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# Chief Talent Officers in Private Equity Sponsored Companies:

**An Evolving and Critical Role in Support of Private Equity Firms and their  
Portfolio Companies**

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Dear Private Equity Professional,

As global leader of DHR's Private Equity Practice, I am pleased to present our white paper exploring the leadership and functional competencies of Chief Talent Officers that lead to success in private equity sponsored companies. One might argue that these attributes are required in any company - public, private, or PE funded. That being said, the CTO of a PE sponsored company works in a unique environment where value creation is the mantra and it is critical to create followership amongst a wide range of stakeholders, including the Board, investors, management, and employees.

Having successfully completed hundreds of C-level search assignments working with our PE clients (CEO, COO, CFO, and many other roles), we look for trends related to hiring practices, organizational structure, leadership and team assessment, executive level competencies, Board governance, equity and cash compensation, and so forth, which are of interest to our clients. As the fifth largest and fastest growing retained executive search firm in the United States, DHR International has made a strategic commitment to the private equity industry and will continue to explore human capital issues as part of the Private Equity Practice charter. We hope you find the white paper informative and look forward to being of service to you and your firm in the near future.

Best,

A handwritten signature in black ink, appearing to read 'R. Keith Giarman'.

R. Keith Giarman

Managing Partner, Private Equity Practice

## Executive Summary

Private equity investors are placing a greater emphasis on driving operational value in their portfolio companies while, in many cases, holding investments longer. They have also come to realize that executives with the potential to create value and meet aggressive thresholds for investor returns—for the firm, themselves and the management team—are increasingly critical to success.

Finding those individuals, though, isn't easy. To effectively identify, recruit, engage and coach those who become dynamic and effective CEOs, and other C-Suite executives, many firms have established a new position. Sometimes called managing director, operating partner, talent partner, human capital partner, recruiting partner, to name a few, many organizations title this role chief talent officer (CTO).

The CTO role is a complex and evolving position. It essentially combines recruiting with succession planning, talent pipelining efforts, value creation through hiring efforts, assessment of key executives, and working with management to improve team dynamics and, as a result, overall business performance. In addition to building and leading effective, sustainable processes and approaches that attract leadership talent, the CTO must be cognizant of that talent's role in sourcing efforts and the organization's overall due diligence responsibilities.

What competencies indicate that a candidate will be the right fit for this critical role inside a fund? How does the role function within the PE firm itself and in interactions with portfolio entities? Understanding the scope, function and expectations of that role increases the odds of filling it with the individual whose fit within the organization creates a strong and effective link between hiring efforts and substantial, ongoing success.

## Functions of the CTO

How a firm prioritizes the talent function determines when a CTO comes onboard. As that varies from firm to firm, generalizing about the full range of CTO responsibilities can be difficult. While the primary focus of any CTO is on navigating the recruiting challenges specific to portfolio companies, different firms emphasize different functions and goals. For instance, for some CTOs success will be dictated by their ability to encourage CEOs and their teams to explore and implement human capital strategies – above and beyond reactive recruiting -- that are consistent with value creation objectives.

Whatever the nature of any CTO's role in their organization's environment, common traits such as emotional intelligence and business acumen are required, and in the most general terms CTO responsibilities fall into two broad categories:

### *General CTO Functions No. 1: Provide Human Resource Leadership*

CTOs may be asked to:

- Arm CEOs with a tool kit of HR best practices and, when required, become a true partner in ensuring that the organization is infused with a strategic HR mindset
- In smaller funds, where portfolio company HR professionals may be more policy and process-oriented, ensure that CEOs are proactively working with their teams in setting appropriate human capital objectives
- Stay informed about the technical aspects of HR that can be utilized to drive a culture of value creation—including compensation mechanisms, talent management IT systems and processes; assessment philosophies and approaches; performance management and evaluation—with an eye towards creating a tailored approach for each unique portfolio company environment
- Build trust with the CEO and management team by focusing on short- and long-term “top-grading,” succession planning and cultural change management to increase the velocity of the business. Develop creative team/business specific approaches and work closely with C-Suite focused HR functional heads to execute initiatives
- Ensure that the HR “playbook” is supported by a roster of HR functional experts in all pertinent areas, including compensation and benefits, leadership coaching and assessment, organizational design and change management

### *General CTO Function No. 2: Support Talent Acquisition*

CTOs may be asked to:

- Oversee and/or conduct key executive searches, from role definition through execution and placement. That often includes the application of pertinent assessment tools and testing using internal and external resources. Searches are generally focused on CEOs and CFOs, but may also involve positions (CMOs, VPs of Sales, etc.) seen by deal and operating partners as drivers of business impact
- Serve as a resource for deal partners and others before deals are consummated, especially regarding CEO and CFO assessment and general team dynamics, to ensure organizational weaknesses are understood prior to deal closure. CTOs may also be asked to build a set of tools and develop techniques that can be applied both formally and informally when evaluating CEOs and their management team before finalizing a transaction
- Create and manage a network of high-impact operating executives across industries specific to the investment thesis (or theses) of the firm, particularly CEOs who are proven value creators, and are therefore fundable, and CFOs who have successfully led liquidity events, executed M&A strategies and implemented strategic improvements in financial infrastructure, processes and controls in prior roles

- Consult with CEOs and management teams when selecting search firms. Depending on specific needs of the role—industry and functional determinants and the company’s inflection point may be considerations—help determine which kind of firm is needed: a large, name-brand firm, a boutique or one that specializes in certain industries or functions (such as finance, HR, or sales and marketing)
- Build long-term partnerships with preferred recruiting firms and use database technology to develop ongoing monitoring capabilities to track search firms and other consultants pertinent to the HR and talent acquisition function. Evaluate, rank and manage relationships accordingly

## Cultural Fit and Pace

The environment inside the fund, and the portfolio and expectations of the investment partners running the firm, will play key roles in determining the right hire. As with any role at this level, determining the best profile is situational and involves trade-offs, especially in terms of how the new CTO adapts to the culture of the private equity firm.

The role typically includes overseeing the human capital mandate for a large and disparate number of portfolio companies. As a rule, CTOs must build and/or further enhance and utilize an already-existing talent capability, working with a small, high-powered team to provide superior talent-related service to internal clients—deal and operating partners and others—in addition to driven and accomplished CEOs and their management teams.

CTOs must be creative, agile and adept in building relationships with internal and external constituents and leverage multiple and disparate resources to meet their fund’s objectives. CTOs serve simultaneously as business builders and individual contributors, and must excel at navigating a dispersed operating model inside a high-performing and demanding culture run by talented and analytical investment professionals at a fast pace and intensely focused on generating investor returns.

## CTO Characteristics That Are Critical to Success

While human resource function skills and experience are vital, a CTO’s personal and professional gravitas, agility and influencing capabilities are equally crucial to garner respect from the CEO, talent team and peers inside the PE firm. CTOs that thrive in these kinds of environments must possess the ability to:

- Create internal followership—Given the dispersed nature of the organization and multiple constituents involved, ranging from deal partners to operating partners and other inside players, the CTO must have exceptional interpersonal skills to artfully build a consensus for the best approach, while staying focused on activities such as the development of processes, systems and external relationships that drive value in the long term.
- Achieve internal accord by being nimble and focused -- Priorities can change quickly, and CTOs must manage many reporting relationships up and across the PE firm. Being able to address issues requiring immediate attention, while staying the course on critical long-term initiatives, requires discipline to ensure processes and systems are implemented that minimize a reactive-only mentality.

- Be both a builder and a sole contributor—The chief talent officer must be adept at building the overall talent function, with all its various components, to ensure optimum delivery to internal clients and portfolio companies. But a CTO must be able to take a hands-on approach as a high-powered expert consultant when the trusted opinion of a senior HR professional is critical to solving a specific issue at a specific point in time in a portfolio company.
- Engender trust with CEOs—The CTO must build a personal, non-political relationship with the CEOs of portfolio companies based on direct and honest communication. To build this trust, the CTO must truly understand the CEO's business, and not just in terms of human capital, but performance, opportunities and challenges. Some CEOs will readily embrace strategic thinking around human resources and talent acquisition, while others may need more assistance and more convincing.
- Recruit fluently—When needed, the CTO role takes on a transactional element. When an executive must be replaced or a team needs top-grading the situation must be assessed and action taken quickly. While a proactive talent management approach helps avoid the need for crisis management it is virtually impossible to avoid the reactive need to initiate searches from time to time.
- Understand internal and external leverage—CTOs frequently have a limited staff to execute their duties, so recruiting often requires leveraging capable search consultants. Relationships with the appropriate firms enable the CTO to “hit go” and quickly locate a talent solution. Likewise, similar relationships with other specialized consultants in the market, including leadership assessment firms and gurus, experts in organizational development and design, and compensation experts must be developed and maintained.
- Ensure true HR partnership with the CEO—CTOs must ensure that world-class, strategic-minded chief human resource officers are in place to work with the CEO and management team. The senior HR executive must partner effectively with those in critical positions who are assessing talent, particularly CEOs and CFOs, and with other profit and loss leaders running the business. Without a forward-thinking HR executive in place, partnered with a CEO, it is unlikely that proper human capital activity can occur inside the portfolio company. As such, it is extremely important that CEOs who are less strategic in their thinking regarding HR and talent management have the right mindset when they are hired, or receive proper coaching along the way.
- Be a student of leadership—While business and analytic skills are required to influence others who are highly analytic and business-minded, CTOs must be passionate about the human resource function and enthusiastically convey that sentiment to their teams, internal constituencies and portfolio companies. The route to value creation involves strong leadership and communication from the top of the organization to create followership and stimulate continuous improvement. The CTO needs to constantly seek out information about the function and stay on top of trends that will assist in optimizing team dynamics in the quest for accelerated business performance.

## Performance Measurement and Compensating the CTO

- Build long-term executive relationships—Like other aspects of the CTO's role, prioritizing, sourcing and building relationships with top executives in the market is an on-going need that requires discipline amongst an evolving set of priorities, while managing multiple constituents. The CTO must have the will, desire and personality to build meaningful relationships in a manner consistent with fund priorities.

There is some inconsistency regarding how CTOs are evaluated and compensated in terms of their individual performance. Should they be measured by their impact on specific initiatives, such as leadership assessment and team coaching or recruiting, or treated more like other professionals in the fund, with an equity incentive that realizes value when companies hit threshold returns? The overarching metric for success for all fund professionals will always be the Internal Rate of Return (IRR) of individual investments in specific operating companies upon liquidity, and the overall returns generated by the fund to the Limited Partners (LPs). Thus, there is no reason CTOs should be compensated differently with at least a portion of their compensation.

On the other hand, CTOs are often assigned duties focused on specific management teams that need performance enhancement or other assistance. Some are in charge of talent networks of "fundable" CEOs or other high-impact executives as part of their duties. Should CTOs be paid more if they find fundable CEOs that lead to stellar returns, or are they part of the fabric of the firm where everyone (depending on the culture) wins when appropriate investments are consummated and returns are above threshold? The answer depends on the firm, its culture, its overall charter and the specific duties of the CTO. Our conversations with PE leaders suggest that CTOs are compensated with specific human capital as well as fund objectives in mind.

The "episodic" nature of the role also comes into play. While managing long-term structural and strategic issues, like compensation and reward systems for the portfolio companies, or systems to measure and track the best talent in the market, or ongoing coaching with a struggling management team, the CTO may be called by one of the partners relative to due diligence on a potential investment. In that instance time is of the essence as the opportunity is evaluated. Sometimes that due diligence exercise will turn into an acquisition in which the CTO is required to rethink and rebuild the team, working full-time for several months as a member of the management team.

In general, we see several components of a total compensation package relative to a CTO in terms of cash in aggregate (depending on the firm, its culture and the type of investments on which they focus):

- (a) Base salary
- (b) Equity participation in the fund
- (c) Bonus compensation relative to specific initiatives focused on improving talent management and acquisition systems, processes and performance

(d) Bonus compensation tied to specific companies where the CTO's contribution is required

(e) In some cases, equity participation in specific portfolio companies where the CTO has assumed an interim CHRO role for an extended period of time (or is simply more engaged during a concentrated period of time in some capacity).

The overall total size of the compensation will vary with the size of the fund and the kind of investments on which they focus. Larger firms will be looking to talent executives with experience in or working with larger companies and, therefore, CTOs will be paid significantly more in those firms (at least in terms of cash compensation).

The mix will vary depending on the firm, its overall size, the breadth and depth of the portfolio support group and its investment strategy. It may also vary year-by-year based on priorities, deal flow, portfolio company performance, etc. For example, if a firm specializes in sourcing and acquiring troubled companies or corporate "carve-outs," where entire systems, processes and the entire management team must be built or rebuilt, compensation may weigh more heavily towards (d) and (e) - more like an operating partner or advisor that is called upon to assume a specific portfolio company role with a specific charter for an extended period of time. If a firm focuses on finding "fundable" CEOs and building an investment thesis and team around that CEO in search of a platform deal, then compensation for the CTOs may weigh more heavily in terms of equity in certain deals where they are directly responsible for delivering the human capital.

Like others in the firm, the CTO will be paid handsomely on the equity component of their compensation (fund or portfolio company related) with a "portfolio effect" not attainable in a CHRO role working for an individual entity. Similar to operating partners, CTOs inherit and drive a human capital mandate that has a more "episodic" quality to it; the need for their services in a number of situations can vary based on several factors. Thus, like others in similar fund-related roles, they need to be compensated with this variability in their duties in mind – both strategic and tactical and long-term and short-term focused – tied specifically to fund objectives and their investment strategies.

## Conclusion

Private equity firms recognize that for a company to run smoothly, it needs a highly-qualified CEO and equally talented management team across all functional disciplines. Increasingly, PE firms also realize that to support their CEOs and position them for success, they need a CTO to provide human capital services to deal and operating partners and portfolio company boards and management teams.

Based on a firm's initiatives and goals, the specific responsibilities placed on the CTO's plate can vary. The position can be strategic and process-oriented, or more transactional centering on portfolio company recruiting issues.



CTOs may be asked to oversee key executive searches, provide information about HR's technical aspects or help identify organizational weaknesses before a deal closes. They may be asked to serve as an internal consultant when search, executive assessment or organizational design firms are being considered for specific assignments —or perform other tasks.

Generally, though, certain elements remain consistent. CTOs need to build long-term relationships with peer deal and operating partners as well as portfolio company leaders, and take advantage of external help when necessary. They must proactively recruit on an ongoing basis, but also be ready to act quickly when a vacancy unexpectedly arises. They must deftly provide search-related information, utilize highly developed interpersonal skills to unite thinking and ensure CEOs are viewing HR strategically at all times.

Private equity firm chief talent officers, in short, serve as a bridge between internal partners and their staff, leaders inside portfolio companies, the human resource function and candidates with various skills, expertise and industry experience.

With one foot firmly wedged in the firm's operations, and another placed in the realm of external entity support, the CTO role can be challenging. When companies fill it with the right individual, however, the CTO can have a powerful, and positive, effect on recruiting, retention, overall operations and productivity, establishing the position as high-impact and essential in effective value creation.

## Contact Information

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Keith Giarman serves as managing partner of the Private Equity Practice in the firm's San Francisco, CA and New York, NY offices. He oversees board, C and senior level search assignments working with investors, boards, and management teams where the mantra is rapid and long-term value creation and liquidity. Prior to DHR, Keith built the CEO practice for one of the premiere boutique executive recruiting firms in Silicon Valley. Prior to that, he was President & CEO of Clarus Systems and a core executive on the leadership team at Citizens Communications which merged with Frontier Communications (\$3B public company). He earned his undergraduate degree at UC San Diego and his MBA at Harvard University.

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Jerry McGrath manages searches for human resources leaders across a vast array of industries and organizations, and his clients benefit from his more than two decades of global experience in both corporate human resources and executive search. Prior to joining DHR, Jerry was the leader of Caldwell Partners' Human Resources Practice and a member of the Financial Services Practice and served as the client relationship manager for a number of Korn/Ferry International's large global clients. He previously held positions with UBS in the U.S. and Europe and was head of human resources for investment banking at Credit Suisse First Boston, head of global recruiting and vice president of human resources of the U.S. region for MasterCard International, and manager of HR planning and development at Deloitte and Touche.



Established in 1989, DHR International is one of the largest retained executive search firms in the world, with more than 50 offices around the globe. We conduct search assignments at the board of director, C-level and functional vice president levels. DHR's renowned consultants specialize in all industries and functions in order to provide unparalleled senior-level executive search, management assessment and succession planning services tailored to the unique qualities and specifications of our select client base.

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