SLAYTON SEARCH PARTNERS

Five Trends Driving the Future of Private Equity

The world of private equity (PE) moves fast, and it’s vulnerable to many of the same global issues as other industries. From the pandemic to the Great Resignation, leadership in the PE space needs to continually arm itself in the war for talent. With that in mind, we recently attended *Driving Investment Returns Through Talent Management*, a PE recruiting conference held by Hunt Scanlon. We arrived with open minds and empty notebooks, hoping to come away with a whole new playbook for achieving success in the coming year. We were not disappointed. Here are five of the most valuable takeaways we identified.

Executive Talent Assessments Are a Priority

The executive talent assessment has become increasingly more valuable, and it’s one of the primary elements of a PE firm’s value creation plans for acquisitions. To paraphrase Hugh MacArthur, Head of Global Private Equity at Bain & Company, who spoke at the conference, every acquisition that a PE firm makes should hinge on first doing a pre-talent assessment. Firms need to do their due diligence in figuring out who they have, talent-wise, and putting together a game plan, whether the goal is organic growth or acquisition. Are you hoping to sell or take a company public? Either way, you've got to increase value by planning according to your executive strengths.

There are no shortcuts in finding the person with the right skillset who aligns with your value creation plan. For example, if your goal is organic growth, you may not find success with someone who specializes in mergers and acquisitions, no matter how great they are at picking out deals. If they haven't found success organically, your needs may be better served by someone else—and any length of time it takes to find that person is likely worth it.

If you think you do have the right person in your sights and have evaluated them against the value creation plan, onboard them as soon as possible. Waiting too long—six months to a year in most cases—can have a lasting, negative effect on long-term performance.

Increasing Demand for Search

Demand for search is the highest it has ever been because of several factors: the Great Resignation, an extraordinary amount of PE deal activity, companies experiencing leaps in organic growth, and more. Everywhere you look, companies are poised for growth, and while it's a nice problem to have, this progress can dovetail into other issues. Search firms across the country are suffering from capacity issues and turning down work, which in turn forces them to be far more selective in the work they do accept.

Part of the issue stems from the first trend we mentioned. It takes considerable time and resources to conduct the higher-level searches that couple the right executive with the right value creation plan. When PE firms go in search of that talent, they often tap other firms for assistance, creating a domino effect of reshuffling resources. And because almost everyone has money to spend after more than a year of treading water in the pandemic, the time is now to make acquisitions (regardless of how expensive they've become).

Diversity & Inclusion Make a Bigger Difference

PE firms are pushing harder than ever to put diversity on their slates. It's always been important, with diversity acting as a prime driver of innovation and workplace culture, but it's never been as emphasized as it is today. We can all agree that this is a positive thing while also acknowledging that it adds an extra layer of difficulty to recruiting talent. Think of it this way: If securing exceptional talent in your existing network is like finding a needle in a haystack, the quest for more diverse talent requires you to seek out entirely new haystacks, each with an exceptional needle of its own. This certainly isn't unique to PE, but it does present a challenge (albeit an exciting one).

As can be expected, the search for diversity is well worth it. PE firms with two or more diverse board members stand to benefit from a 12 percent increase in ROI, according to a presentation delivered by Carlyle, the global investment firm.

Ending the War for Talent

Because of the ongoing fight over top talent, search firms are being leaned on more than ever before to help identify hot commodities—more so in pre-deal assessments. Search firms get pulled in earlier and earlier in the process. In fact, once a deal is made, it's not uncommon for a PE firm to start reaching out to request CFOs, CHROs, or other c-suite-level candidates.

This kind of proactivity is most common with larger firms, but it's an accelerating trend that's trickling down to companies of all sizes. Sometimes activity starts before a deal is even made, and a great deal of resources are often spent predicting exactly who constitutes the right talent. The call is usually made based on a company's value creation plan, which may suggest the kind of CEO who would likely prosper.

It's a dizzying process that can cost companies who make the wrong hire. But the right choice can be extraordinarily profitable, with valuations for certain companies jumping up to 10 or 15 times what they once were. Even with such expensive acquisitions and high risk, PE firms are paying the price to make deals happen. Making an educated guess on the right corporate leadership is just a necessary part of that investment.

The Increasing Speed of Search

Our final takeaway is perhaps the simplest: The search process is moving faster than ever, and hiring decisions are being made more quickly. Technology can take credit for most of this acceleration, since nearly every aspect of the talent search can be handled remotely via Zoom, Teams, and the like. Speaking from experience at Slayton, we've been able to move exponentially faster over the past several years. Where before we would have to get on a plane to meet one-on-one, we can now get slates of candidates to our clients in the time it used to take to fly cross-country.

The process has been compressed in other ways, too. Search firms used to target five or six people for any given role, but the speed of decision-making has cut that number down for the most part. Clients are less interested in seeing extensive slates of potential hires, and if someone stands out, the decision to hire them needs to happen fast. In this candidate-driven market, somebody else is guaranteed to make a better offer if given enough time. Anyone with talent will likely be entertaining multiple opportunities, so hiring managers can't afford to navel gaze, even if a final, face-to-face interview isn't possible.

Keep an Eye on Your Playbook

With every passing month, the world seems to become less and less recognizable, at least compared to the one we knew before 2020. And with each sea change, the rules for success in business seem to change at a commensurate rate. We hope the trends detailed above give you a firmer grip on what it will take to steer your PE firm towards success. What's more, we urge you to remember two things that haven't changed:

1. The private equity sector remains poised for exciting growth opportunities.
2. The right executive search firm can put you in a prime position to capitalize on them.

We thank all the wonderful contributors who made Hunt Scanlon's conference so insightful and enjoyable, and we wish you all the success in the coming year.