Five Talent Trends in Private Equity

Human capital is one of the most important elements of success in a private equity deal — albeit often overlooked in comparison to standard diligence areas such as strategy, operations and finance. That said, we have seen an increasing number of firms tap into human capital strategies to improve performance throughout the ownership life cycle.

To understand private equity talent trends better, we recently reviewed more than two dozen private equity firms — one group of the largest firms (AUM $70 billion or more), and another group of mid-sized firms (AUM $30 billion to $70 billion) — and examined how many are conducting any of 14 different talent strategies (see figure).

The data points to areas where private equity firms in general can invest more — and, in particular, where mid-cap funds tend to lag behind larger-sized funds. Below we look at some of the leading trends from this research.

TALENT STRATEGIES ACROSS THE PRIVATE EQUITY DEAL LIFE CYCLE

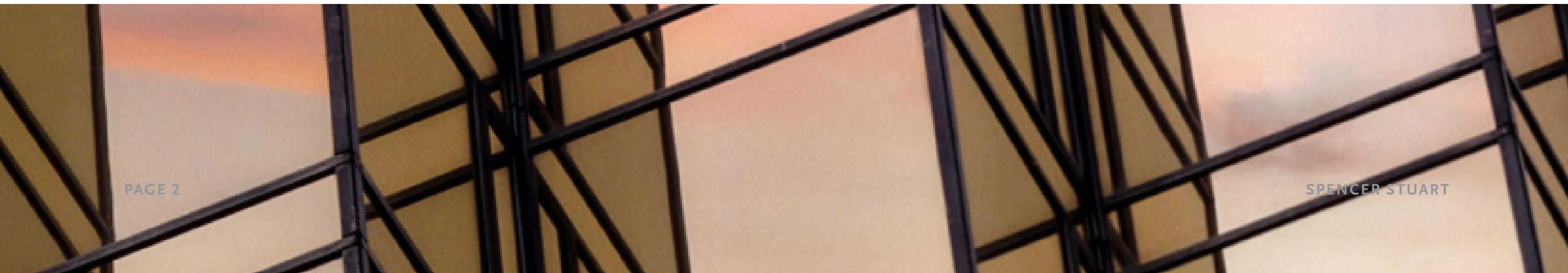
	% of firms with established programs		% of firms with established programs plus those that are piloting	
Talent strategy	**Mid-cap private equity funds**	**Mega funds**	**Mid-cap private equity funds**	**Mega funds**
Pre-deal				
Executive introduction programs	75%	77%	100%	92%
Management insights/Confidential diligence talent referencing	33%	69%	92%	77%
Pre-deal executive, board search	33%	54%	50%	85%
Post-deal				
Assessment training	8%	46%	42%	62%
Scorecarding	67%	54%	83%	62%
Executive assessments on C-suite	75%	85%	92%	92%
CEO, C-suite and board search	100%	100%	100%	100%
CEO acceleration/Onboarding	17%	15%	67%	77%
Team effectiveness	25%	77%	58%	85%
Organizational effectiveness	25%	69%	58%	69%
CEO succession/Leadership academy	8%	23%	58%	31%
Annual CEO/C-suite talent review process	33%	38%	75%	46%
Executive network tracking and management	33%	69%	42%	69%
Exit readiness engagements	8%	8%	33%	8%

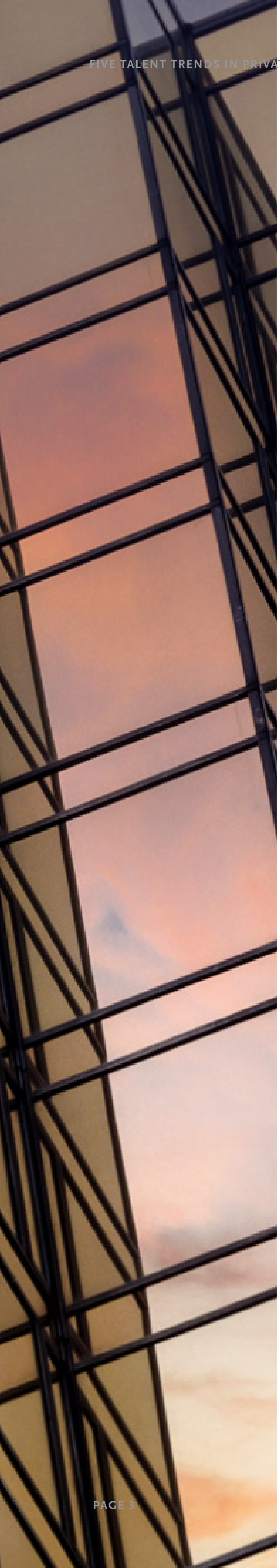
Notes: Our study covered approximately 30 firms overall. The “mid-cap” private equity firms have AUM of between $30 billion and $70 billion; the “mega funds” have AUM of greater than $70 billion. “Established” means the firm has a consistent, firm-wide approach through internal talent capabilities or with a third party. “Piloting” means the private equity firm has conducted pilots or has plans to implement them firm-wide.

Our research indicates five key insights

1. **Mid-cap private equity funds are making progress compared to mega funds**. Mid-cap funds are aligning with mega funds in adopting more strategic talent initiatives, but some gaps are still evident — whether due to lack of resources or awareness, or because investment professionals have developed internally and had limited exposure to these strategies.

   For instance, mega funds are likelier to use third parties to conduct confidential referencing during the diligence phase to gain insights on a target company’s CEO/management team; 69% of mega funds use this consistently, compared to 33% of mid-cap funds. That said, given the sensitivity and competitiveness of deals, more mid-cap firms are recognizing the value of engaging third-party partners to provide insights on management. We found that 59% of mid-cap companies are piloting these strategies — which means that overall 92% of mid-cap funds are either using confidential referencing consistently or on a pilot basis.





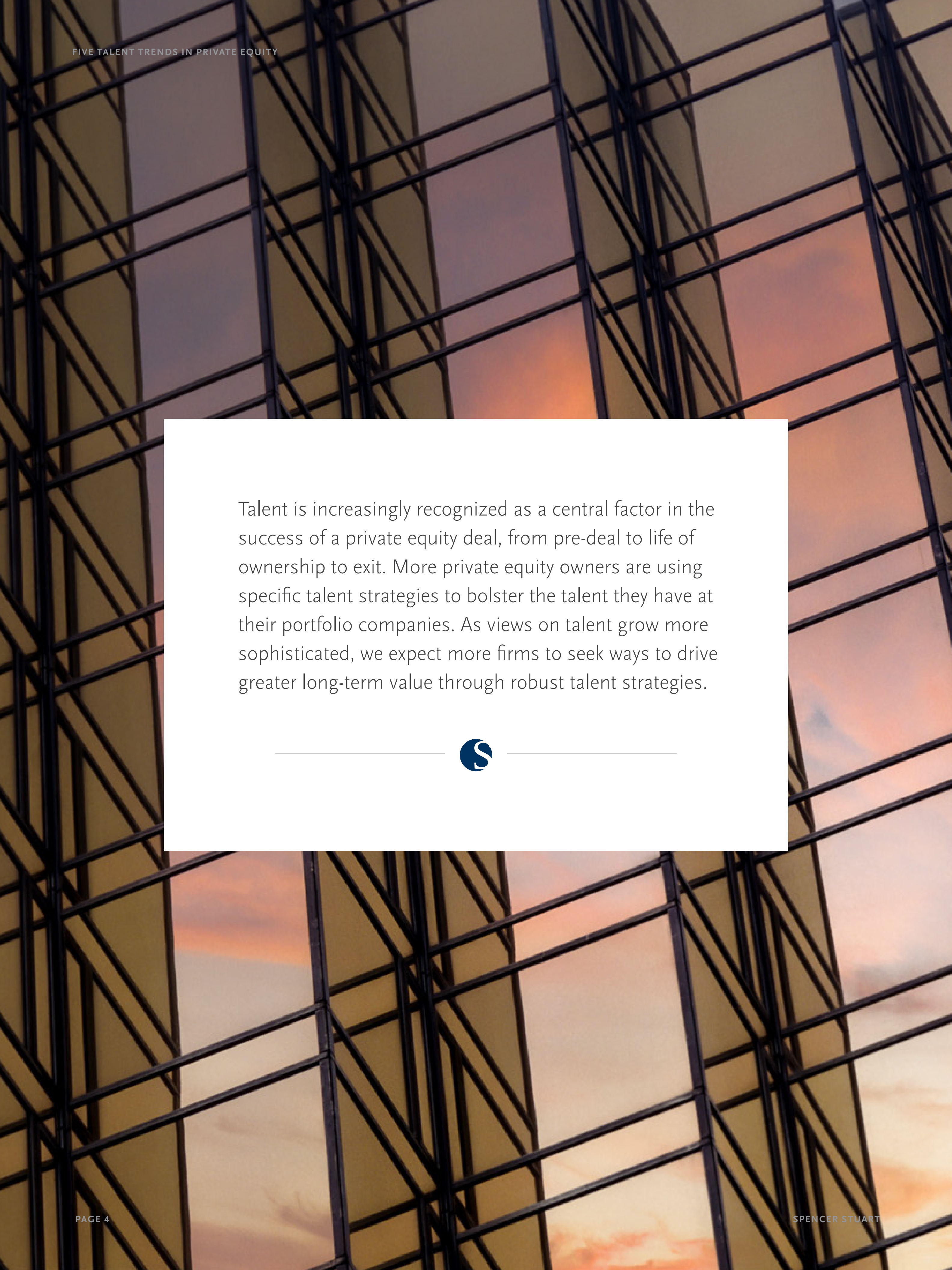
2. **Pre-deal moves are gaining traction**. The data shows how most private equity firms are at least piloting common pre-deal strategies that enable them to address talent gaps almost immediately. Executive introduction programs and talent due diligence are common — albeit more likely established among bigger firms. However, there was a noticeable gap in the use of pre-deal search, which was utilized much more commonly by large firms as a way to de-risk investments and create early momentum. In our work, we are seeing a rising number of firms using pre-deal search not only to identify CEO and C-suite candidates, but also experienced executives who can join boards, act as operating partners or serve as advisers to CEOs.

   Other strategies we have seen gain momentum prior to deal closing are CEO assessments, as funds seek to shorten the time frame for bringing in the right leaders to drive growth. These are typically conducted during exclusivity, and CEOs are becoming more amenable to engaging in them when framed as part of the overall diligence process.

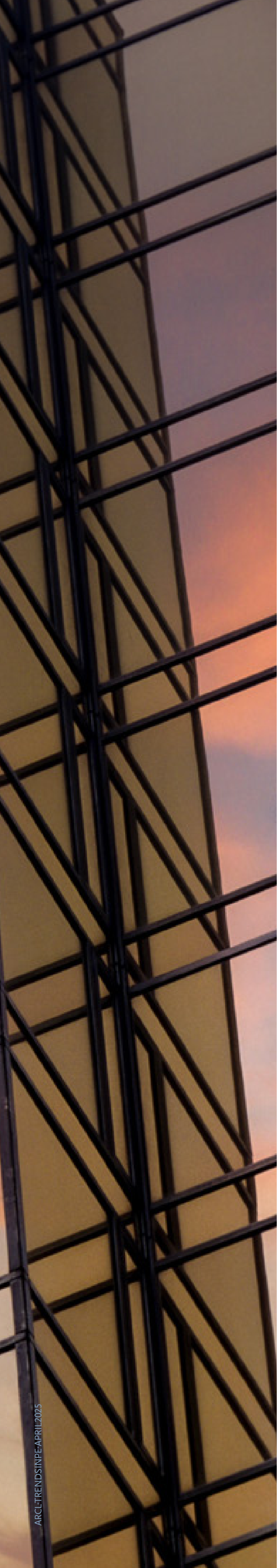
3. **Large firms target team and organizational effectiveness**. Team and organizational excellence are typically CEO focus areas, but roughly three-quarters of private equity firms are actively addressing these areas to align portfolio company organizations around the value creation plan throughout the ownership period, from deal close to exit.

   In particular, the data shows that a few more firms are taking a look at talent programs that prepare their portfolio companies for exit. It aligns with what we often see in our work, which is that the required skills and expertise shift throughout ownership, and in particular when considering the exit.

4. **Annual management reviews are becoming more common.** In response to underperforming investments, there is a growing focus on rigorous annual performance reviews for CEOs and management teams, with 75% of mid-cap funds having either piloted or established such processes. However, inconsistencies in the approach and rigor of these evaluations remain across mid-cap and mega funds. While fund leaders and human capital heads raise the need to standardize annual reviews, there remains resistance. Firms that commit to transparent and thorough evaluation methods (going beyond the quick red-yellow-green rankings) are likely to ensure they have top talent aligned with their strategic goals, ultimately enhancing overall performance.
5. **CEO succession planning takes center stage**. Half of the mid-sized companies we reviewed are piloting CEO succession planning or leadership work for internal talent. It can be a valuable action for private equity firms, especially considering that having one (or more) CEO changes during the hold period is quite common. Further, as hold periods have grown longer in recent years, private equity firms are looking at executive talent more expansively, in particular as they seek leaders who can lead for a longer stretch.



Talent is increasingly recognized as a central factor in the success of a private equity deal, from pre-deal to life of ownership to exit. More private equity owners are using specific talent strategies to bolster the talent they have at their portfolio companies. As views on talent grow more sophisticated, we expect more firms to seek ways to drive greater long-term value through robust talent strategies.



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