KEYNOTE INTERVIEW

Talent is key to value creation

Talent remains one of the most underleveraged tools for driving PE returns, say Deloitte's Kristen Anderson and Kuma Sordzi

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Q How is the focus on talent evolving in the PE market?

Kuma Sordzi: As is well documented, the traditional PE business model has evolved over recent years away from financial engineering towards portfolio company value creation. Despite this, interest in the role that talent (human capital) plays in driving value creation, beyond perhaps replacing portfolio company CEOs, has been almost non-existent. Our experience is that this is changing, with more and more PE firms recognising that a people strategy should be an early input into value-creation planning to produce differentiated returns on exit.

Looking forward, new challenges such as talent shortages and longer holding periods also call for quicker, sustainable value creation leaning on untapped growth levers. What is becoming clear from our conversations with PE leaders is the increasing understanding that the talent agenda can play a significant role in this regard while also recognising the competitive talent landscape and the need for companies to stand out in a competitive job market. Sponsors must be creative and proactive in looking at talent at all levels, rethinking traditional talent acquisition models and aligning with the expectations of the modern workforce.

Kristen Anderson: There is a maturity curve, and some PE firms are already ahead of the game on this, while others are still learning how they should approach and evaluate the role of talent. But there is consensus that talent is an underleveraged value-creation lever that can be used much more effectively. Alongside this, there is a growing interest in DE&I efforts and a recognition of those as a means to drive value.

Q Why does leadership matter to driving returns?

KS: You want the leadership team to be able to sustain the growth of the business. Without the right leadership, it is even more challenging to drive returns and support the value-creation plan.

There are clear linkages between growth, returns and the quality of leadership, and it is evident that this is top of mind. When presenting opportunities to investment committees, many PE firms now prioritise an understanding of the existing leadership team and identifying the right CEO and CFO, and in some cases, chairs. Those roles can be fundamental to attracting and retaining talent.

We recommend clients think early about leadership to make sure the portfolio company has leaders who possess both financial acumen and soft skills, like empathy and the ability to communicate effectively. Soft skills are becoming much more important as companies look for leaders that can navigate a challenging environment, including considerations relating to tighter budgets and higher turnover in headcount.

They also need to set the right tone from the top, establishing a strong organisational culture. Finally, the right culture will be key in driving the value-creation plan as it is an essential ingredient for maximising returns through increased trust in leadership, employee engagement and decreased turnover.

Q How important is culture to talent attraction and retention?

KS: When we look at talent attraction and retention, it is only by recognising the importance of culture that firms can really equip portfolio companies to drive value creation. Culture is a key driver of experience, so as employees – from leaders to individual contributors – experience their day-to-day job, that influences their engagement and contribution. An engaged employee is more likely to go above and beyond, and the stronger the culture, the higher the likelihood of there being a sense of trust, belonging and safety, which is the foundation of talent retention and ultimately drives performance.

The employee of the future embraces informal channels to share experiences of their workplace more broadly, and so if a portfolio company wants to become an employer of choice, these things need to be taken seriously.

Q What are the diversity-related areas of focus within PE and how are they accelerating the DE&I journey?

KA: Private equity leadership today certainly recognises the importance of DE&I and the impact it has on the ability to, among other things, drive valuable decision making and avoid groupthink, both at the PE firm and portfolio company level.

There is also an important perspective coming from LPs, where this is becoming part of their own due diligence as they look to understand the practices of the PE firms they work with. We are hearing LPs go so far as looking at how their PE firms are embedding inclusivity in their procurement processes.

There are three key areas that PE is focused on. First is leadership, where there is recognition that establishing the right culture is fundamental to creating an inclusive workplace. Companies are creating DE&I leadership roles and establishing steering committees to help carry out DE&I strategies.

Second, PE firms are focusing on the diversity within the boards and leadership teams of their portfolio companies, and whether they have an effective composition of diverse perspectives that can help break down barriers and create a more inclusive workplace. In response, PE firms are developing diversity goals for portfolio companies and developing benchmarking frameworks for measurement. In order to appropriately execute on these strategies, PE firms need to think about these challenges early in the deal lifecycle so that they are seen – and fully leveraged – as an important part of the value-creation process.

Third, PE firms are establishing DE&I metrics within the performance management process to hold people accountable for outcomes. Firms are implementing accountability frameworks for senior leadership that incorporate metrics aimed at achieving measurable DE&I outcomes, which helps these matters permeate cultures.

Q What steps can be taken to support gender parity?

KA: Similar to DE&I more broadly, we have definitely seen progress within the PE industry on gender diversity. Although we continue to see a stronger gender balance at the entry level, significant disparities still exist at the upper/senior levels of an organisation.

To achieve gender parity, there needs to be a cultural shift to address the biases that still exist. Establishing the right tone at the top can directly influence the policies and practices of a business. It's important to improve representation of women in senior roles and enlist the help of male allies to drive these initiatives forward.

It is also about improving the retention of women as they move through their careers, which requires focus on mentorship and establishing support networks. That includes thinking about how to support women with their career planning, as well as providing transparency by defining clear expectations.

Introducing alternative work arrangements and enhanced benefits surrounding family planning can be helpful to provide women with greater flexibility in how they design and navigate their career progression. In addition, improving transparency around the requirements and expectations for promotion can provide clarity and instil confidence in their future with the firm.

KS: A PE firm's performance is tied to its ability to innovate and be responsive to change. Despite recent macroeconomic headwinds, the market is somewhat renewed given stabilising interest rates. The lessons learned during recent times manifested in PE firms integrating financially focused HR due diligence earlier in the deal lifecycle, including performing cultural and leadership assessments, to identify value-creation opportunities and mitigate investment risks. Now, more than ever, a holistic lens on talent is at the forefront, embedded within the deal thesis. ■

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