

Industry Spotlight



Private Equity

Talent: Your Biggest Investment

Introduction

The success of any private equity firm is driven by two major factors: capital and talent. From the ranks of your newest portfolio company to your 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.

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 the market for C-suite talent had become turbulent.¹ And now? Median hold times are at a record high of seven years,² making effective portco leadership not merely valuable but imperative. Meanwhile, the ongoing retirement boom—with an average of 10,000 people reaching age 65 per day—amplifies the need for a strong succession planning strategy and early leadership development. Sustainable, long-term growth, whether in the firm or the portfolio, depends on your ability to ensure leadership continuity during times of disruption.

And disruption is plentiful. Right now, leaders across industries must contend with a wide variety of talent challenges: the ever-widening skills gap and global talent shortage;

tension regarding diversity, equity, and inclusion; employee engagement that has dwindled to a 10-year-low;³ 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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The Hogan Assessments

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 portcos with talent management strategy in a variety of ways.

Hogan's personality assessments are the industry standard for predicting future job performance.

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.⁴

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.⁵ 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.⁵ Just one complicating factor is the high rate of portfolio company C-suite turnover, particularly among CEOs and CFOs.⁶ In fact, about 75% leave, and more than half of those departures are unplanned and disruptive, occurring within one to two years of the acquisition.⁶ 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—

Don't leave major decisions up to conjecture when you can make them with evidence.

when facing adversity or pressure. Understanding the nuances of the potential portco'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.

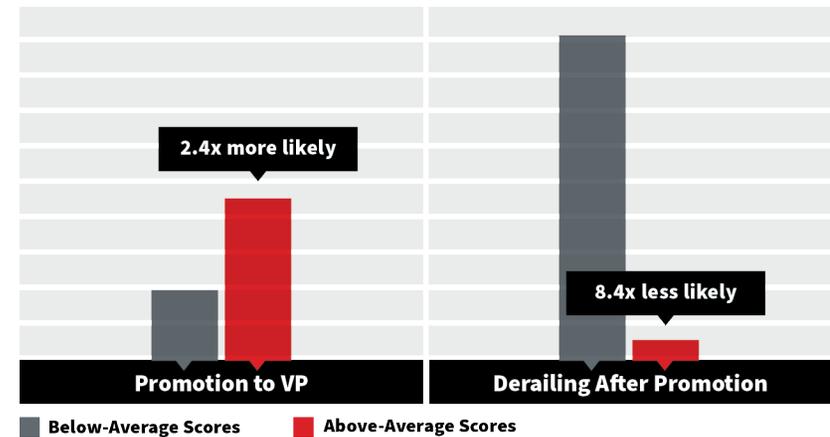
Should you discern that leadership team changes need to be made, Hogan can help you pinpoint the personality characteristics most likely to lead to success to target your executive search.

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Case Study 1 - Identifying Leaders Who Excel Under Pressure

When a retail client asked for Hogan's help in appointing more effective leaders to manage teams across business units, the profile Hogan created identified leaders who were **more than twice as likely** to be promoted to vice president and **8.4 times less likely** to exhibit counterproductive behaviors after promotion.

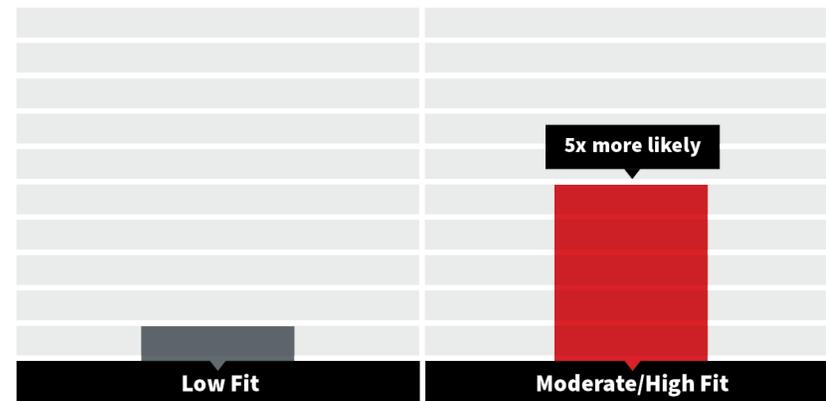
► Overall Performance



Case Study 2 - Selecting High-Performing VPs and SVPs

When Hogan created vice president and senior vice president profiles for a global logistics company, leaders who scored high or even moderately high on the profile were **five times more likely** to be rated as high performers overall, compared to those not meeting the profile.

▶ Leader Potential



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 create value faster. Describing his experience with Hogan as a then-partner at ParkerGale, 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, a data-driven 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.



“Hogan helps helps us create clarity throughout the organization, so that we can drive the business forward.”

Jimmy Holloran, former partner at ParkerGale

Acquire and Develop Talent at All Levels

The people in the upper echelons of an organization aren't the only ones who create value. In today's rapidly changing talent market, it's more important than ever to support portfolio companies in their talent management needs at every organizational level—not just at the top.⁷

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,⁸ 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.

Hogan has solutions that can streamline the hiring process for nearly every job in the modern economy. We can tailor projects for the role and organization to screen candidates based on multiple layers of data. Hiring managers can 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.⁹ That's one major reason why the most effective private equity firms are talking turnover much earlier in the due diligence process.^{6,10} 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 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. In fact, a 2023 study published in *Strategy*

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Science showed that turnover rates among acquired hires are significantly higher, relative to regular hires.¹¹ Worse, some employees who leave after an acquisition may even move on to become competitors.¹¹ But on the bright side, 94% of employees report that they would be likely to stay longer if a company invests in their careers.¹²

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.

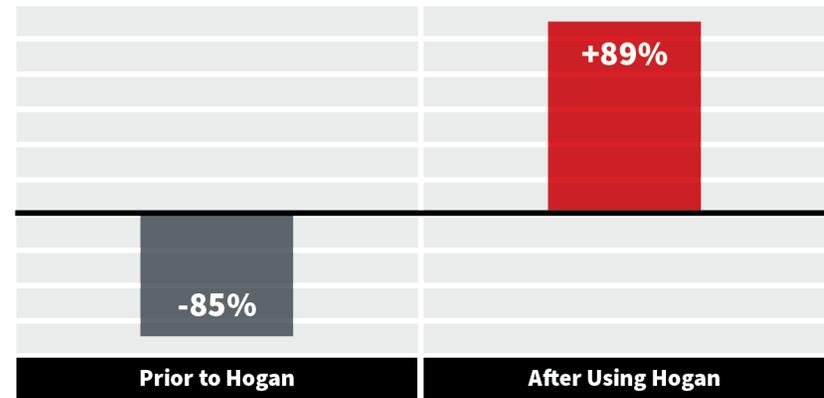
If a portfolio company is already experiencing high employee turnover, Hogan can help improve retention by collaborating with you or your portfolio company to identify the characteristics that lead to success for the role in question, then target selection efforts for the role.

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.

Case Study 3 - Reversing Employee Turnover

Hogan once helped a manufacturing client develop a custom success profile for an entry-level role in which employees were turning over at an annual rate of 85%. Within just one year of using the profile, the company had **retained 89% of the employees** who were hired with the profile—that's **an improvement of 174%**.

► Improved Retention



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 13 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 what distinguishes private equity leaders, we compared these results with those of leaders across industries. 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 give 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.



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.

Ready to get the most from your talent investment?

Email info@peterberryconsultancy.com

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