

PORTFOLIO MANAGEMENT OF A DIFFERENT KIND: THE RISE OF THE PRIVATE EQUITY CHIEF TALENT OFFICER

From fledgling roots in post-war America when some of the first private equity deals were executed, to the 1960s when some of the earliest formalized funds were created to allow investors to participate, Private Equity (PE) as we know it today, has exploded in growth and moved ever-closer to the mainstream public consciousness.

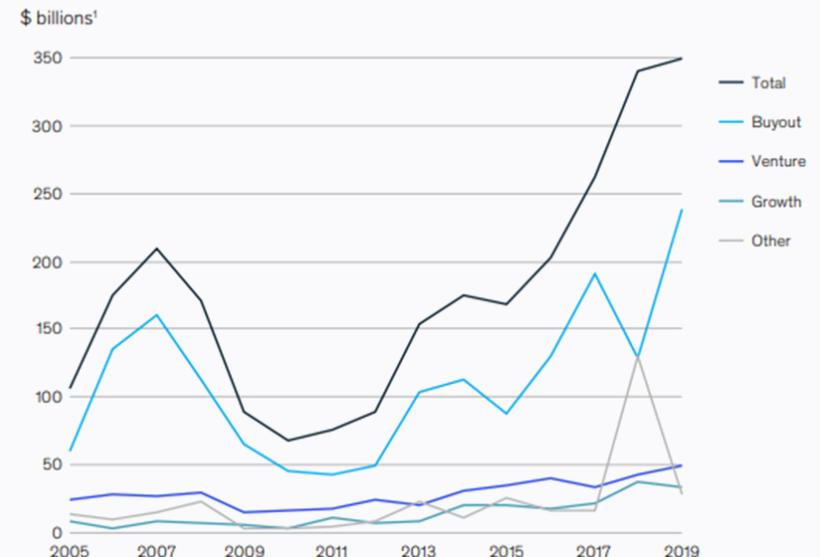
Whilst drawing-down on committed funds and having capital “at work” is most people’s core understanding of what the modern PE firm does, having the right Human Capital in place to maximize return-on-assets and marshal the firm’s capital adequately, is of equal critical importance. Against this backdrop, it is perhaps a logical development to see the evolution and rise to prominence of the Chief Talent Officer role in the modern PE firm.

OVERVIEW

Often an Operating Partner within the firm structure, denoting the seniority of the role, the Chief Talent Officer (CTO) takes ownership of the talent agenda within the portfolio companies - ensuring the leadership is fit for purpose and possesses the capabilities necessary to deliver on the agreed strategy. Where capability gaps exist, working with the management to set the right learning agenda to bridge the gaps, or going externally to buy in those capabilities, are two natural courses of action.

The PE CTO role continues to evolve in scope and grow in prominence. What was a “nice-to-have” ten years ago has become a critical role or “table stakes” where competitive advantage among PE firms is concerned. In their 2010 book, “Talent Masters: Why Smart Leaders Put People Before Numbers”, Bill Conaty and Ram Charan refer to talent management as the core competitiveness of an enterprise. This is at the heart of the CTO role.

North American PE fundraising reached an all-time high in 2019.



Graph from: McKinsey Global Private Markets Review 2020

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THE PROFILE:

The ranks of modern CTOs are highly accomplished. Jim Williams at TPG (former Managing Partner at Hay Group) and Dennis Donovan at Cerberus (former CHRO at Home Depot) were among the first to form Portfolio Company Operations Groups: dedicated cross-functional units established purely to support and improve the inner workings of portfolio companies.

KKR went to search in 2008 and hired Peter Fasolo as one of the first CTOs. Bill Conaty (as above) joined CDR just after retiring as CHRO of GE in 2007. Sandy Ogg joined Blackstone as CTO in 2011, having previously been the

Global CHRO of Unilever. As evidenced by the above examples, many CTOs are seasoned and senior individuals who can meet any C-suite member at “eye level” and have a true lens on best practice.

Over the past few years, the successful CTO profile has broadened to include: executive search or talent acquisition leaders; management consultants; Ph.D. IO Psych / Assessment professionals from firms like ghSMART or Green Peak; and individuals with deep talent management backgrounds. In addition to the aforementioned, former CHROs with specific industry experience have recently moved from one PE firm to another, given the limited pool of talent and demand.

THE ROLE:

There is no one set formula or job description - the role varies widely so it is important for the firm to identify priorities and expectations (as well as pain points) and align with the investment strategy to determine the CTO profile best suited to the firm. Overall, the CTO is responsible for driving organizational effectiveness and performance. **There are several main components to the CTO role:**

Talent acquisition

Some PE firms seek out Executives who can dedicate themselves to recruiting often when further growth is contingent on bringing in new talent. This requires understanding both business needs and culture. Integrating diversity into recruitment strategy is a priority. A major PE player has recently mandated reaching 1/3 diversity in its portfolio company leadership ranks. Onboarding and assimilation are also important especially while much recruiting is done virtually during COVID-19. Having a consistent framework to help new leaders enter the company and approach their new role successfully is key.

Talent management and assessment

Building internal leadership capabilities; strengthening the bench; building an internal pipeline of talent. Executive coaching can be a big part of the role.



Broad HR and operating support

Building and leading effective sustainable processes and programs including incentive structures, etc. Introducing human capital best practices and leverage tools within and between portfolio companies. Employee experience, culture, engagement and return to work are of heightened importance as we grapple with COVID-19.

Governance

Navigate changing landscapes related to regulatory, employment and global / national issues – e.g. social issues such as BLM. PE firms, given the breadth and depth of their investing, (and as an extension their CTOs) also have the opportunity to influence boards and leadership for the good on environmental and social issues and making their businesses attractive places to work from a purpose and values perspective.

Due diligence and Integration

Ensure technical aspects of diligence are resourced properly and oversee leadership / culture assessments to inform talent decisions and integration approach.

KEYS TO SUCCESS:



The most successful CTOs are those who build successful relationships – and credibility – with the portfolio company CEOs and leadership teams and with the Operating Partners at their firm. Secondly, it is important to learn the language of PE and how the firm operates. An open line of communication with the deal teams is also important. All this requires gravitas and leadership experience.



Many CTOs also stress the importance of not taking a formulaic approach. Whilst the Talent Management community at large is packed with highly qualified, PhD-level organizational and learning psychologists, a pragmatic “fit-for-purpose” approach that is contextual to the portfolio company in question is the difference between good and great.

KEY CHALLENGES:



Prioritization:

Most CTO's have small teams and can become victims of their own success when deal teams and portfolio companies get wind that the function is an effective one.



Time:

Overseeing search and recruiting takes on a disproportionate amount of time; and recognizing that building value-added talent programs takes time. Additionally, given the nature of exits and new acquisitions, the portfolio keeps evolving.



Diversity:

While many industries are making strides in their D&I hiring efforts, PE is lagging. Today, just 18% of PE professionals are female, with just 10% in senior roles. For professionals of color and those who identified as LGBTQ, the numbers are even more discouraging.

CONCLUSION:

While the pace of PE investment activity and exits slowed in Q2 and Q3 of 2020 as deal makers felt the impact of COVID -19, the Private Equity asset class continues to grow, and capital flows show little sign of abating.

It is estimated that at the beginning of 2020, PE had \$1.5 trillion in capital waiting to be invested. With this in mind, the Chief Talent Officer seems set to continue to grow in prominence. Whilst attractive and theoretically lucrative, it should be pointed out that it is not an easy role to perform and the agility to talk the "language" of different cultures, companies and industries concurrently whilst making people decisions with value-creation at the core, is not a skill that everyone possesses. One new title that is being used is Chief Performance Officer. One former CTO, referred to the role as "organizational engineering".

In another development, last November, Blackstone hired the Former Co-CEO of SAP in a newly established role to lead technology and digital transformation across its portfolio companies.

If we have learned anything over the last 12 months, it is that both PE firms and their portfolio companies need to change at pace. CTOs can predict, plan for and drive this change.

This requires strong attention to both business levers and understanding how the strengths/opportunities of your leadership will be able to adapt to the evolving landscape.

A CTO role can have one eye on building capability for the leaders / teams and one eye towards creating more organizational capacity - this shapes how companies can focus on strategy, short and long-term priorities, and delivering on financial results for stakeholders.

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Prior to Leathwaite, Anne spent more than a dozen years at Spencer Stuart in the HR search practice. Anne served as the associate practice leader for nine years responsible for staffing and coordinating the North American associate team. Anne has successfully executed hundreds of HR searches including CHRO's, Chief Talent Officers, Heads of Talent Acquisition and Development, and Rewards. She has worked in a variety of industries including professional and financial services, real estate, private equity, hospitality, retail, consumer, health and technology. She is passionate about optimizing talent and achieving the best possible cultural fit on every search.

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