

## Achieving High-Performance Leadership in Portfolio Companies

Due to the heightened return interests of private equity investors, portfolio company leadership matters now more than ever. How can you ensure you have the right portfolio company leadership?

**How critical is leadership excellence in portfolio companies?**

10-15%

Impact on financial performance

25-30%

Impact on market valuation

Just as a great CEO and leadership team can propel a portfolio company to new heights of success, the wrong leaders can be debilitating.

Just as a great CEO and leadership team can propel a portfolio company to new heights of success, the wrong leaders can be debilitating. A recent *Harvard Business Review* study noted that portfolio company leadership has a 10-15% impact on financial performance and a 25-30% impact on market valuation.<sup>1</sup>

That's why an increasing number of private equity (PE) firms are partnering with external experts to ensure their portfolio companies have the right talent, culture, and leadership to thrive and deliver the highest returns on investment. That's the key takeaway from a panel of PE leadership experts at the recent MDA Leadership Breakfast Briefing, "**Achieving High-Performance Leadership in Portfolio Companies.**"

**Andy Cantwell**, CEO and Managing Partner of Carlson Private Capital Partners; **Dennis Liberson**, Independent Operating Advisor and Director; and **Jeff Hinds**, Vice President of Private Equity/Principal Consultant for MDA Leadership, discussed how it's possible to achieve—through assessment—the right portfolio company leadership needed to achieve investors' desired results. The event was facilitated by **Kevin Louiselle**, Executive Vice President, Talent Strategy and Assessment, and Partner, MDA Leadership.



## How is Assessment Used in Private Equity?

Hinds opened the panel dialogue by defining assessment as a means of determining leadership qualities and competencies using best-in-class tools and processes tailored to the needs of an individual PE firm.

For example, MDA Leadership wants to understand the client's strategic focus, business challenges, success factors, culture, and values. Relative to PE firms, is an assessment needed pre-transaction or post-deal? Is it due to an outright acquisition or through a merger? Is there a leadership development component to be factored into the assessment?

### Key Assessment Recommendations

As a PE firm tries to decide if it should use an external consulting firm to conduct assessments, Hinds recommended asking the following six questions:

1. What is the type, depth, and breadth of your assessment experience?
2. How do you conduct assessments and what deliverables do you provide?
3. What type of insights will I receive?
4. What is your experience working with a PE firm like ours?
5. Can you provide references from other PE firms?
6. What additional leadership resources do you offer?

Jeff Hinds, Vice President of Private Equity/Principal Consultant, MDA Leadership discusses how assessment can ensure private equity firms achieve their investment thesis.

Regardless of the answers to these questions, an emphasis should be placed on ensuring a positive, respectful experience for each individual assessed to ensure the highest likelihood of optimal results. Once an assessment has been completed, it is evaluated and analyzed by independent consultants, based on MDA Leadership's business experience and acumen as well as the client's specific needs.

For the client, the end result of an assessment is a professional evaluation of the participant's overall performance and potential. This is determined through an analysis of the individual's "hard-wired" or default characteristics, such as practical intelligence, personal effectiveness, and aligned motives and values. It also includes an evaluation of participant behaviors which have been shaped through experiences. Ultimately, a comprehensive report is created for the organization, which provides deep insights on whether or not the leader will be able to contribute to achieving the investment thesis. Additionally, the feedback is shared with the participant to help them understand how they will contribute to achieving the investment thesis.



# The Value of Assessment in Private Equity Deals

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Louiselle then led the panel of experts through a series of critical, talent assessment-related questions which PE firms should consider as they evaluate their portfolio company leadership. An executive summary of the panelists' replies to the questions follows.

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## **Q1: How have you made use of leadership assessment processes among portfolio companies, and what are the advantages and disadvantages of these different approaches?**

A: Cantwell discussed the range of approaches he's used to determine the quality of CEO talent, ranging from a "straight interview process," which he doesn't recommend with C-level talent, to a full-scale assessment and interview similar to the type that Hinds detailed. Calling assessment both an "art and science," he believes it provides excellent data about how someone will perform singly or in conjunction with other leaders and where gaps might exist in the company's value creation plan. "Can this person mesh culturally and drive the business to the scale that we're going to need?" he asked. "Assessment provides the foundation by which we can understand the gaps and the talent needs."

Liberson talked about the importance of value creation drivers to guide the assessment process and ensure the right talent is in place. He's in favor of assessment for bringing a "scientific approach" to the talent evaluation process as well as having the CEO complete an assessment for helping to achieve overall "buy-in" into the process. He suggested that PE firms be consistent in their talent evaluation approach across all portfolio companies, just as they likely use the same law and accounting firms in their deal evaluations.

Hinds noted the importance of using a work simulation as part of the assessment process, as this provides an opportunity to directly see the participant's skills in action, something that is more difficult to gauge via the assessment instruments and a personal interview alone.

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The value of assessing multiple members of a leadership team is that everyone goes through the same process and can be made to feel like they've been treated equitably and fairly.

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## **Q2: Are there particular tools, approaches or techniques of the assessment process that you find especially useful?**

A: Liberson stressed the importance of using multiple assessment tools to gain a better picture of a participant's strengths and gaps. He noted multiple rating systems are more effective and accurate than any other approach. In his experience, it's not "the thing you're looking for that causes someone to derail," but often something else, which is why a multi-rater approach to assessment provides particularly crucial insight that might not be gained otherwise.

Cantwell emphasized the need to involve the board or the management team and ensure that their strategies are reflected in the assessment approach. He noted the importance of determining a leader's "soft skills" to ensure a fit with the culture and people of an organization. That's especially important when a potential leader is coming from a large organization into something much smaller, but doesn't have a clear notion of what that change entails, and what's necessary for leadership success in a smaller organization.

## **Q3: How have you used leadership assessment in merger and acquisition scenarios?**

A: For Cantwell, an assessment is especially important in a merger or acquisition when you have an existing owner/leader who's been in place autonomously for years and is now suddenly needing to work closely with other shareholders. Can this leader thrive in the new environment? Assessment can also be helpful in communicating to an acquired company its importance to the buyer—that the buyer cares enough about the quality of leadership in this company that it invested in this assessment process.

Liberson noted that while assessment is valuable for evaluating individual executives, it is even more critical for analyzing the collective strengths and gaps of the leadership team. "You want to understand the team's ability to function collaboratively, both in times of success and stress."



MDA Leadership's Breakfast Briefing on *Achieving High-Performance Leadership in Portfolio Companies* featured these experts: **Kevin Louiselle**, Executive Vice President, Talent Strategy and Assessment, and Partner, MDA Leadership; **Dennis Liberson**, Independent Operating Advisor and Director; **Jeff Hinds**, Vice President of Private Equity/Principal Consultant, MDA Leadership; and **Andy Cantwell**, CEO and Managing Partner, Carlson Private Capital Partners.

#### Q4: How have you used assessment to align your talent strategy with your overall business/growth strategy to achieve your investment thesis?

A: Liberson shared an example of a home services business with locations in 75 cities, with each business operating as an autonomous entity. The company wanted to build talent across the business, so it assessed the General Managers in each of the 75 cities to determine an "optimal" leader profile, create individual development plans to upgrade skills across the board, and leverage the aggregate data to design a leadership development program for all.

Based on his prior experiences, Cantwell noted the value of doing an assessment of the entire leadership team just prior to the letter of agreement being signed, or just after, to find out what you're really getting, as well as to help determine the business' 100-day plan. Alternatively, he believes it's helpful to assess the key people in the organization responsible for each component of the investment thesis and ensure that the right people are in place for each component.

#### Q5: Why haven't PE firms used leadership assessment processes more frequently in the past?

A: According to Cantwell, that is changing, as PE leaders are increasingly interested in ensuring that they have the best talent in their companies. The knowledge that assessment provides brings additional insight about not only a company's leaders, but also how a PE firm should approach and run the business going forward. Conversely, not having assessment knowledge "can set you back months or years" in realizing your investment goals, he said.

Liberson discussed the competitiveness of the PE business, the time limits involved, and the criticality of getting it right the first time. He noted how in the past, PE was about capital management, but now is also about human capital management.

#### Q6: How is C-level effectiveness different in a PE environment versus a corporate environment?

A: There's a significant difference in these environments, Hinds said, because the time horizon and investment goals are so different. The PE environment needs to be about focusing on the investment thesis and then assessing the talent to determine the ability of leaders to capitalize on that thesis. Assessment will also identify talent gaps and alignment issues and ensure that you have the right people in place, working together, to quickly produce results that achieve investors' goals.

"The relentless drive for results," differentiates PE, according to Liberson, as well as the differences in governance structure in a PE versus corporate environment. He noted how in a middle market portfolio company, the top talent is typically at just the top two levels versus potentially multiple layers of quality talent in a corporate environment. Since the bench is not as deep, it often increases the need to look for outside talent

Cantwell noted the challenge some corporate executives have in stepping into a less mature company environment than what they've most recently experienced and suddenly now doing work they may have done much earlier in their careers. It's the challenge of going from a strategy orientation to an execution-type mindset. Not everyone can do it.

### Let's Connect

To learn more how MDA Leadership's private equity experience can benefit your organization, please contact us at +1 (612) 332-8182 or by e-mail at [info@mdaleadership.com](mailto:info@mdaleadership.com).

<sup>1</sup> Dave Ulrich and Justin Allen, "PE Firms Are Creating a New Role: Leadership Capital Partner," *Harvard Business Review*, August 2017, <https://hbr.org/2017/08/pe-firms-are-creating-a-new-role-leadership-capital-partner>



MDA Leadership Consulting  
225 South Sixth Street, Suite 5000  
Minneapolis, MN 55402 United States  
+1 (612) 332-8182

[www.mdaleadership.com](http://www.mdaleadership.com)

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