



Private Equity

Talent: Your Biggest Investment



Introduction

The success of any private equity firm is driven by two major factors: capital and talent. Whether they're working in a portfolio company or on a deals team, talent controls your firm's capital and generates value. Put simply, talent determines whether your firm succeeds. Unfortunately, however, acquiring and developing that talent is a challenge throughout the industry.


Even before the COVID-19 pandemic shook the business world and amplified the competition for talent, private equity firms faced unique dilemmas related to people strategy. During the last several years, talent management grew in priority as more firms recognized the significance of portfolio company leadership teams in value generation, but a shortage of C-suite talent across many industries made it difficult to hire executives with relevant expertise.¹ And now? After record-setting fundraising in 2021,² the demand for high-performing leaders is stronger than ever.

In addition to a dearth of executives with appropriate domain and private equity experience, firms and their portfolio companies must contend with other talent problems too. These include a talent shortage across industries exacerbated by historic quit rates; increased calls for measures to improve

diversity, equity, and inclusion; challenges with employee engagement and retention; and more. For firms hoping to emerge from this era with a competitive advantage, the good news is that there's a strategic way forward. Refining your approach to talent acquisition and development will ensure you get the most out of your biggest investment: your people. Put them first, and the rest will follow.

As an international authority in the science of personality, Hogan helps organizations maximize the fit between applicant skills and job roles, improve employee retention, increase productivity, eliminate bias in hiring, ensure new hires are aligned with organizational culture, and inspire employees to do their best.

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Grounded in more than 40 years of research, Hogan's comprehensive suite of talent acquisition and development solutions are based on three core personality assessments:

▶ **Hogan Personality Inventory (HPI)**

A measure of personality characteristics needed for everyday job success, building effective teams, and developing future leaders.

▶ **Hogan Development Survey (HDS)**

A measure of counterproductive personality characteristics that have the potential to derail otherwise successful and long-lasting employees.

▶ **Motives, Values, Preferences Inventory (MVPI)**

A measure of core values and motivators that reflect job satisfaction, alignment with organizational culture, and future success within the organization.

Our personality assessments are the industry standard for predicting future job performance among working adults across industries and around the world, and the insights they provide have helped countless human resources professionals and industrial-organizational psychologists ensure that the right people are in the right roles.

In private equity, Hogan helps firms and their portfolio companies with talent management strategy in a variety of ways.

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Strengthen Your Firm from the Inside

Success in private equity requires much more than the ability to achieve high returns. We understand what influences individual decision-making and team performance during investment decisions, and we can help you understand what personality characteristics will lead to success for executives, deals teams, operations teams, analysts, and more. We can help you strengthen your firm across these critical roles with our scientifically valid talent management solutions, including benchmarks and custom success profiles.

See How You Stack Up

Globally, more than 10 million people across industries and jobs have taken Hogan's personality assessments. What this means is we know what it takes to succeed in any industry, in any job, and at any level. We've used this information to create a benchmark, which is a collection of data that shows personality trends, for leaders within private equity.

To create the benchmark, we compiled and analyzed the personality assessment results of more than 900 private equity executives, board members, and senior leaders. To determine how the personalities of private equity leaders differ from other members of the global working population, we compared these results with our global normative data. Our research

identified differences in day-to-day behaviors, behaviors that may get in the way when under stress (aka potential derailers), and motivation.

For example, one of our findings was that private equity executives may not be proactively engaging with others, such as key stakeholders, peers, or direct reports. They might have a reputation for being hard to please with high expectations and a temper when those expectations are not met.

By administering our personality assessments to your leadership team and comparing their results with our benchmark, we can offer you insight about how your firm's leaders compare to others in similar roles at other organizations. In other words, our benchmark is your opportunity to see how your leadership team stacks up against the competition. With this information, you can offer them development opportunities to improve their performance or even identify gaps to fill with future hires.

Hogan also offers other off-the-shelf benchmarks — for teams, emotional intelligence, and more — as well as custom benchmark options for organizations seeking more specific insight based on factors such as annual company revenue, reporting relationships, etc.

Customize Your Selection Process

Hogan can collaborate with your organization to create a custom success profile for virtually any job. Whether you're looking to fill positions on a deals team or find your next CEO, we will work with you to improve the quality of your candidates using job analysis, performance data from incumbent employees, and personality assessment data to create a profile tailored precisely to your needs. The following case studies demonstrate how we've helped two different private equity firms achieve their objectives using success profiles.





Selecting Successful Investment Associates

A private equity company partnered with Hogan to improve its selection process for investment associates, who conduct analyses regarding the finances of private or public institutions. Hogan's data science team worked with the private equity firm to develop a scientifically valid screening tool to improve the quality of this applicant pool.

Hogan identified specific competencies, characteristics, and values that predict success among investment associates, then built a custom personality profile using scales from the HPI, HDS, and MVPI.

Using Hogan's profile, the company was able to select investment associate candidates who would demonstrate the composure, drive, and organization needed for success in the role. These candidates also show less risk of volatility, unpredictability, and resistance to coaching. They value achievement, collaboration, and analytical decision-making.

Hogan's extensive research on the relationship between personality and job performance indicates the private equity company will see a **25% improvement in overall accuracy**, selecting 12.5% more good hires and avoiding 12.5% more bad hires.

► Improved Selection Accuracy





Selecting Successful Private Equity Associates

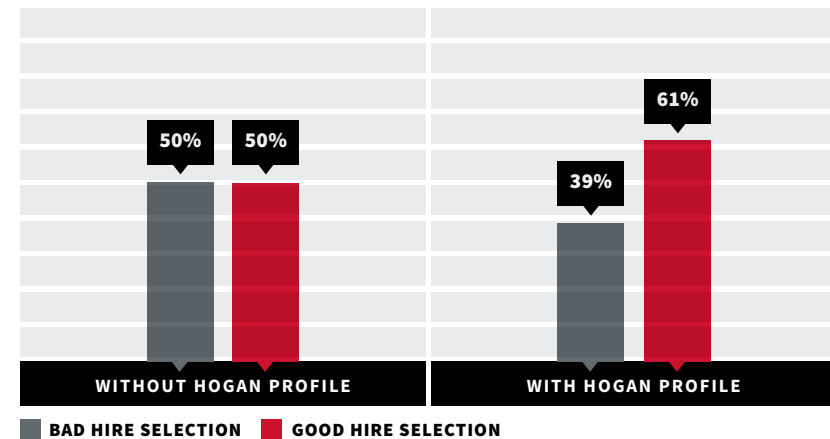
A global private investment firm asked Hogan to help improve its talent acquisition process for private equity associates, who solve strategic problems, create concise and solution-oriented presentations, review accounting data, engage in effective teamwork, and add insight to transaction documents. Hogan's data science team worked with the firm to develop a scientifically valid screening tool to improve the quality of this applicant pool.

Hogan identified specific competencies, characteristics, and values that predict success among private equity associates, then built a custom personality profile using scales from the HPI, HDS, and MVPI.

Using Hogan's profile, the company was able to select private equity associate candidates who would likely perform well. Successful individuals in the private equity associate role remain composed under stress, take initiative, and are orderly and dependable. They tend to be perceived as polite and detail-oriented, and they want to make an impact and enjoy analyzing problems.

Hogan's extensive research on the relationship between personality and job performance indicates the company will see a **22% improvement in overall accuracy**, selecting 11% more good hires and avoiding 11% more bad hires.

► Improved Selection Accuracy



Invest with Confidence

Having the right talent within a portfolio company's leadership team is critical for getting the most out of your investment. In fact, firms at every level, including 81% of mid-sized fund managers (\$2.5 to \$15 billion) and 68% of large fund managers (\$15 billion-plus), consider talent management their top strategic priority.³

A lot rides on getting it right — a 2021 Bain & Company and Hunt Scanlon Media survey found that the caliber of a portfolio company's leadership team is considered the top reason for deal success and the second most common reason for deal failure.⁴ But this creates a quandary: 93% of private equity professionals say they consider CEO replacement to be “risky” or “highly risky” at the time of investment, yet 92% say that delayed leadership changes can cause underperformance.⁴ So what can you do?

First of all, don't leave major decisions up to conjecture when you can make them with evidence. Second, regardless of who's in charge, empower them to do their best work. With leadership team analysis, your firm can invest with confidence.

Make Decisions with Evidence

When your firm is considering a potential investment, Hogan can help predict how the potential portfolio company is likely to perform under the direction of its existing leadership team by conducting a pre-investment leadership team analysis.

Using personality assessments, Hogan can provide objective talent insights that your firm can use in investment decision-making. You'll find out how the executive team is likely to perform on a day-to-day basis, what their values and motivators are, and how they're likely to function — or derail —

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when facing adversity or pressure. Understanding the nuances of the potential portfolio company's leaders' personalities and how these impact their work behaviors is especially useful when leaders are new to private equity partnership. When met with unexpected change, are they resilient, or do they become volatile?

Pre-investment leadership analysis can also be useful if the portfolio company is in an unfamiliar industry or one in which your firm is still gaining expertise. For example, if your firm is looking to acquire its first tech company, Hogan can perform

a leadership team analysis using an IT benchmark, so you can see how the executives compare to other tech company leaders. With this personality data, you'll be able to make your investment decision with confidence.

Should you discern that leadership team changes need to be made, Hogan can help you pinpoint the personality characteristics most likely to lead to success to target your executive search. The following case study shows how one private equity firm used Hogan to create a competency-based personality profile to identify CEO candidates for its portfolio.

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Targeting CEO Selection in the Tech Sector

A private equity firm specializing in the tech sector developed competency models for its chief executive officers. To link business strategy to talent management, the company collaborated with Hogan to identify personality characteristics associated with the competencies important to CEO success.

Working with the private equity firm, Hogan's talent analytics team determined which personality scales from the HPI, HDS, and MVPI would identify new or incumbent CEO candidates with the qualities necessary for success. These qualities include a growth mindset, a strong strategic focus, humility, and resilience during crisis.

Hogan's extensive research on the relationship between personality and job performance indicates the private equity company will see a **23% improvement in selection accuracy** when using Hogan's profile to hire CEOs for its portfolio, selecting 11.5% more good hires and avoiding 11.5% more bad hires.

► Improved Selection Accuracy



Expedite Value Creation

Of course, Hogan can provide support after the investment, as well. Depending on the specific needs of your firm, the portfolio company, and the leadership team, personality assessment results can be used to tailor leader onboarding, facilitate individual and team development, or offer one-on-one executive coaching.

When new executives are joining a team of incumbent leaders, personality assessment can provide insights to help everyone hit the ground running together. Describing his experience with Hogan, ParkerGale Partner Jimmy Holloran put it this way: “There’s a lot of risk when you’re bringing leaders together. Hogan helps those teams understand what their strengths are, what their shared values are, what their derailers are, which helps quickly accelerate the cohesion at the executive level — and therefore helps us create clarity throughout the organization, so that we can drive the business forward.”

By giving them confidence to maximize their chances of success during and after the transition, an evidence-based development initiative can feel supportive to the executives, as well. Plus, Hogan’s consulting team and global network of professional coaches provide personalized support.

“It can be a scary thing to go through an assessment like this when you are in the process of being hired for an executive role, or when there’s diligence happening and your company is about to be acquired,” said Holloran. “I find [Hogan’s] consulting team really humanizes the process.”

In other words, using scientifically valid personality data for post-investment leadership development expedites value creation and can even inspire trust. Regardless of the specific way you choose to use Hogan, you’ll optimize leadership performance *and* your investment.

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Acquire and Develop Talent at All Levels

The people in the upper echelons of an organization aren't the only ones who create value. Between the ongoing competition for talent, the pressures of economic rebound from the pandemic, and the Great Resignation, it's more important than ever to support portfolio companies in their talent management needs at every organizational level — not just at the top.⁵

Hire with Efficiency

Hiring can be costly, and every bit of the time required to fill a position makes a difference. These days, a single job posting can be expected to receive an average of 250 applications,⁶ but data-driven hiring processes cut out the guesswork to save resources. Depending on your portfolio companies' needs, Hogan can provide talent acquisition support in several ways.

As just one example, the Hogan Candidate Assessment Suite streamlines the hiring process for nearly every job in the modern economy. Users can tailor projects for the role and organization to sort, filter, and screen hundreds of candidates at once based on multiple layers of data. Hiring managers receive insights about personality, work style, and job family competencies, as well as behavioral interview questions, so they can quickly and easily identify the candidate who is

most aligned with the role and organization. The result is a more cost-efficient talent acquisition process and a higher-performing portfolio company.

Retain Key Talent

Conservative estimates suggest that employee replacement costs one-half to two times a person's salary.⁷ That's one major reason why, after a record-high number of quits in November 2021, private equity firms are talking turnover much earlier in the due diligence process.⁸ Perhaps yours is among them. But what about the companies that are already in your portfolio? What measures are being taken to retain those employees?

It's more important than ever to support portfolio companies in their talent management needs at every organizational level — not just at the top.

It's no secret that mergers, acquisitions, and the changes they bring can cause major changes in organizational culture and provoke anxiety in even the highest performers, regardless of their job level.⁹ In fact, research conducted at the MIT Sloan School of Management found that 33% of acquired workers leave within the first year after the acquisition.¹⁰ But 94% of employees will stay longer if a company invests in their careers.¹¹ Hogan can work with portfolio companies to improve employee engagement and retention through talent development initiatives. Personalized development plans will help employees develop strategic self-awareness to work toward their professional goals, improving their engagement and the portfolio company's ROI. Plus, using personality

assessment for talent development can help portfolio companies identify and groom high-potential talent to build their succession pipelines.

If a portfolio company is already experiencing high employee turnover, Hogan can help improve retention by collaborating with you or your portfolio company to identify the characteristics that lead to success for the role in question, then target selection efforts for the role. For example, we once helped a client develop a custom success profile for an entry-level role in which employees were turning over at a rate of 85% per year. Within just one year of using the profile, the company had retained 89% of the employees hired with the profile — that's an improvement of 174%. Need we say more?

Personalized development plans will help employees develop strategic self-awareness to work toward their professional goals, improving their engagement and the portfolio company's ROI.



Get Started

As many organizations in private equity and other industries have already discovered, Hogan's talent management solutions have myriad applications — such as selecting and developing more effective leaders, uncovering high potentials, making high-volume hiring more efficient, or even improving diversity, equity, and inclusion initiatives. These are only a few of the ways scientifically valid personality assessments can transform talent acquisition and development, either in your firm or in your portfolio. Hogan has been partnering with private equity organizations for decades to help them solve problems and achieve their goals. Get in touch with us today to explore potential solutions.

To learn more about Hogan, visit hoganassessments.com or call us at +1.918.749.0632

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