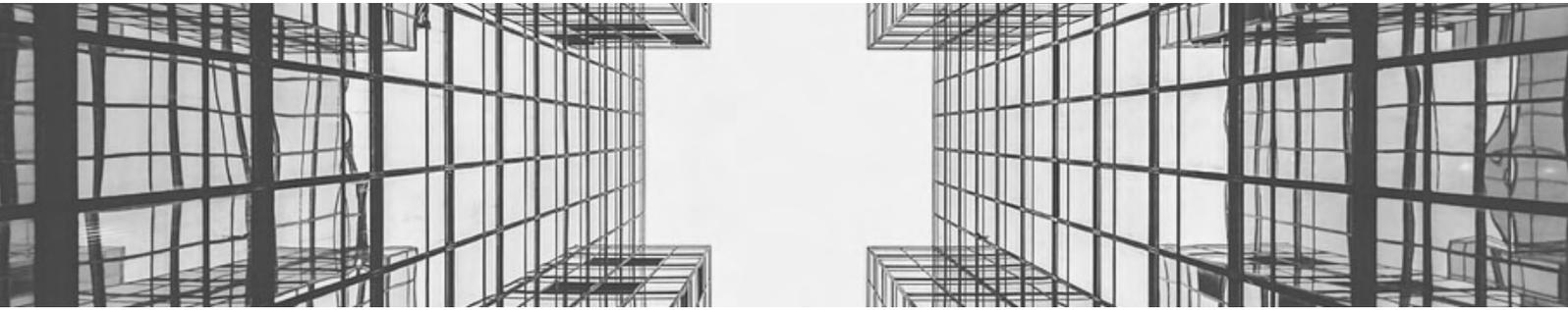




PRIVATE EQUITY & THE TALENT FUNCTION

2021

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EXECUTIVE SUMMARY

As Private Equity has matured over the last decade, [the omnipresence of capital and increasing competition has placed a premium on the firm's ability to add value quickly, efficiently, and consistently to their portfolio companies](#). This competition forces firms to prioritize and streamline the methods through which they can improve value creation, lest they fall towards the bottom of their peer set, losing their advantage over public markets.

10-year annualized IRR for global buyouts



Source: State Street Private Equity Index

Moreover, 2020 brought increasing pressure to investors, with deal volumes [jumping nearly 50% year over year](#), and unique challenges brought on by COVID-19, combined social, political and economic shifts that propelled talent topics such as [DEI & ESG to the forefront in private equity](#).

For many firms—the response to these challenges means investing in talent.

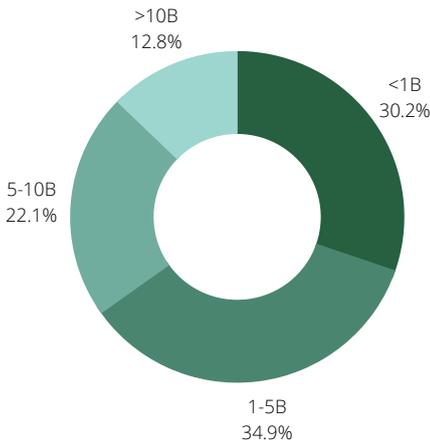
In the early 2000s, firms might have outsourced their portfolio's human capital issues. Making talent a distinctive source of value creation, however, has caused leading firms to address these needs by creating a PE Talent Partner role. [Over the last 10 years, nearly half of firms have committed the resources by adding PE Talent Partner positions](#), hiring professionals from backgrounds in search, assessment, consulting, and CHRO roles. The challenge is that with so many opportunities and so many needs, the most expedient way to add value from that role is not well understood. To help this cohort identify best practices, Entromy and TalentScape Partners launched an inaugural study to understand current capabilities and the newest frontiers of the most sophisticated PE Talent Partners.

Based on our analyses, we find that leading firms go beyond just prioritizing talent. They build distinctive playbooks that form a foundation for generating alpha. Specifically, they have repeatable processes to assess and develop talent. They have a standardized process for managing talent from diligence through exit. And they bring analytical rigor to their talent decisions—for each company and across the portfolio.

ABOUT THE STUDY

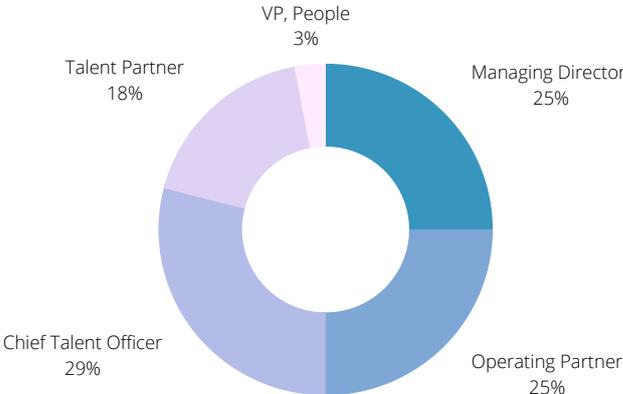
Entromy and TalentScape Partners created a first-of-its-kind survey to understand the specific needs and challenges faced by Talent Partners at Private Equity firms. Executives from 30 leading PE firms, with AUM ranging from \$100M to \$50+B, responded. The questions within the survey evaluated the priorities, capabilities, operational maturity, and processes for maximizing value creation through talent.

Firm AUM



Over half of respondents (50%) were Talent Partners, with the other half being operating and investment partners.

Role at PE Firm



EVOLUTION OF THE TALENT PARTNER

According to a [2020 market review](#), “GPs with dedicated value creation teams outperformed those without them by an average of five points in the last recession.” So while many firms have built operating groups, not all of them have hired Talent Partners. In contrast, firms in our study have.

Within our cohort, 74% of respondents said their firms have dedicated internal resources for human capital.

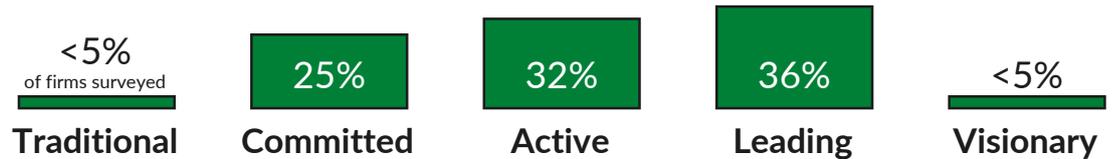
By analyzing responses, we were able to separate firms into cohorts based on their emphasis on talent and sophistication of their capabilities (“Talent Prioritization”) and the maturity and rigor of their talent systems and practices (“Talent Efficiency”).

While the extended universe of PE firms may not consistently prioritize talent, our respondents share an understanding that talent is important. The majority (85%) agree that Senior leadership reinforces the importance of talent, yet a much lower percent (41%) agreed that they have a standardized process from diligence through exit that leverages the capabilities of our talent group. These are the practices that separate the firms in our study.

- **Traditional firms (<5% of our sample, but a still large percent of all PE firms)** have yet to commit to talent as a differentiator of alpha generation. They pursue sporadic ad hoc efforts based on the needs of a few curious deal partners.
- **Committed firms (25% of our sample)** recognize the value of talent but are at early stages on identifying topics or gaining buy-in from the deal teams. Talent practices are largely opportunistic and typically focused on recruiting.
- **Advancing firms (32%)** recognize the value and emphasize a few talent practices but have not standardized their approaches or developed consistent playbooks used by the majority of deal partners.
- **Leading firms (36%)** had the highest degree of cultural buy in on the importance of a talent team, as well as refined institutional processes to support talent in portfolio companies (e.g., standard assessment practices, first 100-day org structure reviews).
- **Visionary firms (<5%)** have both a long-term commitment and the vision to build human capital data and insights into their approach to talent across the portfolio.

TALENT FUNCTIONS

Our analysis showed five distinct groups of Private Equity Talent functions. Traditional firms have started to think about talent, but have not standardized. On the other end of the spectrum, Visionary firms have firm wide commitment, dedicated recruiting functions, standardized playbooks and have begun using data to predict talent risk.



Commitment to Talent

"Talent leads to superior returns"

- Firm leadership reinforces importance and value of talent
- Dedicated internal or external groups to manage and improve talent
- Talent group possesses business acumen to be a credible resource and serves as an advisor



Addressing Pain Points

"Recruiting, exec and org reviews"

- Leading or accelerating recruitment and selection of key executives
- Our firm manages a network of board members to address the needs of each portfolio
- Firm help implement human capital best practices with management teams post close



Building Muscle

"Standardized playbook"

- Within 100 days of close every portfolio company has a value creation plan with specific talent related actions and accountabilities.
- Our firm provides strong recommendations on core talent management systems and processes.
- We have a standardized process from diligence through exit that leverages our talent group



The Next Frontier

"Data driven talent risk models"

- Our firm manages other talent-related priorities (D&I, Benefits, ESG) to reflect best practices and competitive needs.
- Our firm facilitates an organization wide review for portfolio companies.
- Our firm collects and analyzes HR data from external sources to analyze and predict risk.
- Our firm has an effective dashboard on the state of talent topics across all portfolio companies updated semi-annually.



Legend



Limited Buy-in



Opportunistic Support



Core Practices

LEADING FIRMS

We asked respondents which firms outside their own they view as being “**distinctive at managing talent.**” The top 20 firms that were nominated represent a broad range of AUM, indicating that talent is a priority not just for the larger firms. Each of them has invested in the talent function, some over many years, to create distinctive institutional capabilities.

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ALPINE

INSIGHT
PARTNERS

BainCapital

FFL
PARTNERS

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EQUITY PARTNERS

“At Arcline, talent is not a priority, it is **THE priority.** It's a concerted effort by the entire firm to hire, retain, develop, and rating strong talent across the portfolio.”

ARCLINE LEADERSHIP

WHAT LEADING FIRMS DO

Beyond the placement of key executives, Leading firms create 100-day plans that build on diligence insights, optimize executive talent across the portfolio, and collect and analyze data-supported reviews of organizational maturity. They are committed to creating a distinctive competitive advantage that allows them to achieve one-year value creation targets and increase the likelihood of overall deal success. We observe that the more intentional, programmatic, and systematic the approach to human capital evaluations and decisions, the easier firms find it to generate consistently outstanding returns and attract ongoing capital commitments.

Talent Partners from Leading and Visionary firms focus their attention on three key areas, **1) Talent Evaluation and Training**, **2) Standard Talent Management Process**, and **3) Analytical Rigor**.



Talent Evaluation and Training

- Consistent executive assessments, including interviewing skills within the team
- Upskilling HR – portfolio HR community development and delivery expectations
- Talent development of existing leaders



Standard Talent Management Process

- Post-Close playbook
- Standardized talent-to-value planning
- Maintaining network of known talent (including board members and operating leaders)



Analytical Rigor

- Internal HR data analytics
 - Scorecarding, organizational health overview, KPI/OKR tracking
- External HR and industry data analytics
- Dashboarding

“ At Francisco Partners, we aim to play the “long game” as it relates to executive talent and create career paths that don’t end with the exit or sale of a business. We ideally are looking for hungry executives that want to build an affiliation and longer-term partnership with us and will ultimately go on to play a number of roles in our ecosystem, whether several successive operating roles in our portfolio companies, Board/Advisory roles, and/or Operating Partners roles. ”

RYAN GREENE, OPERATING PARTNER
FRANCISCO PARTNERS CONSULTING



MAKING PROGRESS ON TALENT

As PE activity continues at record pace into 2021, firms need to accelerate their talent investments, picking key areas to drive results and enrich returns. Regardless of where firms are in their journey, our data reveals a road map for them, consistent with where they lie on the maturity curve. Talent Partners, once they have commitment from the leadership team that human capital is important and a sustainable lever for value creation, should start to prioritize their activities based on their pre-existing competencies.



To become a committed firm, get buy-in from a few investment partners

Our experience suggests that the value creation potential from talent investments is real. It's a question of getting the firm to commit resources to it. Starting with some low-hanging fruit of recruitment is an easy path forward to build the case for further investment.

To become an advancing firm, pick the 2-3 topics that are the biggest pain points and work diligently to capture some quick wins



Of Talent Partners are leading the selection of key executives

Of leadership supports the value of talent

It is essential for PE firms and the executive teams at the portfolio companies to move quickly in order to start potential corrective actions early during the holding period in order to maximize chances of hitting aspirational value creation assumptions. Any required executive changes will add several months of search time, onboarding, and adjustment before the new executive can become a fully effective member of the team with appropriate buy-in from their organization.

- **In diligence:** Evaluate executive talent, map-out VCP vs. criticality of executive member composition and skills, collect external references, create executive scorecards and align compensation plans towards key drivers of VCP
- **Post-close:** Understand organizational health and how it maps out against risks in VCP, complete 360s for executive team and senior members, understand gaps in executive team, succession plan, establish coaching or org change plans, org design and OKR roadmap

To become a leading firm, start to build institutional skills based on the quick wins. Build up the playbooks, advisors, and internal skills related to what makes a difference



Of firms make 100-day plans with specific talent actions

From discussions with Talent Partners, there is a shifting trend towards establishing playbooks of evaluation, resources and support at different stages. With the increasing recognition that leadership talent is a major driver of superior returns, Talent Partners will be able to gain buy-in from deal-partners, and then commit firm resources to standardize talent practices.

- **Talent Playbook:** Establish an effective playbook from due diligence, VCP towards exit
- **Ongoing Monitoring:** Monitor progress with on key OKRs, engagement, attrition, executive team effectiveness and organizational health, drive talent topics into board discussions. Establish process to check-in and review executive talent, team effectiveness, org design and health - 3, 6, 9, 12, 18, 24 months into the deal

To become a visionary firm, identify what data provides an edge in faster and more accurate human capital evaluations and start to build the tools to drive decision.



Of firms cited Data & Analytics as underused and undeveloped among Talent functions.



Of Firms collect external HR data to predict risk.

Given the importance of rigorous adherence to scorecards and assessments noted as top-quartile differentiators within other Talent and Culture topics, it is not surprising that further use of data and diagnostics were mentioned as important areas for further development. Organizational Health Diagnostics, such as Entromy, were noted as valuable tools currently accessible during the due diligence phase. Similarly, while Glassdoor, or social media activity are often included as part of diligence or topics discussed when considering companies, the information is not part of standard process for most companies.

REFLECTIONS

With the maturation of the Private Equity industry, firms must increasingly fight to gain and maintain a competitive edge. And given the prevalence of the Talent Partner role, we believe that over the next several years, success will not be whether a firm has the role, it's what specifically that role brings to the table that uniquely adds value for the firm.

If the first wave of Talent Partners took the pain of running searches off the deal partner plate, the next wave of Talent Partners will be seen as distinctive alpha generators that differentiate the firm from their competitors.

The challenge is that there are not nearly enough resources to drive everything that's valuable. The good news is that our respondents reported a generally a collaborative approach that their firms take to help drive faster and better execution. Talent Partners work collaboratively with deal teams to better identify opportunities and risks during diligence. Many sophisticated PE firms have started to build internal training programs that collectively raise the bar for talent within their own investment professionals. Other firms have started to catalog assessment results of senior leaders across the portfolio to create better long-term apprenticeship for the team. Some have started to drive high potential programs that shepherd talent among their entire portfolio, starting with quarterly portfolio-wide talent reviews. And others better use data (e.g., data scraping, org surveys) of organizational health and the culture of target companies to make faster and better decisions.

In general, the more specific and tactical that Talent Partners can make value creation plans, the more likely they can generate alpha for the fund. And the more intentional, programmatic, and systematic firms approach human capital evaluations and decisions, the easier it will be to build a sustainable firm.

“ We've seen an increasing number of PE firms make Organizational Health a priority from the outset of an investment - knowing that getting people, culture and capabilities right yields superior returns. ”

**JAN JAMRICH, CEO & FOUNDER
ENTROMY**

“ Five years ago, when PE firms hired Talent Partners, they just asked them to eliminate the pain of running searches. But today, there are so many opportunities to carve out a distinctive niche as a difference maker—it's just a question of how and where. ”

**RODGERS PALMER, FOUNDER & LEAD PARTNER
TALENTSCAPE PARTNERS**

ABOUT US

If you'd like to benchmark yourself or think through how your firm can make progress on talent, please feel free to contact us.



Entromy has built an automated organizational diligence platform delivering nuanced executive insights allowing company management to identify key risks, hidden influencers, and broad opportunities for an organization to enhance performance. We empower management teams to leverage our distributed survey technology to derive prescriptive reports that have traditionally required months long engagements. Our platform allows for actionable data in hours from deployment, at a fraction of the cost of traditional consulting.

Learn more at entromy.com or email insights@entromy.com to get started.



TalentScape Partners listens more intently and understands more about what makes people and organizations tick. We work with talent leaders and investors across a range of PE firms to help them make more informed choices on talent selection, create a human capital road map for their investments, and improve the quality of their people decisions, both inside the firm and within the entire portfolio.

Learn more at talentscape.partners or email info@talentscape.partners to start a conversation.