

The Search for Private Equity Senior Executives

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Recruiting new executive talent for private equity (PE) portfolio companies is a growing business for many Executive Search firms. Whether as part of the due diligence leading up to an acquisition or once the deal is closed, PE firms must identify and hire the right talent to drive their investment forward.

PE Firms Look to the Outside for Top Talent

Within a highly competitive PE market, as competition for deals increases, the search for talent has intensified. PE firms often look externally for executives with the right skills and experience. According to a recent white paper by Harvard Business School's Paul Gompers, 75% of CEOs at PE-acquired companies are external hires while the reverse is true for S&P 500 companies where 72% of CEOs are promoted from within.

And it pays off. Among PE firms formed between 2010-2016, Gompers confirms PE portfolio companies outperform the S&P 500 by a cumulative 22% (5% annualized). He suggests that unlike public companies where board members are professional and do not have a financial stake in long-term company performance, PE firm executives sit on acquired company boards and own large financial stakes in these companies. The risk is great but so is the potential for reward. Hiring the right leaders is crucial to future growth.

Defining the Right Roles & Competencies

Marianna Carbonari, IMSA Search Global Partners Managing Partner Italy and Founder-CEO of Value for Talent, works extensively with PE firms in pre-deal due diligence and talent/market mapping as well as in post-deal executive search. Carbonari finds the most requested searches for target companies are the CEO and CFO, followed by senior level managers.

According to Carbonari, in both multi-national corporations and family businesses, the best candidates for these positions are those with industry-specific knowledge and experience, with one key addition – an entrepreneurial mindset. “PE firms are interested in driving growth. They are entrepreneurs at heart with a faster pace than in a public company. Portfolio company leaders must be able to function in an entrepreneurial environment.” Carbonari adds, “These firms are pragmatic, and while value may not be measured right away, after a year out, with controls and reviews in place, we see immediately whether a CEO or CFO placement is working.”

Private Equity and Family-Owned Companies

Carbonari and her team at IMSA Search Italy/Value for Talent have developed a niche expertise helping PE firms acquire family-owned companies. In many cases the family founder still has partial control, while executives at all levels can be family members with personal stakes in the business. When a PE firm targets such a company, new leadership must understand the family culture.

“Change from family to PE-owned and operated creates certain challenges. The new management must be empathetic, able to function as the positive, credible link between the new owner – the PE fund – and the family. The PE investor requires a rigorous managerial and reporting structure, while the family may need a more deferential, culturally sensitive style.”

Pre-Deal Market Mapping

As part of their service in the PE acquisition space, executive search firms conduct thorough market mapping, identifying potential talent in a specific sector and/or region. Mapping includes an in-depth analysis of the target company and its competitors, as well as detailed descriptions of internal senior leadership and middle management. Potential external CEO/CFO/manager candidates are identified, with profiles including salary, experience, skills, psychology/mindset (i.e. entrepreneurial), as well as whether there is interest in working in private equity. This allows the PE funder to enter a deal with potential talent in mind.

Carbonari recounts, “For example, we were hired to find the right leader for a PE fund investing in FMCG/Luxury market. Our market mapping identified an interesting pool of highly-qualified candidates with the right mindset and entrepreneurial attitude. The top candidate was invited to participate in structuring the deal and today is CEO of one of the fund’s controlled companies, has tripled revenues, opened 2 new plants, and helped to profitably sell to another international fund.”

ESG, Private Equity and Executive Search

ESG or the focus on environmental, social, and governance issues, is an important factor in today's business environment and private equity is no exception. Carbonari asserts, “We have to consider both attitude and experience with ESG when assessing candidates. Managerial background, culture, and style has to include a consciousness and commitment to these aspects of conducting international business across industries and across the globe.”

Carbonari continues, “We see continued growth in PE activity through 2023 and beyond. There is a growing number of participants in the market and a large amount of uninvested capital. The partnership between PE and Executive Search is a strategic one. We understand the leadership required and know how to assess for it. It is both our mission and our passion to find the change agents PE firms are looking for.”

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