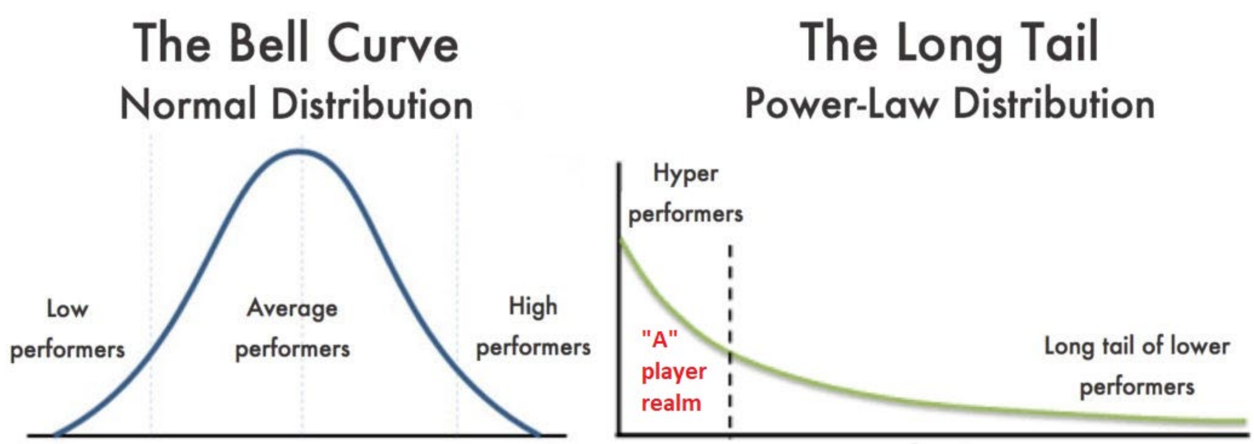
80/20 Leader*Shift*: Linking Talent to Value

by Joe Hunt

The best executives are masters at applying 80/20 principles in the business to drive and deliver value creation. In most businesses, 80% of the profits come from 20% of the products, and 80% of the value is created by 20% of the people.

I'll assume everyone reading this is familiar with the 80/20 rule, aka Pareto Principle, so short of the graphic below, I won't spend time explaining the principle. Suffice it to say, that I'm in the business of recruiting "A" players and an "A" player is defined as a person who is in the top 10-20% of his/her peer group. By peer group I mean, compared to people doing the same or similar job at a competitor or similar operating company. In our business ecosystem, and considering the population as a whole, "A" players are typically <1% of the total US population. You must have "A" players in every critical role and in as many jobs as possible. It's every managers job to cut off the long tail of "B" and "C" players and redeploy them. Preferably to competitors.

The opportunity costs to the enterprise and stakeholders of not having "A" players in every key leadership role is many millions of dollars. This is equally as true for bloated multi-nationals as it is for middle market PE portfolio companies. Despite this fact, most executives fly by the seat of their pants, rely on their good old boys' network, or worse, their intuition, and settle for good, which is at the expense of best.



How do you determine which jobs and ultimately which people are most important in realizing the 80/20 in the human capital realm?

The answer is simple, hire my firm to do all your critical executive hiring. (Not kidding) But you need to be able to do some of it yourself. In service of both, I'll provide an substantive overview of the Leader*Shift* Architect process of Linking Talent to Value in this article, then follow with a monthly series of subsequent articles breaking down how to do this in each of the functional verticals including: General Management (CEO, president, board), Commercial (sales, marketing), Product Supply (supply chain, manufacturing, purchasing) and Administrations (finance, HR, IT).

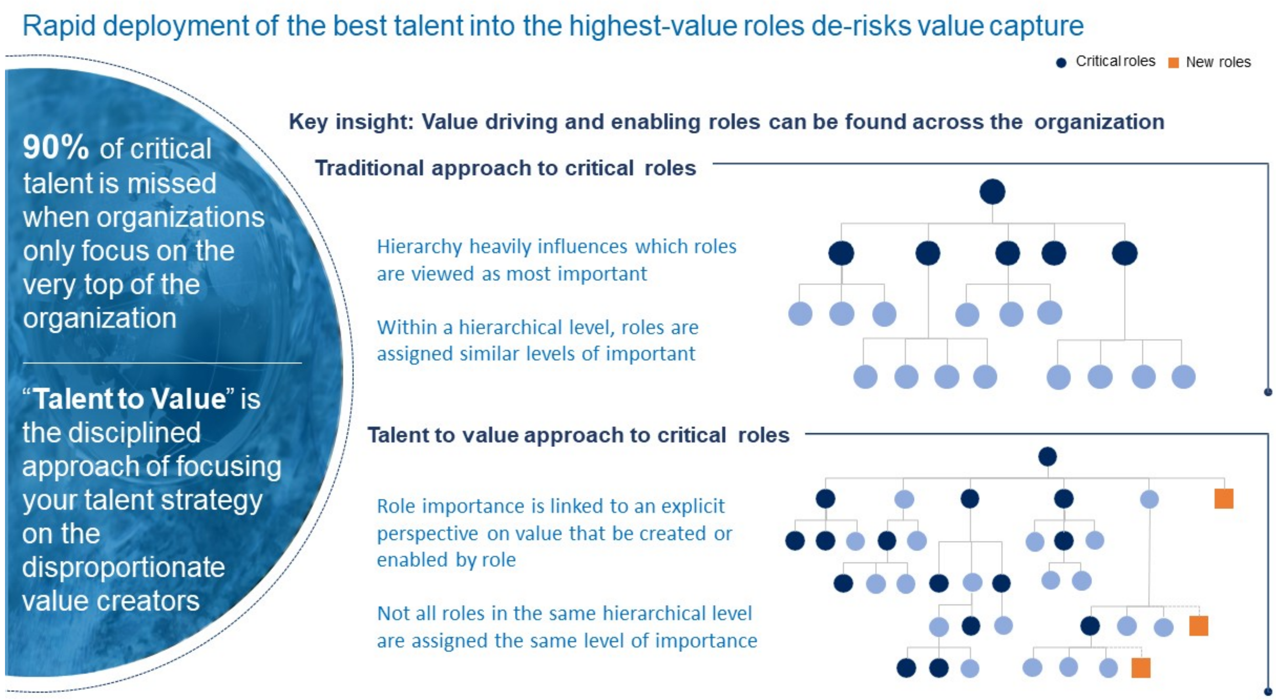
"LeaderShift is the New Bottom Line" ~ Joe Hunt

We developed our Leader*Shift* Architect to help streamline, standardize and assure proper execution of the best practices required to win in the war for talent. Leader*Shift* requires a disciplined look at where the organization really creates value and how top talent contributes in every role.

Disconnects between talent and value is risky business—and regrettably all too common. Gaining a true understanding of who your top talent is and what your most critical roles are is challenging to say the least, but nothing worth doing is ever easy. If it was easy, everyone would do it, and it wouldn't be a competitive advantage. Executives often use hierarchy, relationships, or intuition to make these determinations. They incorrectly assume that the most critical roles are always the senior executive team, but not inclusive of several layers below the CEO. Critical positions and critical people are found throughout an organization.

Companies can best connect their talent and their opportunities to create value by using quantifiable measures to investigate their organizations' nooks and crannies to find the most critical roles, whether they lie in design, supply chain, sales/marketing, finance, or any other discipline. They can define those jobs with clarity to ensure that top performers with the appropriate skill and will, fill these roles and maintain a "virtual bench" for ready now succession.

The leaders at such companies understand that allocating talent to the highest-value initiatives is equally as important as allocating capital. Leader*Shift* is not an annual or reactive exercise: it's a continuous and never-ending, highest-priority discipline. That's a debate the deal team and leadership should be having, early and on a continuous basis.



So, you either kept the management team you inherited or brought in some new leadership from outside the company and things are way off target. How do we course correct by doing a better job linking talent to value?

Historically, most people take a purely top down view. We look at the CEO and their team. The problem is that when you map the value agenda or VCP to your organization, and you dive deep to ask the questions around, who am I betting on? The larger the organization is and/or if you're building a platform, the less likely the person exists on the existing list.

The chart at the bottom of the graphic, especially in a upper middle market or larger organization, is the chart that you need to understand.

If you're an experienced deal team member or senior executive inside a company, no doubt you've experienced the moments when you've been in a deal for a while and realize that the person that you were relying on to crack some new customer relationship, is not on the management team. But it is a critical, pivotal role.

Getting a handle on that earlier and managing that list is the key to managing talent to value.

I'm not suggesting the other jobs are not important. You have to have effective span breakers; you've got to have strong functional leaders. Its true, authority rolls up, and the senior person is always accountable, but unless you penetrate down to the critical roles, you aren't going to maximize the discipline you bring to the value creation plan.

Steps to follow: 1.) Understand the value agenda. 2.) Identify the most important roles. 3.) get the right talent in roles, operationalize and mobilize.

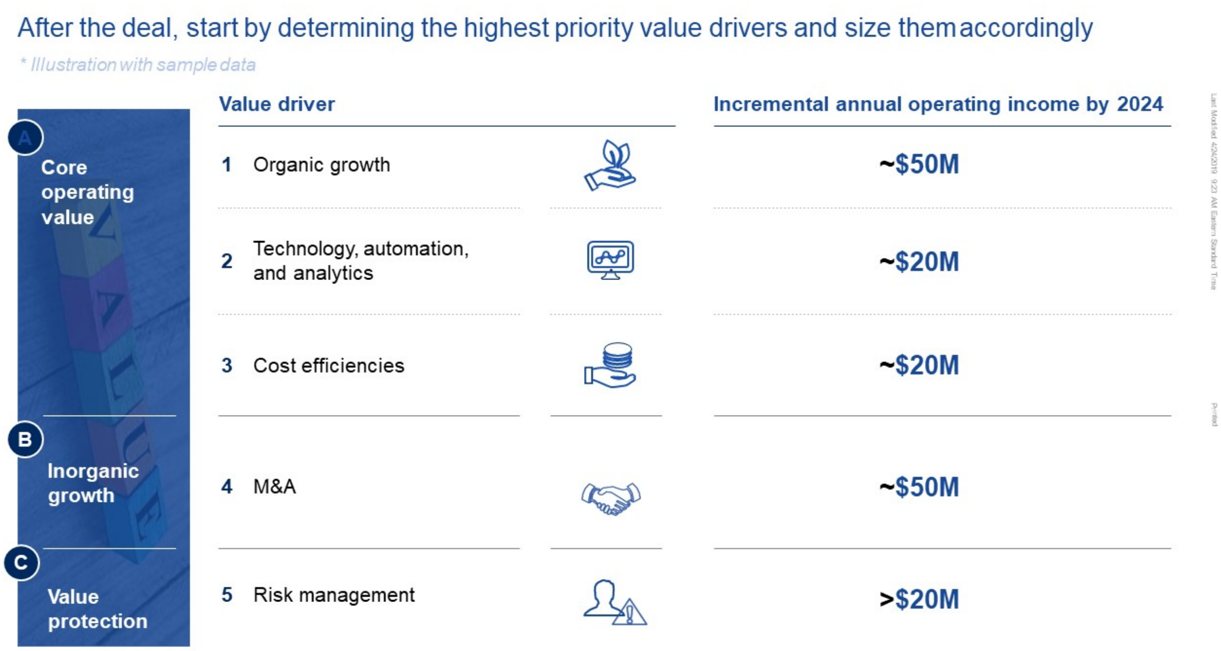
Value Creation Plan

A VCP is comprehensive compared to the investment thesis. This article doesn't provide the opportunity to get deeply granular, but suffice it to say there is a method to the madness, that all starts with a paradigm shift around talent. The best athlete is rarely the right person for the job in a PE portfolio company or in most companies outside the Fortune 500. The first thing time needs to be spent on is to deeply understand each job as it relates to the value creation plan.

You can only link talent to value if you are crystal clear about your value agenda or value creation plan (VCP).

There are typically about ten levers to push and pull in value creation. To illustrate the point, let's look at some of the universally common ones and rank value order with some assigned value in a middle market example.

Organic growth of the business of ~$50M, factoring in cash flow and capitalized assets, etc., ~$20M through technology, automation and analytics, ~$20M through cost efficiencies, targeted add-on through acquisitions of ~$50M, risk management, ~$20M, and supply chain, ~$20M.



All totaled, this represents $180M in improvements, which equates to ~$1.8B in capitalized value.

These and other levers need to have a crystal-clear focus and concrete agreement with the management team about what the agenda is. With the VCP in place, you should start the Leader*Shift* Architect work pre deal.

Talent Before and After the Deal

The best strategy is to assess, and address talent needs early and often throughout the investment cycle. I've read multiple studies and reports that analyzed hundreds of PE deal returns, and the data clearly demonstrates that 80% of returns came from deals that hit their first-year targets. We see this over and over again. **Some might say, we have a long-term thesis, so why is hitting the first-year numbers so important?**

If you don't hit the first-year targets, you have to catch up on the hockey stick you've already drawn, but more importantly, you've indicated that the capability that you're betting on isn't entirely there.

Who do we really rely on to hit those targets and capabilities? For years, this has been a CEO dependent decision. We picked the CEO and the CEO picked the right team.

Board and PE Partners ought to be pretty good at picking the right CEO, since they've been focusing on that one hire for so many years. Many new PE clients claimed to be pretty good at selecting CEO's, but when we dug in, we learned that on average only 44% of the CEO's they started with made it to the liquidity event. The average CEO lasted <2.3 years. If we're being proactive, 50% of the time, two years in, were replacing the CEO.

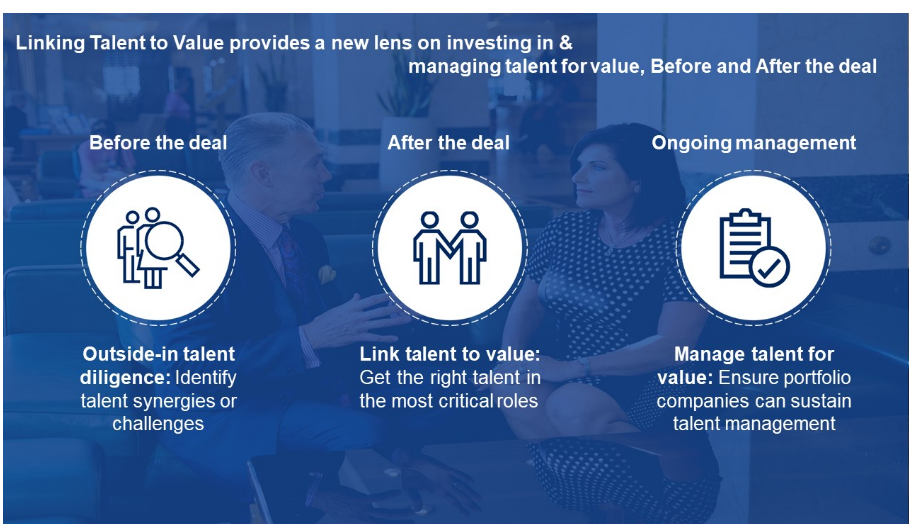
Getting this decision wrong, cost many multiples of the CEO's package.

What's the problem pre deal?

The problem pre deal is that we don't really know the management team. They are lined up during due diligence to tell the deal team they have experienced, nothing but success and they expect that to continue, because they work together as a well-oiled team and sing kumbaya every morning and night.

The M&A deal team can't probe quite as much as they want, because they're competing for the deal. Challenging their cohesiveness and expected future state and expressing concern or challenging their operational discipline can be insulting in this phase and not a conversation you can often have pre deal.

The good news is that there is plenty of data out there that can aid us in this process. I'm brought in with some PE clients as a 3rd party to assess the team either directly or indirectly. Often, I'm able to interview top team members as part of the pre due diligence, but just using LinkedIn, combined with other information sources and a little cooperation, can provide a semi-solid data set to assess the viability of the team.



What can you do with that? Is it possible to analyze this company independently outside in? What's their headcount? How is it changing? What is the breakdown by employee in job families, spans and layers? What's their experience level?

This can be viewed outside in.

Based on available data online in comparison with the people they have to compete with, we can start to score them. Not necessarily on how good they are, but how much their proven experience is going to make it easy, likely or predictable for them to do what you're about to ask them to do. This is a much more nuanced question.

You can see for every one of these people vs. the VCP, you'll notice that there are some things that should seem pretty natural for them. They have experience doing similar work and they seemed to succeed. Then there are areas that appear to be totally new.

Let's look at the supply chain lever. Today, supply chain is the great competitive differentiator. Just the $25M in supply chain improvements equates to $250M in capitalized value. No one on the scorecard or the downline appears to have the experience, so who are we going to be able to rely on to deliver that?

The current people can only be expected to run the supply chain like it's been run for the past ten years. What are the chances the current team is going to radically reinvent the supply chain?

It's not zero, but I don't think most of us would bet on it. We certainly would not bet on it vs. the best person in the world.

In this case, the best person in the world, the person who ran the supply chain that we aspire to emulate, costs twice (2X) as much. Say $350K vs. $225K for $250M in value.

If you can tell me, how quickly we redeploy capital, how good we are at getting great people in our most important jobs, and whether the culture is working, you're not going to get surprised on performance very often.

Leader*Shift* Architect Investment Process to Talent Management

Employing a Value Creation Lens

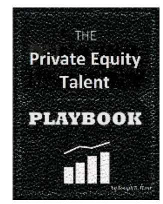
We believe it is critical to have a game-plan and strategy to assess talent, agree on thesis, hire talent, execute rapidly and drive accountability…	
Search Function	*Capability / Assessment*
Due Diligence	➢ Investment thesis ➢ Value creation plan ➢ Clear understanding of roles and responsibilities
New Team Management Assessment	➢ Capability gap analysis ➢ Strengths and weaknesses ➢ Team dynamic ➢ Collaboration
Search Management	➢ Preferred providers (Hunt Executive Search) ➢ "Drive the process" ➢ Fees to equity, coinvest (skin in the game) ➢ Candidate network
Finalist Assessment	➢ Forensic referencing ➢ Structured interviewing ➢ Psychometric testing
Onboarding	➢ 100 day plan ➢ Expectation setting ➢ Board support
Senior Team and Board Effectiveness	➢ Managing by Objectives (using KPIs) ➢ Coaching ➢ Board support ➢ Exit readiness ➢ Compensation and organization development
Focus on diverse candidate slates for every senior need, at both management and board level, because statistics dictate that companies with diverse management and board outperform the mean	

The graphic above is pretty self-explanatory, in describing our approach to PE portfolio talent strategy.

I ask my PE and corporate clients, why they don't bring the same data, discipline, rigor and process to align talent to value as we bring into finance, strategy, operations, or marketing? We hear, we know it's every bit as important, but it's really hard. We don't have a history, set of data, process or system in place. There's no time, we're bogged down with deal flow, financing and putting out fires.

How do you 80/20 the organization to get the right talent in the roles?

In next month's Leader*Shift* Insights we'll dig into real-world examples that best describe Leader*Shift*, and follow the journey of a CEO we placed at a consumer-products client, who was hired to achieve dramatic revenue growth. This effort demanded reimagining how the company generated value and then redefining critical roles and the people who filled them.



About the Hunt Group

The Hunt Group is the leading human capital and private equity advisory specializing in consumer goods & services, diversified industrial and related professional services markets. We apply our market mastery and expansive executive network to the human capital realm, working with multi-nationals, PE, private, and family owned companies. We partner with investors throughout the deal cycle to help them Invest in, Grow and Exit their portfolio companies by appointing senior operating executives (CEOs and Direct Reports), Chairs and Outside Directors with Private Equity DNA. Our industry and functional vertical connections and engagement guarantees we're in the know, have broad insight and full access to the best talent in the marketplace. Our mission is to create and exponentially grow accretive value for all client stakeholders.

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Contact Joe Hunt

New York Office: 212-861-2680
Charlotte Office: 704-696-3200
Email: joehunt@huntgroup.com