish the transaction goal. Recruiters who serve the PE backed healthcare community will remain busy and see new opportunities to help as things begin to rebound from a year of uncertainty.

BUILDING EFFECTIVE PRIVATE EQUITY LEADERSHIP TEAMS

David Law Man Co, Partner, Anita Pouplard, Managing Partner and John McCrae, Managing Partner of Boyden, Discuss the Current Market for PE Recruiting



David Law
Man Co



Anita Pouplard



John McCrae

A strong private equity market is fueling intense competition for talent to lead portfolio companies. Boyden focuses on securing their clients' investments by putting leaders at the helm who can decisively confront challenges, put strategy into action, and balance caution with innovation to optimize performance.

With over two decades working in Asia, David Law Man Co employs a combination of business acumen, leadership expertise, and broad exposure to China's industrial and technology sectors to deliver strategic human capital solutions. As a trusted advisor to C-suite executives and boards, Anita Pouplard has completed numerous international search assignments over the past 20 years. Ms. Pouplard thrives on challenging, ambitious and complex assignments, and has a track record of recruiting world-class leadership that impacts business results. John McCrae derives his expertise not only from a 17-year career in executive search, but also from direct experience in the critical functional areas for which he recruits.

In this three-part viewpoint chapter, Boyden will explore three separate topics related to private equity recruiting. The first, authored by Mr. Law Man Co reflects on the impact of ESG on the sector. Ms. Pouplard then shares how a talent strategy can be incredibly impactful on creating value and generating growth. Mr. McCrae then wraps up the chapter by focusing on optimizing talent and the influence of culture on leadership.

Investing With Purpose: Embracing the ESG Paradigm

By David Law Man Co.

ESG as driver of value creation

Looking at recent market trends and surveys in the industry from PwC, EY and KPMG, 2021 seems to be a transition year for Environmental, Social and Governance (ESG) investing with upcoming change how funds are structured and run. As responsible investment is increasingly becoming an important focus within the investment industry and ESG increasingly being seen as a must have value driver but also a competitive and differentiating factor in accessing capital in the post-pandemic world.

The demand for ESG funds will surge in the next three to five years and will alter the investment landscape. This growth will be driven by a surge in demand, especially from young investors, as well as asset managers aligning themselves with government regulations, especially in the EU designed to foster ESG investing, as the environment and climate change have taken on more significance for LPs and governments in major markets.

In the new sustainable economy, sustainable investing and ESG investing grew to more than USD30tn globally by 2018 and has continued to grow according to the

Global Sustainable Investment Alliance. The global impact investing market—a segment of the sustainable investing market that focuses on positive outcomes, regardless of returns—is now estimated to be worth about USD715bn (according to the Global Impact Investing Network, an industry body)

With Europe at the forefront of this movement and leading the sustainable investing market, assets under management ESG equity funds could reach as much as EUR3.6 trillion by 2025, while ESG bond strategies could hit EUR1.6 trillion according to PwC predictions.

On the consumers side, survey after survey shows that consumers, especially the millennials and post-millennials, are moving towards companies that they believe act responsibly. “Doing the right thing” is becoming a critical element of customer loyalty. A Capgemini global survey conducted in 2020 found that 79 percent of buyers were changing their preferences based on sustainability.

Dynamic investors like PE are well-positioned to bring their capabilities to address on issues like decarbonisation and carbon neutrality. With an immense amount of capital at its disposal (USD5.8tn in 2019, and rising as high as USD8.3tn by 2025, according to PwC analysis), PE firms as important providers of liquidity, debt and equity, have been

enabling growth and transformation. Hence the fast-growing PE industry is uniquely positioned to use its strengths, market position and capabilities to generate positive returns for society in specific areas while generating returns for investors. PE's edge has always been to create value by driving transformation more quickly and deeply than other investors can.

We will witness a paradigm shift in the industry from rapidly reducing costs and repositioning assets to effectively achieving decarbonisation and sustainability throughout large portfolios that cut across geographies and industry sectors.

Governance and the need for ESG talent

In our recent Boyden Board Leadership panel discussion, a key highlight was ESG becoming an increasingly hot topic in the boardroom. Global corporations from Europe and the US are leading the way in incorporating ESG factors into their investment and M&A decisions. Deeper integration of ESG issues have also taken place into PE firms investment decision-making process.

In Asia, a surge of interest in responsible investment driven by government and social pressures are following suit in driving the need for investors to integrate ESG factors in their investment processes. The increasing pressure of regulatory changes is also driving a greater need for transparency and compliance with rules mandating disclosure of environmental factors.

China has trailed in an arena fast becoming "the new normal" globally. However change is happening with the government's regulations that forces companies to get serious about sustainability programmes. In Europe, early this year, the European Union Action Plan's new regulation on sustainable finance disclosures (SFDR) will mandate that all participants in EU financial markets disclose information to investors on specific ESG considerations.

In a EY global PE survey, 40 percent of respondents indicated that ESG risks are very seriously contemplated in decision-making process. In the same survey, governance was ranked as the top ESG risk. Better-managed companies are better equipped to manage risk and capitalize on business opportunities. Environmental

performance is another top risk. With this new paradigm, the understanding of ESG issues will be a fundamental necessity for successful PE investors.

Building the right team equipped to face the challenge will be critical

Senior leadership of PE firms will play a much more active role in governance and oversight with the majority of larger firms that have created a task force to lead these activities. PE Firms will also need to recruit the right talent to deliver sustainable value creation. That will involve hiring people with sustainable business expertise and, in general, hiring more diverse teams in terms of diversity and inclusion.

We have seen the recruitment of dedicated professionals at Bain Capital, Blackstone, EQT, The Carlyle Group, CVC Capital Partners, and KKR, with the hire of "Head of Sustainability" or "Head of ESG" type of roles, and the hire of additional resources once the head is in place. However, this practice has not yet become mainstream across PE firms. Firms able to demonstrate a commitment to ESG would likely be best placed to attract and retain that ESG talent.

The size of the firm and how important ESG is going to play in the overall investment strategy, will determine whether there is a need for dedicated resources. PE firms will need the right resources in place to deliver that strategy in embedding more and more ESG factors into the investment management and portfolio oversight process in order to manage risks and capitalize on opportunities.

Building Value & Growth through Talent, Leadership, & Purpose

By Anita Pouplard

2020 has been a year like no other and the PE industry has felt the impact. But despite its challenges, the industry has proven resilient and adaptable to the new working environment. The promise of vaccines has made the outlook clearer, the long-term outlook is positive, valuations for attractive assets are high and competition is fierce.

To maximize its returns, PE firms need to stay focused on value creation leveraging on operational effectiveness and financial optimization, as well as adopting new levers of

value creation; not only with the digital transformation but also making sure they have a well-thought premium Human Capital strategy.

How can a talent strategy drive an ambitious growth strategy?

In one of its recent surveys, Bain & Company highlighted that 71 percent of their respondents cited that the caliber of the management team was the main sources of deal success, before the differentiated value creation plan (50 percent). These days, value is increasingly being driven by non-financial factors, however aligning the operating model (business) with the operating environment (workforce) is not an easy thing to do.

As a global tier one leadership consulting firm, we know that a rigorous and professional approach to talent assessment and recruitment makes a significant difference. PE/VC backed companies need speed in talent access and the right assessment. In this rapidly changing context, experience is sometimes the least important factor. Companies need leaders able to make the transformation happen, by defining a new go-to-market model, by building new sales channels and by putting in place a new organization to support an aggressive ideal double-digit revenue ambition. Capturing this full potential when it comes to talent management means replacing intuitive decisions with a systematic, analytical approach to identify and assess needs, as well as fill gaps, starting from the due diligence process and running throughout the entire ownership period. This means recruiting leaders with high emotional intelligence and the ability to adapt quickly, who feel comfortable with uncertainty and are prepared to break old habits in order to get the buy-in from a wide variety of stakeholders.

Purpose driven C-Levels executives!

More and more leaders have a greater set of expectations that go beyond delivering bottom-line performance. What we see emerging are young leaders who set the pace, effectively willing to work for companies aligned with their personal values and inspirations for society. This of course adds complexity in the recruitment processes. From a candidate stand point, it's not merely a question of playing

a key role in value creation, but also how they can have an impact on society as a whole and build the world of tomorrow.

The young generation (35 – 45 years) - future rising stars - have a desire to work for organizations whose values are aligned with their own. Gartner research shows that in 2020, this desire accelerated and that 74 percent of employees expect their employer to become more actively involved in the cultural debates of the day. This study also shows that the number of employees who were considered highly engaged increased from 40 percent to 60 percent when their organization acted on today's social issues.

Shared purpose and values increase organizational focus, enhances team cohesion, and amplifies personal and collective resilience. In a context where PEVC backed companies are under tight time constraints, focus and cohesion allow new skills to be learned rapidly while facilitating decisiveness during uncertainty thus promoting working together towards a shared goal bigger than any individual or the company.

From a PE/VC standpoint, if we want to have the broadest choice when recruiting C-Levels (as well as their own teams), the positioning and purpose of the portfolio company is key in making the difference. As executive search consultants dealing with candidates every day, we strongly believe that PE/VCs and CEOs will have to take this new trend into consideration in order to retain and attract the best talent.

Optimizing Leadership Talent to Realize Investment Potential: It's Beyond Executive Search

By John McCrea

We are in the Executive Search business, but at the highest level this is more than the transactional nature of recruiting. It means helping companies optimize how they apply executive human capital and leadership in their organizations. It is not about finding people whose résumés match the job spec. It is about finding someone with the right nuances of skills to accomplish the goals for that role. It is also about finding the right person in the context of chemistry with other executive team members and the company culture – one who will make the team greater than

the sum of its parts. This means Finding Inspired Talent. Finding the right “FIT”. Which means optimizing the talent for the company to achieve its goals.

This is particularly important for Private Equity portfolio companies, who are usually in the middle of change/transformation as a result of manifesting their investment theses – and with (usually) clear targeted exit timeframe and scenarios. Executive leadership optimization is critical, nuanced and time sensitive.

However, for the Private Equity firms, optimizing the application of executive and leadership talent goes beyond the transactional world of any given executive search. There are a spectrum of needs for this level of talent -- beginning before a potential investment is even a part of the portfolio. Additionally, those needs change and flex -- before and after the LOI, after the deal is done, through the transformation and growth phases and into the exit. These include:

- Bringing in subject matter experts to help in the evaluation and due diligence of a deal, who may potentially move along with the deal if it gets done. Some of these people may be critical in “unlocking” the deal for the PE firm.
- Bringing in key advisors to flank the executive team and get more out of that team – effectively coaching them up rather than trading them out.
- Interim or part-time executives, executive chairs and others who may be a more optimized human capital solution for a period of time than replacing a “B” executive or hiring a full-time executive at that particular stage.

All of this is an ongoing executive leadership puzzle in four dimensions, including time, to find the optimal mix of executives performing the critical functions to deliver the desired investment outcome.

At Boyden we are more than recruiters, we are Leadership Optimizers. We are immersed in the talent pool at this level of leadership – whether they be applies in a full-time role, a part-time or interim role, an advisory, consultant, or exec chair role. More importantly with years of experience in both executive search and in most cases as executive leaders in

operating roles ourselves, we have the consultative ability to help PE firms and their portfolio companies optimally apply that executive leadership talent.

Talent optimization doesn’t end once the individual (FTE, Part-time, Interim, advisory, etc.) is placed in a company. We have a robust leadership consulting practice to help optimize individual and team performance on an ongoing basis through the duration of the investment. Our leadership consulting team can help organizations solve their most complex business issues, by providing a broad set of Leadership solutions, working with Leaders and/or by developing the appropriate organizational levers.

In a world where change happens at a fast and unpredictable pace, effective leadership is vital to business performance. For companies looking to develop their leadership capability in addition to world-class executive search capabilities, at Boyden Leadership

The importance of culture and developing a successful one: Many companies have significant cultural poverty

Corporate culture is one of those subjects that gets paid a great deal of lip service. Everybody talks about it, but few companies deliver on it. And yet now more than ever -- particularly as companies are adapting to more people working remotely after COVID -- a strong, healthy organizational culture is instrumental to company success.

Not only is organizational culture is hugely important to the success and overall health of a company, but culture fit is the glue that holds an organization together. According to the Society for Human Resource Management (SHRM) the result of poor culture fit due to turnover can cost an organization between 50-60 percent of the person’s annual salary. Studies have shown measurable increases in turnover for companies with poor or nonexistent cultures.

Culture represents the way you do business. It determines how your people and customers perceive you. It impacts performance and employee wellbeing and can transform employees into evangelists and advocates (and conversely critics). A strong culture turns your company into a team and keeps your employees aligned. A strong culture attracts better talent and, more importantly, retains that talent - helping you keep your best people. Conversely, a

toxic culture will do just the opposite. All of this adds to your brand identity.

When companies merge, and those mergers fail, it is almost always due to culture fit. It rarely about business fit – the deals always make sense on paper. The same is true of executive teams. Culture fit is critical to leadership team success and therefore having a clear an established culture is critical to having the right fit. It does little good to try to recruit top talent into culturally poor or culturally vague organizations. Culture begins at the top and is disseminated by the leadership of the company. It needs to be clarified and cascaded through the organization via the leadership team. Cultural fit on that leadership team is not just important, it is paramount.

When we deep dive into a company when beginning a key executive search, and interview other top executives in the company, Too often we find inconsistency in what that organizational culture is, and worse, sometimes find a tremendous cultural poverty at the company. Often this

is represented in Glassdoor reviews and other workplace rating sites.

This is why we will often recommend bringing in our leadership consulting team in advance of a search (or at least concurrently) to assess/audit the cultural landscape (evaluate where your culture currently stands, see what (if anything) is missing, and establish a plan to make corrections) and then help the company activate the appropriate culture. We can then much more effectively recruit the optimal leaders to not only address the right functional needs they are being recruited for, but also be the right fits to help build and maintain that culture.

The lessons are: Be able to deeply understand, articulate and embody your culture. If you don't have a clear culture or have a poor one, invest in putting in the building blocks in place to develop one. Regardless, emphasize culture fit throughout any recruiting process, and leaders will thrive in their new roles, drive long-term growth and deliver success for your company.