CEO•WORKS

Value-based Executive Hiring in PE:

The Talent Edge Framework

Create efficient returns in private equity transactions by driving value up and time down.

THE CEO.WORKS TEAM

Purpose

The focus on talent-driven value in private equity transactions intensifies as more stakeholders seek to create timely and more efficient returns from their portfolio companies' highest levels of leadership. The talent partner in private equity firms is playing an ever-growing role in helping to source and select the best candidates to prepare businesses for exit and lead portfolio companies to visionary successes. Veteran private equity partners experience hiring multiple CEOs each year to support this fast pace of play, but turnover in the C-Suite continues to be a significant challenge.

A recent survey completed by AlixPartners reported that 58% of CEOs are replaced within the first two years of an investment, and 73% of CEOs are replaced across the lifecycle of an investment.[1]

To better understand how private equity firms can succeed in talent selection at the critical roles for their portfolio companies, and in seeking to understand executive selection and allocation of talent into the organization to deliver the Value Creation Plan (VCP), CEO.works surveyed nine premier mid-market private equity firms and their talent operations in 2020/2021. These nine firms combined for over $300B in AUM and 300+ Executive searches conducted through 2020.[2]

We hypothesized that the successful delivery of any VCP is highly dependent on answering two questions successfully:

1. Do we have talent in the CXO roles who have successfully delivered outcomes in similar situations and can rinse, wash, and repeat to deliver outstanding outcomes in the role?

2. Do we have enough talent at the minimal number of critical roles below the C-Suite that are pivotal in delivering the components of the VCP?

In regards to the first question, there are two success criteria:

1. Did we get the CXO selection right?

2. Did we do it at an appropriate pace to not leak value due to lost time?

This paper will explore the answers to driving value up and time down in selection. We will also highlight what the best firms are doing to allocate talent into the organization to deliver the VCP and mobilize to mitigate against potential risks to value.

Value Up!

Garnering successful results in talent selection has been a challenge in the private equity industry. However, firms with consistently above average talent selection outcomes implement a set of superior practices in the search setup: identifying risks to the role, finding the right partner to bring about quality candidates, executing assessments, deep referencing to vet candidates, and ensuring favorable outcomes with a fast start through onboarding efforts.

Alignment on "What good looks like"

One of the most significant pain points of the talent selection process is aligning on the talent profile among all stakeholders, including search firm partners. Traditionally, firms and partners outline the experience/skills necessary to qualify for the role. However, the best firms ensure every role critical to delivering on the investment thesis has a defined set of future outcomes required to help deliver value to understand what good looks like in the role. Focusing on what success in the future should look like rather than simply finding good talent to drive outcomes is a differentiator identified in firms with above-average outcomes in talent selection. These defined outcomes are what CEO.works refers to as the Jobs To Be Done™ (JTBD).

Some of the best firm's approaches to alignment involved developing specific examples of experience and behaviors matching the JTBDs before the launch of the search. Additionally, firms that take a very disciplined and analytic approach to articulate the desired outcomes of the role (JTBDs) drove generally superior results in successful placement rates.

Identification and Mitigation of Role Design Risks

Beyond alignment on the desired outcomes for the role, firms that conduct a formal analysis of the execution risks inherent in the role design create a position where the candidate is set up for success, not failure.

Some firms identified role risks through the role's capacity and authority to deliver the desired outcomes and latent or active resistance to such outcomes. Unfortunately, these role risks are present to one degree or another in all roles and are often go unrecognized until it is too late.

Identifying and intentionally mitigating these risks ensure better odds of a successful hire. The necessary "Fit Criteria," or demonstrated abilities to minimize the role risks, are defined for alignment between sponsors and search firms to find the best-fit candidates.

Sourcing Great Search Partners

There are two critical decisions in the search process, the first of which is choosing the right partner in the right firm. Getting this one right increases the chances of getting the second one, selecting a successful candidate, right more often.

Search firms hired by sponsors typically conduct talent sourcing, although there are some exceptions to this, as we will identify. CEO.works observed firms utilizing a few different tactics to increase the success of talent sourcing.

First, many firms sought to employ a network of internal referrals into the candidate mix. Internal referrals are usually sourced from the network of the sponsor's team or, in rare instances, a database of candidates the sponsor had previously interviewed.

Furthermore, several firms utilized an incredibly selective process to partner with search firms beyond large generalist firms. They often sought smaller boutique firms to help fill specialty positions or niche markets. CEO.works identified two approaches to determining a successful search partner. First, some firms hired advisors to help narrow down their search partner selection. These advisors act as "headhunters" for "headhunters." Other firms have used their in-house resources to create search partner databases, regularly updated through search partner interviews. In either case and not mutually exclusive, firms developed robust search partner networks to find the best partners by region, industry, function, and portfolio company size.

Use of Third-Party Assessment Firms

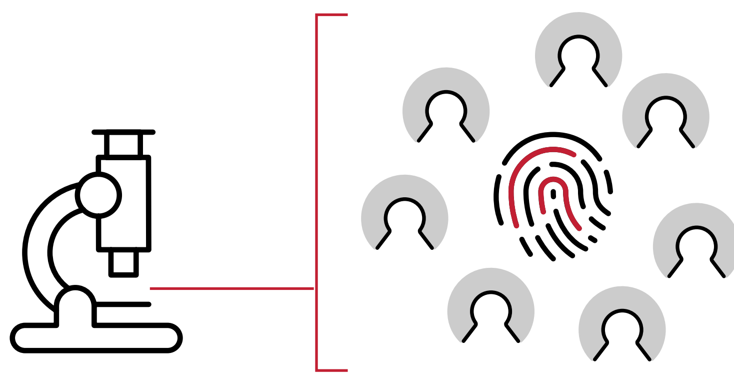
The sentiment among all firms was that CEO-level candidates required formal, rigorous assessments with different practices followed for those below the CEO level. Firms reported varying effectiveness of these assessments. Some of the assessment firms most commonly cited were:

- Psych Associates
- Talent to Value Assessments (CEO.works)
- GH Smart
- GreenPeak
- Heidrick/Blake Street Group
- YSC

Reference Checks

Most firms use deep referencing through a variety of approaches. Some conduct detailed reference checks with internal resources, while others use outside services to complete their references. All firms, except for one, utilized forensic referencing in their checks.

Many firms expressed high praise for a thorough reference check, with one stating, *"If I had to choose one way to hire a candidate, it would be through forensic reference checking."*



While the number of references varies widely, CEO.works identified the appropriate number somewhere between 7-12 for high-profile candidates.

Fast Start – Day One

Onboarding and integration in virtually all cases seem to be the responsibility of the portfolio company, often without structured guidance from the firm. However, two of the nine firms CEO.works spoke to take a hands-on approach to onboarding, including a 100-day check-in for hires and a formal onboarding process to help align the candidate with the outcomes and investment thesis. While it was rare for firms to engage deeply in the onboarding process, some elected to perform an onboarding process by providing a playbook to their portfolio companies.

Image: sanjeri | iStock.com

People are not your most important asset. The right people are.[3]

JIM COLLINS

Time Down!

Most firms emphasized that search speed is secondary to the placement quality. However, a disciplined execution on a timeline, and management of time leakage, are also correlated with a quality hire. While search setup directly impacted the speed of searches with those firms interviewed, we identified four critical components to executing a shorter search timeline.

Starting the search as soon as possible may appear obvious, but indecision regarding the incumbent or the dynamics of the deal can slow down the process. It can be affected by alignment on the JTBD, Fit Criteria, and market profile both internally and with search partners. A robust pipeline of qualified candidates is dependent on the right search partner with expertise in the industry/function. A tight timeline and disciplined execution result in minimal time loss during the search.

Highlighted below are best practices within each of these.

Visibility and Accountability on Timeline

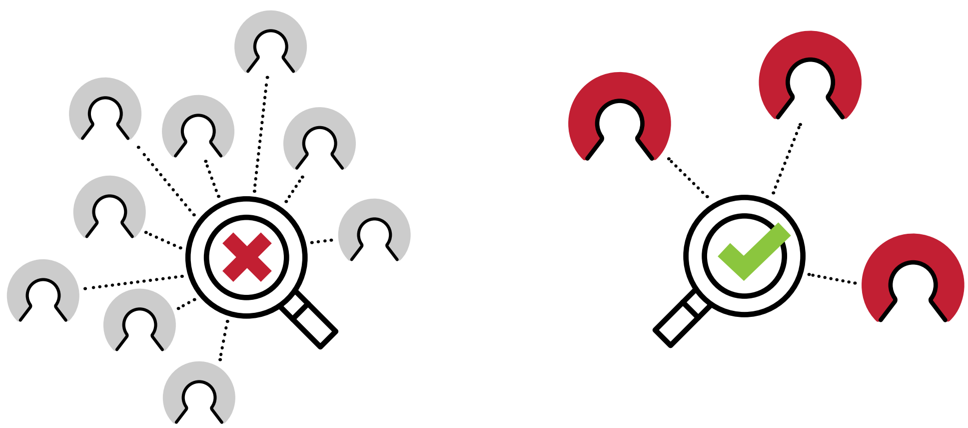
Disciplined execution on a timeline, and hence leakage of time, also contributes to the ‘Value Up!’ and ‘Time Down!’ of the hire. Individual accountability for disciplined execution on a tight timeline tracked across the firm is critical to getting a search to be executed at pace. Firms have utilized digital tools and structured review meetings on portfolio searches to drive the accountability process and the search to completion.

Standardized and Rigorous Interview Process

It was nearly universally mentioned that real interview training would help ensure a more targeted approach to evidence gathering in each interview. Furthermore, several other firms expressed frustration regarding interview flow, too many interviewees, feedback collection, and consensus regarding the next steps.

One firm notably uses an interview committee and takes a disciplined approach to the interview process, including verbal feedback (with notes by a scribe) on candidates seen during that week.

The best firms limit the number of interviews to those accountable for a successful search and/or onboarding of the candidate to no more than 3-5 people.



Closing the Deal

In today's tight labor market, it is expected that this will become more of an issue; however, across all the firms surveyed, it was infrequent for an offer to be rejected by a candidate. At one firm where it did happen historically, often due to below-market offers, this has been resolved mainly by utilizing robust market data provided by a compensation consultant.

Are we allocating talent to drive value?

The second question is, do we have enough talent at the pivotal parts of the organization to deliver the VCP? This may appear obvious, but value is generated between functions deep in the organization—often 2-3 levels below the CEO. The best firms recognize this and identify critical roles as well as assess talent in those roles to assure the capability to deliver the VCP.

There are two fundamental approaches to accomplishing this:

1. A deep diagnostic of critical roles and talent.

2. A bright line that links organization and talent to performance.

We observed best practices that systematically approach linking organization and talent to value. The first, noted in one firm, represents a disciplined and proactive approach to mobilizing talent in its portfolio companies from the beginning of an investment. An intensive 8–12 week organizational diagnostic and talent review are completed shortly after the deal's close. This review provides a readout for the deal and operations teams, outlining talent and organizational priorities to deliver on the investment thesis and the VCP.

The second, seen in two firms, involves a detailed and limited approach that links the VCP to initiatives required to deliver the VCP, specific work associated with the initiatives, 15-20 critical roles, and assessment of the talent in those roles. Following this, a mobilization plan is developed and implemented to mitigate role and talent risks.

In both cases, a regular review of progress is essential to building the capability to deliver the VCP.

Recommendations to set the groundwork

Value Up! AND Time Down!

Search partner selection: Get this right, and good things happen! Choosing the right firm and the partner within that firm are critical decisions that can make or break a search. The key to getting this right is diversifying the search firm stable to meet your search-by-search needs. One way to do this is to build a strategic partnership with a research firm that assesses search firms and consultants and create an internal talent bank through your networks. Search Partner diligence is critical. We recommend establishing criteria for potential search partners and conducting a “Bakeoff” competition complete with standardized questions and scoresheets for 100% of C-suite searches.

Interview process accountability: Identify a team of 3-5 people responsible for the quality and timely completion of the search. One team member should be accountable for the search logistics and ensure consistent progress in closing the search. Components of the process should include:

- JTBD-specific evidence gathering
- A clear timeline
- A list of reasons to hire and not to hire
- A set of questions to probe for stress testing in the psychometric/referencing process.

We also recommend that training be provided to ensure a rigorous interview process.

Adequate candidate flow: If candidate flow is not acceptable 3-weeks into a search, the chances of a successful search are at risk. Therefore, we recommend an “all hands” meeting at the 3-week mark to assess the quality and quantity of the candidate flow realistically and course-correct as necessary.

A digital platform to drive accountability and transparency: Use a digital tool to drive transparency and strong accountability on the agreed timeline for searches across the portfolio. The software should provide visibility to the quality of the process steps (e.g., JTBDs, search firm bakeoffs, interview assessments, and candidate flow).

Inspect what you expect: Review challenged searches with senior management proactively and objectively to maintain performance standards. Additionally, drive a review of new hire performance against Jobs To Be Done at the 6-month mark of employment.

Standardized onboarding = Fast start: A poor onboarding experience can derail even the best hire. Develop customized onboarding for all new hires and hold their business leader accountable for this rigorous process.

Linking Talent to Value

1. **Shoot for the stars, land on the moon:** Ensure the development of a very ambitious yet realistic VCP. Raising the bar on performance is critical to ensuring excellent outcomes. We are not talking about marginal improvement; we are talking transformation.

2. **Pick an approach:** Decide on a methodology for linking talent to value in a precise, measurable, and highly impactful way. There are several approaches mentioned above. Pick one, gain alignment, deliver with precision, and achieve the ambition.

3. **Mobilize a plan:** Develop a specific, measurable, and timebound mobilization plan, and pay attention to the details.

4. **Value up and time down:** Last (but really first), get started quickly to avoid letting value slip away.

Conclusion

We have found that most C-suite searches across the industry are completed in 3-6 months (launch to accepted offer) and seldom less.

Firms interviewed by CEO.works experienced a wide range of outcomes regarding time to completion, both across industries and across types of roles. The best firms complete searches in about 100 days, a benchmark heard several times for what a successful search timeline would yield. However, even within these firms, there are outliers, particularly in CFO searches, specialized industries, and eCommerce, where searches may take up to 6 months.

Collectively, the firms surveyed by CEO.works exhibited several best practices in providing a strategic approach to mitigating the issues posed by the talent selection process in both time and value. Developing capabilities around these best practices for talent selection will yield improvement for firms seeking higher success rates in their C-Suite talent selection.

The critical areas to improving talent selection revolve around the search setup and finding the right partner to bring about quality candidates, executing the search within a disciplined timeline, managing the interview pipeline, deep referencing to vet candidates, and ensuring favorable outcomes with a fast start through onboarding efforts.

Firms that enabled these best practices saw more favorable outcomes from their talent selection process. They set themselves up to better execute their value creation plan within their portfolio companies.

In addition to talent selection, the most sophisticated sponsors focused on talent routines during the hold period, designed to ensure that the organization can deliver against the value creation agenda. These took several forms, including linking talent and organization performance in regular talent reviews, in concert with business reviews, and talent to value, which involves connecting the VCP to critical roles and talent, resulting in talent risk mitigation during the hold period.

While not all firms may have the capacity or capability to enable all of these practices, setting the groundwork to establish these practices in the future is recommended to continue to produce better talent outcomes through talent selection and improved business results through mobilization routines.

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Notes

1 2022 AlixPartners Disruption Index. An annual study that surveys 3,000 global business executives in nine countries across ten industries. Fieldwork was conducted online and by telephone between September-November 2021. Accessed March 25th, 2022 at https://disruption.alixpartners.com

2 Research conducted by CEO.works between 2020-2021. Nine premier mid-market private equity firms, with a combined AUM (Assets Under Management) of $300B, who conducted more than 300+ executive searches through 2020, were surveyed to provide the data for this report. The data and analysis were developed by Bill Allen, Senior Partner; and Mitul Brahmbhatt, Associate; with assistance from Sumeet Salwan, Co-Founder; and Dr. Vandana Vaidyanathan, Associate Partner.

3 Jim C. Collins quote from *Good to Great: Why Some Companies Make the Leap... and Others Don't* (HarperCollins, October 16, 2001). Accessed March 22, 2022 at https://www.zenbusiness.com/blog/hire-right-employees/

Image of *The Farm*: laurievarga.com

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