



EXPERT COMMENTARY

A new front in the war for talent?

Private equity firms may want to consider hiring a 'head of talent,' writes *Todd Wyles* of human capital consulting firm *Morgan Samuels*

When the McKinsey Institute's seminal book "The War for Talent" was published in 2001, many thought the term was already passé because the dot-com bubble was bursting. Today, having endured a half decade of economic malaise and a disrupted, soft labor market in many industry sectors, it would appear on the surface that it would be a buyer's market for top executive talent.

But many of the labor trends McKinsey warned of over decade ago should still be worrisome, especially to private equity sponsors who have shorter time horizons to get the management team right and create value for their investors. The best senior managers are not hatched out of executive incubators. They must be identified, selected, developed, and seasoned.

Few would disagree that one of the keys to increasing portfolio company enterprise value is having a world class

management team. The big question is: What is the best way to make this happen? Should private equity firms create a dedicated role to lead "talent management" in support of their deal teams? What challenges can they expect to face if they do go down this path? Most importantly, what does success look like and how can value creation be quantified for a leader who takes on this role in the private equity space?

SOFT NUMBERS ARE OFTEN THE HARDEST TO DELIVER

Currently, fewer than half of the *Private Equity International* Top 50 firms have installed someone in a CHRO/head of talent role. Within middle market private equity firms, even fewer have this in-house role. Yet operating partners with functional expertise in purchasing/supply chain, Lean Six Sigma, and product/service pricing have been doing their work across their portfolio for years. Why has the industry been slow to tap senior HR talent to partner with deal professionals on senior executive talent initiatives?

For one thing, the head of talent role is so new that it is either not understood or not valued. Some private equity firms have a negative view of human capital professionals, or they may have not worked with someone in the space who is smart and consultative enough to be a trusted internal advisor.

Additionally, measuring how a person in this role creates value (and how much



Wyles: outlining your talent management strategies

value can be attributed to their work) is a challenge. Private equity has always focused on the hard numbers and it is difficult to measure the ROI a great chief executive officer delivers compared to merely a good one. Quantifying the value of human assets is not an exact science, which often makes it hard to justify the insourcing of a role such as this.

By far the biggest reason private equity leaders have been hesitant to make this investment is because they often don't think they need to. They believe they have it covered, and that hiring an outsider to do a job that has always belonged to the deal professionals is an admission they aren't the best judges of talent. Clearly, though, there are a growing number of firms that have overcome this challenge.

"Our firm definitely buys into the concept that better people drive better

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results,” said Scott Bontempo, senior operating executive for human capital at Welsh, Carson, Anderson & Stowe. This is easy for private equity leaders to say, but much harder to act on. “I have been very fortunate to be with a firm who has historically been very good at selecting and developing leaders, but wants to be great at it because we know it delivers higher returns to our investors,” he added.

ONE SIZE DOESN'T FIT ALL

At firms where these roles exist, the responsibilities and authority are hardly one size fits all. These head of talent positions range from mid-level to senior executives. Many have executive search experience, others executive HR backgrounds. Partner-level executives often come from corporate senior HR positions and have larger, strategic missions within their firm along with search, including the enhancement/replacement of existing leadership teams, realignment strategies, organizational development, compensation and incentive design, liaison between management and deal teams, and human capital due diligence to name just a few.

A former HR executive at PepsiCo, Bontempo saw a need for a long-term and continuing talent strategy at WCAS. One of the components put in place three years ago was implementing a leadership process to discuss the top 200+ executives at companies across WCAS' portfolio. It is modeled after best practices at companies that are well-known for their human capital ingenuity – PepsiCo, GE, IBM, and P&G. WCAS built a streamlined approach that fits the firm's and portfolio companies' cultures. “Having a thorough discussion is much more important than a fancy

color chart. It has to add value to the businesses or we should not be doing it.” Those candid discussions identify strengths and gaps in the company's talent and more importantly where it may need to supplement existing talent to achieve its investment objectives.

Leaders also discuss human capital metrics that are tied to business performance, for example, revenue/FTE measured over time. “The world of private equity is one of value creation measured by return to investors. HR professionals in this world need to be wired the same way – results, outputs, value creation matter – activities do not,” Bontempo concluded.

“At Genstar, we look to bring ‘change capital’ to companies – financial capital coupled with outstanding human capital. The most successful deals in our portfolio have all had terrific leaders at the helm,” said Katie Solomon, vice president of human capital. Working across all sectors and portfolio companies, Solomon pointed out that private equity heads of talent are uniquely well positioned to think more holistically about talent across the portfolio. “There have been a number of executives I've met through networking or a search who weren't right for that opportunity, but could be a great fit for another Genstar-backed company or for a deal in the pipeline.” Solomon's strategic focus has paid off, with more proactive identification of talent, more ongoing internal discussions about leadership, as well as more efficient and effective search processes.

THE NOT SO LONG, BUT DEFINITELY WINDY ROAD

Author Noel Tichy coined the phrase “leadership engine” to describe General Electric's executive talent development

“*Having a thorough discussion is much more important than a fancy color chart*”

outcome under Jack Welch in the 1980s and 90s. But as everyone knows, private equity firms are often forced to operate on a shortened time horizon, so it's not practical to build talent pipelines three and four levels deep into any portfolio company.

That said it can be shortsighted to begin the process of deciding to create a head of talent position by saying, “I think we need an HR person on the team. I'm sick of spending money on search.” The cost take-out approach is really not the best way to build a sustainable talent process either.

In the private equity space, talent management is about ensuring you have management teams across your portfolio that can create value within a finite period of time, prior to exit. The best way to do this is to take a more strategic, systematic approach to all aspects of executive talent management. Our experience working with executives in this role is that they bring a focused, process-driven approach to all aspects of talent management, and that leads to better portfolio performance. ■

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