PRIVATE EQUITY

Tenth Annual PE Leadership Survey

Leadership Under Pressure: Aligning Growth and Efficiency

A quick look at the main insights in this year's

PE LEADERSHIP SURVEY

In the pages that follow, we look more deeply into this year's survey findings, exploring the biggest challenges confronting PE and portco leaders, and what leading firms and practitioners are doing to address them.

This is the 10th year AlixPartners has published a research report on leadership focused on private equity (PE) firms and their portfolio companies (portcos). The first of these reports focused on CEO succession by identifying the usual practices—and the best practices—in finding and developing the next generation of top executives. Since then, the study has broadened to include topics like culture, adaptation to disruption, and leadership strategies for the first 100 days.

In the decade during which we have conducted this research, we have frequently documented the increasing importance of leadership and talent management to the PE industry and the companies in which the industry invests. During this period, many factors have risen in prominence and they have come together to make human capital more valuable in creating tangible value. Several pertinent examples are:

- **The growing impact of disruptive trends and events** (technological, geopolitical, and demographic kinds, and so on) that require creative and strategic leadership actions
- **Longer hold periods**
- **Large amounts of dry powder**—that is, uninvested capital, which reduces the competitive advantage of "mere" money
- **The growing dominance of add-on strategies**, which require managers to perform sophisticated organizational work
- **The proliferation of tactical value creation**—especially during disruptive markets—with carve-outs, tuck-in acquisitions, growth initiatives, and technology modernization leading the way

As a result of these trends, PE executives have consistently said **leadership effectiveness has become the most important lever** for creating value in their portfolios.

Through the course of time, we have become increasingly drawn to the dynamics of the relationship between PE firm leaders—deal partners, operating partners, and human capital partners—and portco executive teams. We have become convinced that there are many opportunities to leverage relationships in ways that will improve portco performance—and thereby increase PE firm returns as well.

This year, we heard from 361 PE and portco executives, who told us their priorities, described the pressures they face, gave their opinions about the importance of leadership and their evaluation of their own leadership capabilities, and listed ways things could be improved.

KEY FINDING #1:
PE Firms and Portcos Have the Same Goals—But Disagree About How Well They Are Doing

The goal of PE firms is straightforward: They buy companies expecting to sell them at a later time with improved enterprise value. Achieving that result begins with finding companies with unrealized potential and developing a deal thesis—the animating idea for value creation, usually a transformative combination of cost cutting, organic growth, strategic talent and operational upgrades, and additional acquisitions.

But most of the value creation—turning the thesis into outcomes—happens during the multiple years of ownership, and that in turn depends on hard work by leadership and management in the form of a combination of strong and effective portco executives and collaborative support by the owners and investors, usually through operating partners assigned to oversee particular portcos. Bottom line, it's all about sustained discipline by all parties to execute value creation and realize tangible impact.

Although PE firm and portco leaders disagree about many things, they understand the fundamental assignment. For both groups, the top three priorities—and challenges—are achieving top-line growth, meeting value-growth targets and milestones, and improving margins through operational effectiveness. Not surprisingly, PE firm executives are more emphatic about the importance of those financial results—because they are investors first and foremost—but both groups know what's most important.

Most significant challenges over next 12 months?
Same as last year

		PE	PORTCO
#1	Driving top line growth	62%	43%
#2	Meeting value growth targets and milestones	59%	45%
#3	Operational effectiveness/ margin management	49%	44%

Leaders at PE firms and portcos also agree about the importance of their alignment on goals both from the beginning and throughout the holding period. More than four out of five portco executives (85%) say they understand their investors' performance expectations very well or extremely well even pre-deal. A similarly large majority of PE executives say a target company's leadership team is an increasingly important element—50% say a critical element—in the development of a deal thesis.

Aligned on intention they are—but they are often unaligned when it comes to results. In a survey of 158 European PE firms conducted by **IPEM in collaboration with AlixPartners**, 92% said 2025 will be a good year for portfolio management and improvement—better than for dealmaking and more than two times better than for exiting. Everywhere in the world, PE firm leaders want stronger performance—and at a faster pace. Half (51%) say financial performance is a significant source of tension with portcos. Virtually the same number (52%) say they wrangle with portcos about achieving financial targets within specified timelines.

Perhaps as a result, a substantial number of PE firm leaders question the quality of portco management. A startling 41% of PE executives told us senior portco leadership—its quality, its retention, and its succession planning—will be a significant challenge in the year ahead. Only 13% of portco executives said the same. That's not just a point of misalignment; that's a problem.

KEY FINDING #2:
Different Means to the Same End: Where PE and Portco Leaders Diverge

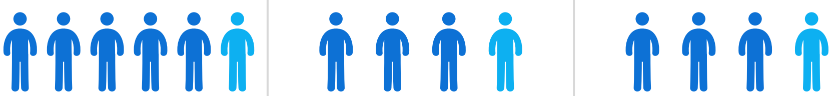
Even though PE firms and portco goals are aligned, the entities have different jobs. For PE firms, job number one is allocation of capital—meaning finding and buying targets and, often, infusing additional capital into portcos for modernization, growth, or further acquisition. PE firms create value through deals. For portcos, the job is using that capital well: putting in the right new technologies and using them effectively, finding and keeping customers, and continuously reducing general and administrative costs as a percentage of sales. Portcos create value through enhancement of EBITDA (earnings before interest, taxes, depreciation, and amortization) performance—ideally, expanding EBITDA multiples in the process.

Different roles lead to different priorities. For example, portcos are five times more likely than PE firms to say cybersecurity is a top challenge, three times more likely to say their supply chain is a top concern, and three times more likely to say company culture is a top challenge. PE firm executives, for their part, are 20% more likely to worry about macroeconomic issues, 45% more likely to worry about portcos' ability to manage debt, and—as noted earlier—three times more likely to wonder whether portco leadership is up to the challenge of meeting targets .

> Given current uncertainties undermining many pillars of private equity, the priority is now to accurately address value creation programs focused on lowering breakeven points, assessing how risk factors are changing, and relying on execution by experienced leaders."

Lorenzo Pietromarchi
Partner and Managing Director
AlixPartners | Milan

Portcos are more concerned about management issues than PE firms are

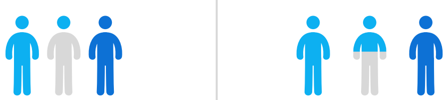


5 | 1
Cybersecurity

3 | 1
Culture

3 | 1
Supply chain

PE firms are more worried about economic and financial issues



1.2 | 1
Economic growth

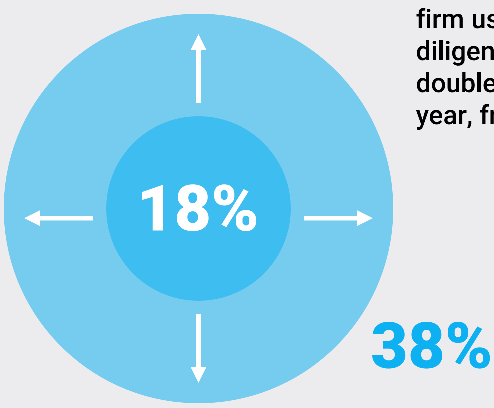
1.45 | 1
Managing debt

Portco leaders

PE firm leaders

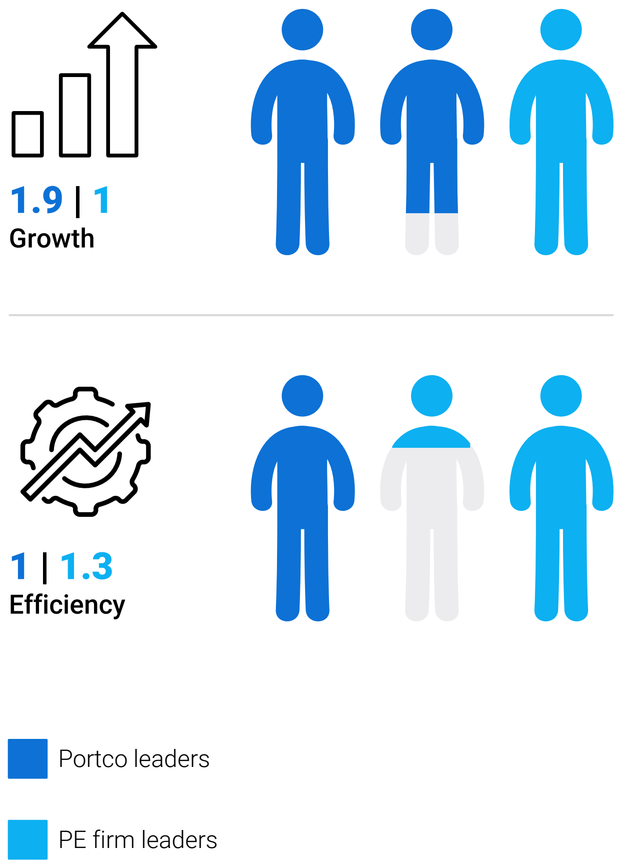
Artificial intelligence (AI) illustrates how the different emphasis plays out. AI is the number one technology priority among PE-owned companies, according to the AlixPartners Disruption Index, a nose ahead of data security and privacy. Asked what they are using AI for, portcos say growth-enhancing activities such as improving customer service and insights, innovation, and marketing and sales force effectiveness over cost measures (improving operational efficiency) by almost 2-to-1. By contrast, in a ratio of 1.3-to-1, PE firms want their portcos to emphasize efficiency over growth. Interestingly, PE firms themselves are aggressively adopting AI in their operations—especially in due diligence, the crucible where opportunities for cost savings and growth investments get proved out via detailed analysis of a target company's books. The percentage of PE executives saying their firm uses AI in due diligence more than doubled in the past year, from 18% to 38%.

Inorganic growth is another area in which portcos and PE firms' different roles result in different kinds of priorities and pressures. A large majority of PE strategies are predicated on a series of acquisitions—platform plays, roll-ups, and the like. You'd think that PE executives, who find and make those deals, would say inorganic growth is more of a challenge than portcos would. But no: Portco executives are two and a half times more likely than PE leaders to say that inorganic growth is a major challenge. Why? Perhaps because the difficult, painstaking efforts to make a merger work fall to portco leadership—in the forms of merging legacy technology systems; bringing different cultures together; making often emotional, even gut-wrenching decisions about who should stay and who should go; reorganizing executive teams; and **integrating commercial activities** such as account coverage and salesforce incentives—all of which must be done within the compressed timelines of PE and, often, done multiple times as add-on strategies get executed.



The percentage of PE executives saying their firm uses AI in due diligence more than doubled in the past year, from 18% to 38%

How should portfolio companies use AI?



The different roles of PE firms and portcos—ownership and management—can often lead to serious misalignment between the two. In the area of financial performance, PE firms experience tension quite often—2.8 times more than portcos do. But by the exact same margin, portcos say misalignment in talent strategy creates tension with their PE firm. And though execution in the form of fast financial results is the number one source of tension, in many cases, ownership and management are not agreed on strategy, with portcos almost 50% more likely to say that strategic misalignment is a source of tension.

It all adds up, in PE firm leaders' minds, to doubting the capability of the leadership team: 52% of PE leaders say the quality of portco leadership causes tension and misalignment between them.

Madalyn Miller
M&A and Carve-out Advisor
AlixPartners | Dallas

Leadership and Operating Model: Two Sides of a Coin

In the days after a deal closes, operating partners wrestle with two big portco leadership challenges: first, how to retain—and even advance—the best talent, because great leadership is the surest way to great results, and second, how to cut ties with weak management quickly enough, because nothing damages a deal more than an ineffective or slow-moving executive team.

Remembering that those choices are inextricably intertwined with strategy and operating model is important. A conversation we often hear—in which operating partners press for changes in portco executive ranks, and portco leaders push back, saying it would take too long to bring a new person up to speed—often misses that point. In many cases, particularly at founder-led companies, a portco's organization was built around the talents of a few key individuals, some of whom are not likely to stay; that organization will have to be redesigned.

Many companies have outgrown—or will soon outgrow—the structures they have now. Many times, the current operating model was designed to support a strategy that is going to change or is no longer effective. Changes like these often require difficult decisions about leadership.

However, you cannot know who should fill the boxes on an organization chart until you know what needs to be done and therefore which kinds of boxes are needed. Going through that exercise can be extraordinarily revealing, and not just about structure. Maybe the CFO isn't the best talent to lead you through the next phase, but here's a head of financial planning and analysis who has what it takes to step into the CFO role; or maybe there's a product GM that would make a great COO of Engineering. Replacing top talent doesn't always mean looking outside for new talent – sometimes it means looking for someone who has the skillset to play up in your organization.

KEY FINDING #3:

PE Ownership Creates a Pressure Cooker for Leaders

PE has a reputation for being tough—even ruthless—about cost, unrelenting about performance, impatient about pace, and therefore hard on leadership. This year's survey added new insight into what it's like inside the PE pressure cooker. We supplemented the survey with data collected for the AlixPartners Disruption Index, a survey of 3,200 senior executives worldwide, among whom 989 (31%) had at least significant PE ownership.

Most companies report high levels of disruption because of global trade problems, technology changes, climate and energy issues, and so on, but those with PE ownership are much more likely to say they face disruption to an extreme degree: Measuring disruption on a nine-point scale, with nine being the highest, 22% of PE-owned companies report an eight or nine compared with 12% of corporates. Executives in PE-owned companies also say they are much more likely to drive disruption, not react to it. Forty percent say they always or usually drive disruption in their industry, and 30% usually or always react to it. It's the opposite for corporates, among which 28% drive and 36% react.

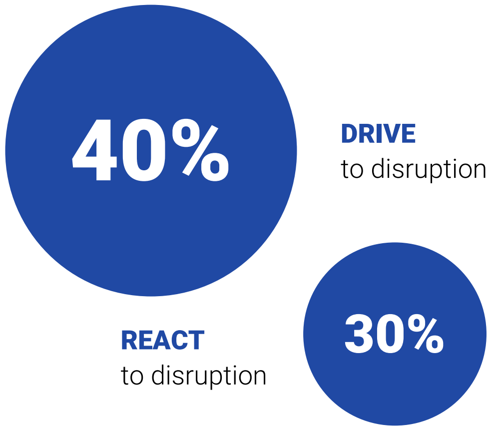
Although certain other groups of companies are even more likely to say they drive disruption—among those in the top quintile of revenue growth, 63% always or usually drive disruption—the PE industry stands out for the demands disruption makes on leadership teams.

Put simply: Portco leaders are likely to be asked to do more difficult things than their peers in public or other private companies are. Nearly half—47%—of portco leaders say their companies will make significant business model changes in the coming year versus 27% of executives in companies with no PE funding. PE-owned companies are 50% more likely to expand geographically. They are 45% more likely to be changing capital structure. 7 out of 10 will pursue material acquisitions versus 4 out of 10 corporates. And they are twice as likely to plan material divestitures: 46% to 23%.

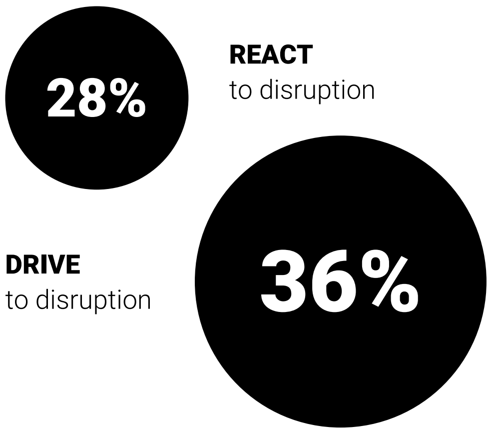
That's a daunting agenda.

Executives in PE-owned companies also say they are much more likely to drive disruption, not react to it

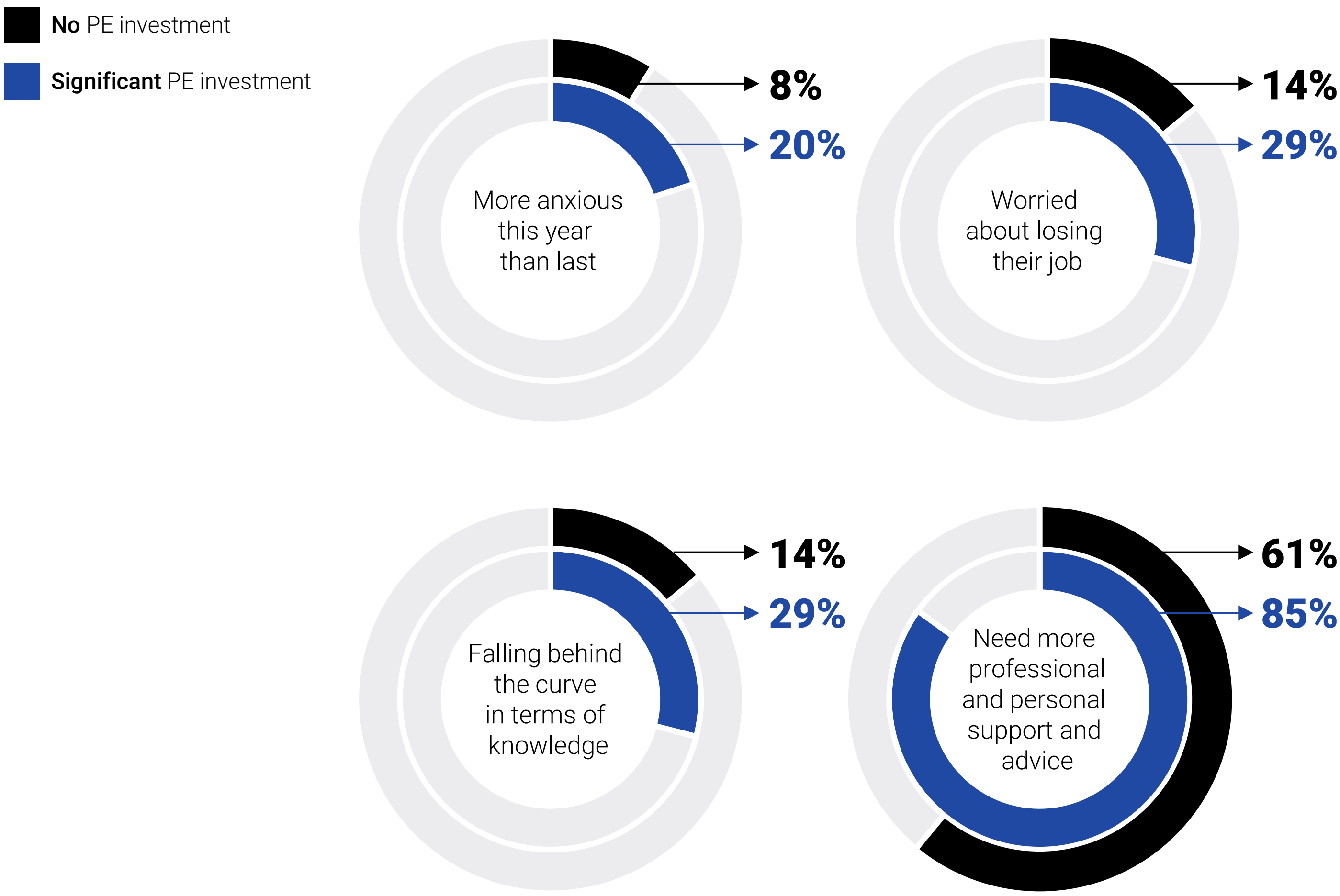
Significant PE ownership



No PE ownership

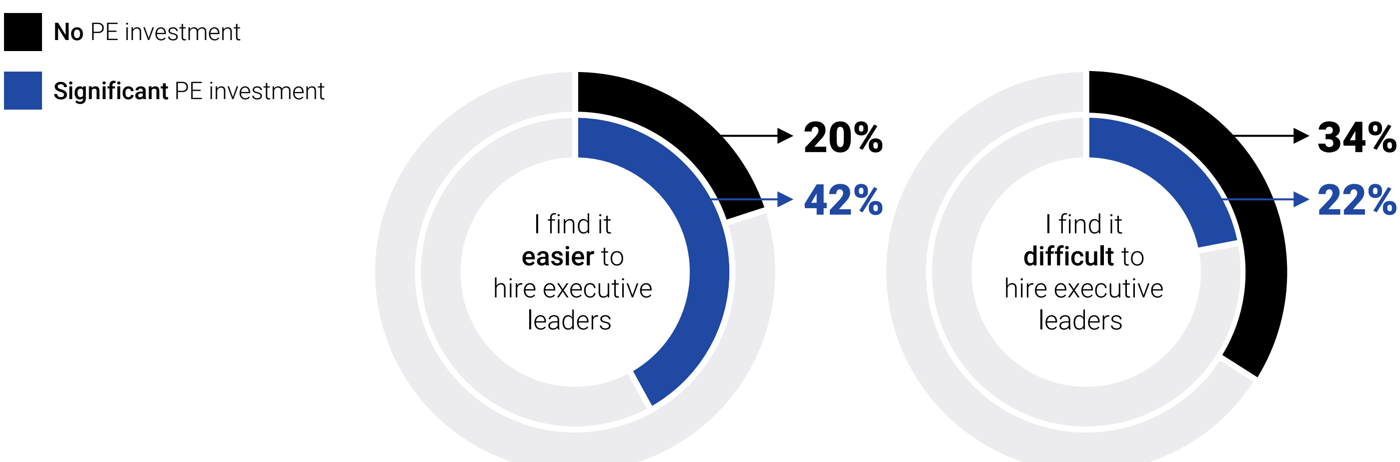


It's no wonder 61% of portco executives find it increasingly difficult to know which disruptive forces to prioritize, whereas just 34% of corporate leaders say the same. And we shouldn't forget the human side: this agenda takes a toll when it comes to portco executives' anxieties, worries, and needs for support.



Yet they want to come and hope to stay

PE-owned companies say they have much less difficulty finding executive leaders than other companies do. In addition, 58% of portco leaders tell us they hope or expect to stay with their company throughout its holding period, and an additional 33% want to stay thereafter—a total of 91%.



Jason McDannold
Americas Co-Lead Private Equity
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How to Get Time on Your Side

Investors commonly push portco leaders for accelerated value creation plans, and they expect results. That pushing can put a great deal of pressure on the portco leadership team as they navigate difficult decisions on what to do and when to realize meaningful impact.

We see several key things portco leaders can do to get a head start, achieve a greater sense of control, and get time on their side:

01 | ACT QUICKLY ON COMMERCIAL VALUE ACCELERATION.

In an article in Harvard Business Review, we described three areas in which companies can move quickly and tactically to increase sales and profits fast: improving commercial effectiveness by optimizing market intelligence, segmentation, and sales coverage models; raising marketing return on investment (ROI) by taking a clean sheet approach to marketing spending, and allocating spending according to the priorities in the deal thesis and improving lead management; and moving quickly to reduce customer churn and increase share of wallet. Commercial value acceleration is something that shouldn't wait because the opportunity cost is too high.

02 | PRACTICALLY DEPLOY AI TO ACHIEVE COST AND REVENUE IMPACT FASTER.

AI is proliferating across portcos to drive operational efficiency and effectiveness, to enhance go-to-market capabilities in a very real way, and to improve PE firm and portco performance across the entire deal cycle. AI makes it more efficient and economical to go after tail spend; AI can quickly identify suppliers that are at risk or underperforming; and, AI can help manage the receivables end of working capital. AI will deliver rapid bottom-line benefits.

03 | BEGIN WITH THE EXIT IN SIGHT.

You worked with your PE firm to develop a deal thesis, and implicit in that deal thesis was a path to value realization—a vision of what the company would look like when the time comes to sell. It's easy for leaders to get so caught up in the day-to-day and quarter-to-quarter logistics that they forget that. Don't. Instead, constantly revisit the deal thesis and work backward from it to what you should be doing now.

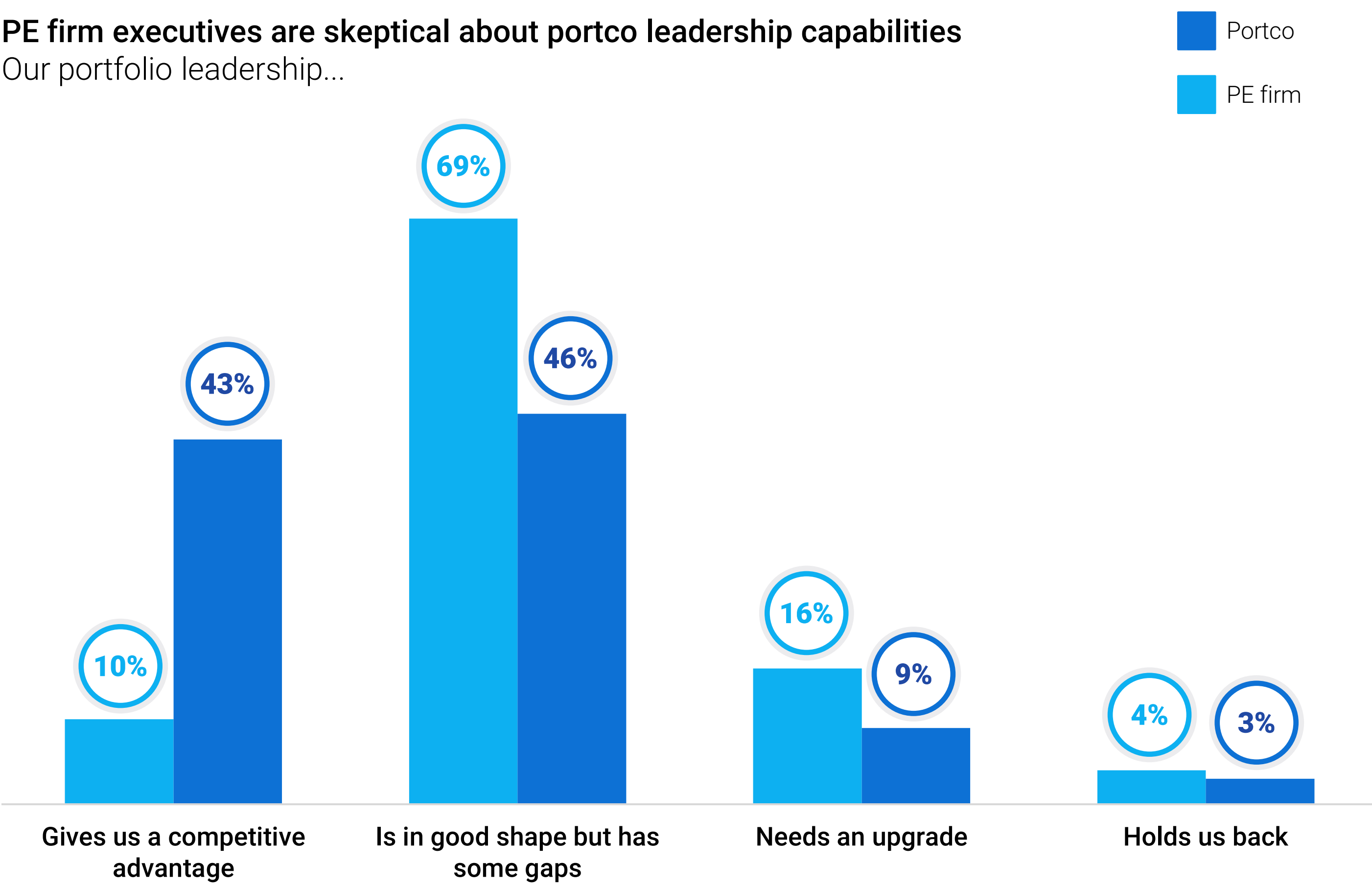
There's no escaping the fact that leading a portfolio company is tough work, and the foregoing three points are not panaceas. The main objective here is to help you take command of the agenda so your investors don't take command for you. That means you should focus on proactively identifying and driving value from Day One, with accelerated value realization as your North Star.

KEY FINDING #4:
PE Firms and Portcos Can Do More to Support the Work of Leadership

Since we began conducting this study 10 years ago, the importance of executive leadership, talent management, and culture in the PE industry has continued to grow. So, too, has the industry's recognition of that reality. But PE firms and portcos have major differences of opinion about the quality of leadership, and there are big gaps between what they could do to strengthen leadership and what they are doing.

PE executives have less confidence in their portco management teams than those teams have in themselves. More than 4 out of 10 portco executives say their leadership team provides a competitive advantage, but just 1 in 10 of the owners say the same—though 69% say portco leadership is in good shape for the most part.

PE firm executives are skeptical about portco leadership capabilities
Our portfolio leadership...



The data in this year's survey reveal four areas where both parties can work to strengthen leadership: turnover and succession planning, communications and goal setting, learning and development, and culture.

1. Turnover and succession planning

PE firms this year are much less worried about executive turnover than they were last year. Last year, 53% said the risk of turnover had increased over the previous year; today just 19% express the same concern. Portco executives see a similar trend; a year ago, 54% said they saw rising turnover, whereas this year, only 12% do. It is impossible to know whether one or the other figure is an anomaly or whether executives are staying put because of a softer job market or because strong performance gives them more reason to stay.

Turnover nevertheless remains a problem. Overall, 42% of portco executives say they experienced CEO turnover during the holding period and that most of that turnover comes well after the transaction. According to PE executives, 61% of CEO turnover happens more than a year after acquisition—a percentage that has not changed since we noted it six years ago—and in 42% of cases, it was unplanned and driven by the PE firm; that is, something came up during the CEO's tenure that caused investors to change horses.

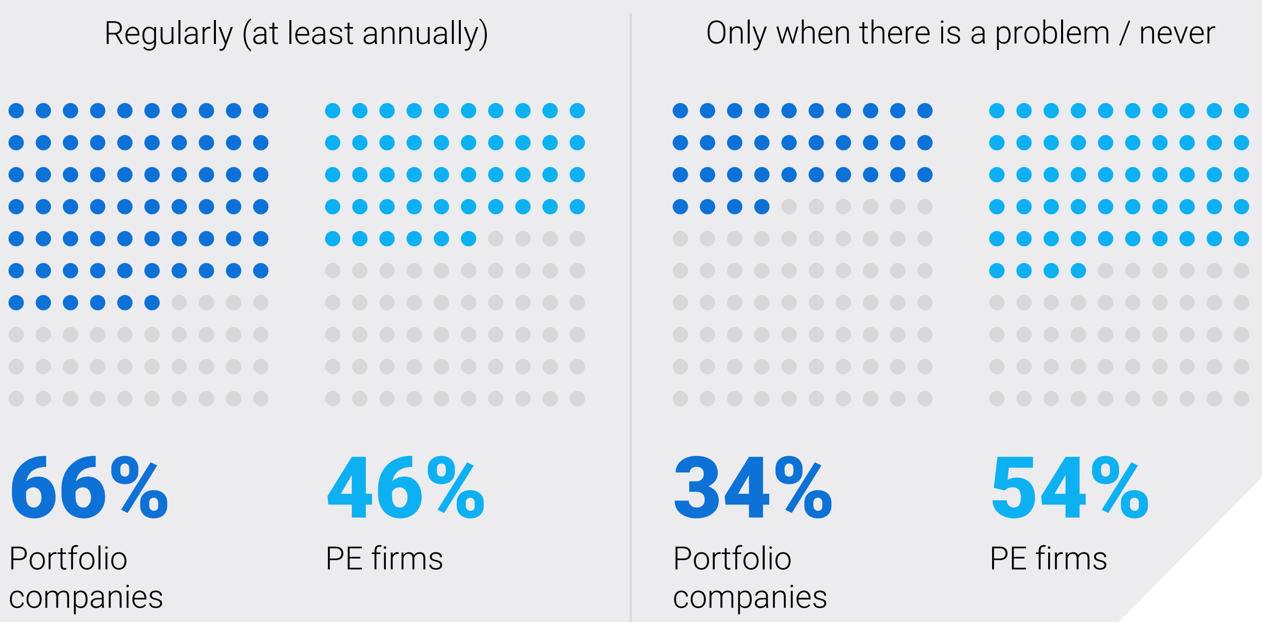
Despite that disturbing statistic, it appears that portcos and PE firms do not have regular dialogues—much less conduct planning—about succession. The data show that portco executives regularly discuss succession plans, but PE firms usually engage only when a problem comes up—this despite the fact that 86% of CEO turnover is driven by the PE firm.

86%

OF PORTCO

CEO turnover is driven by the PE firm, but most PE executives say they discuss succession only when there is a problem

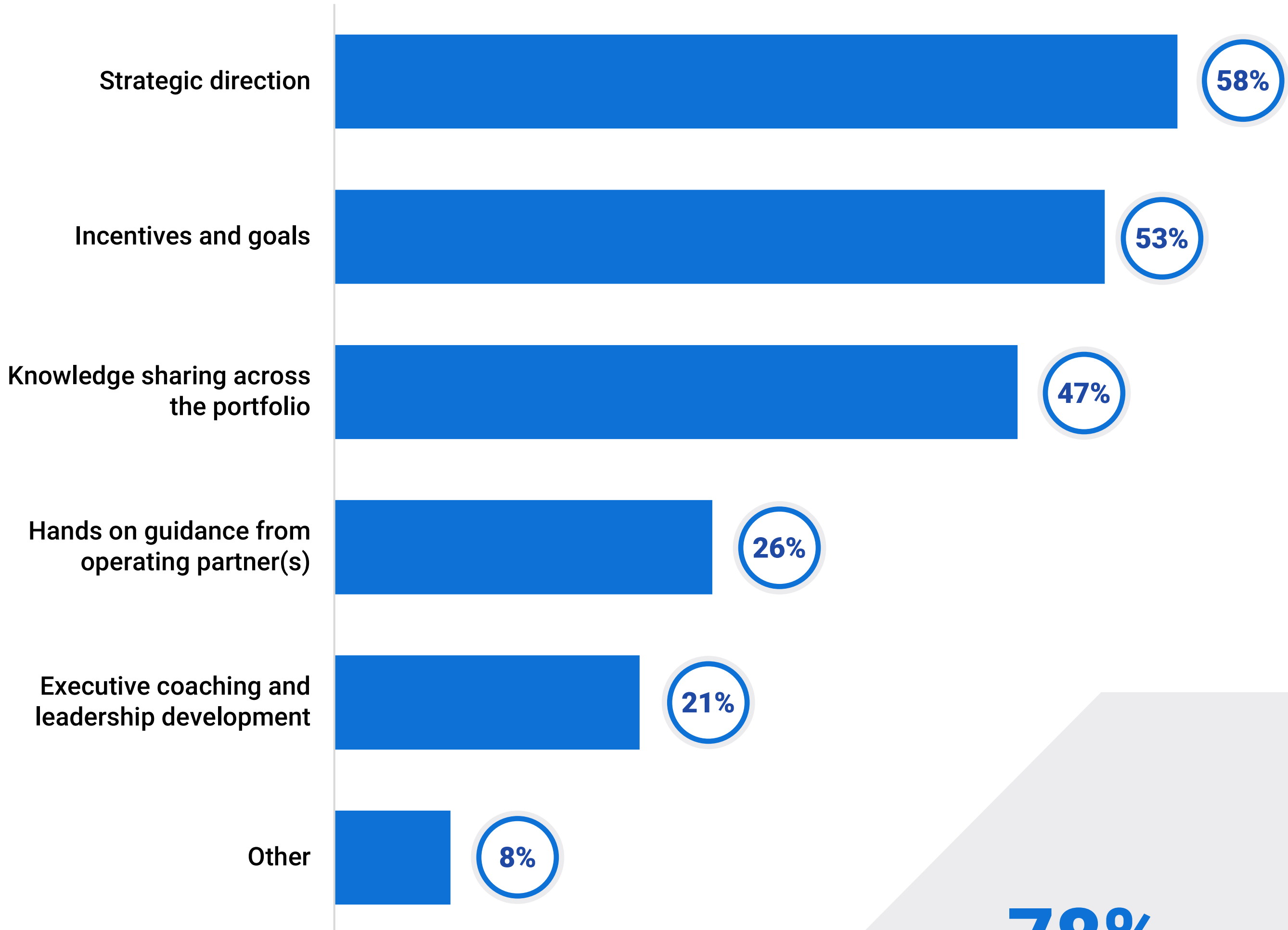
How often is Portco leadership succession discussed?



2. Communication and goal setting: It's all about the how

Failure to talk formally about succession is one symptom of a larger communications gap. Forty-two percent of portco executives say communication is a source of tension between them and their ownership, but only 15% of PE firms say there's a problem. The communications gap isn't about expectations. A large majority of portco executives (78%) say they understand their investors' expectations extremely well or very well. But agreeing on expectations is not the same as agreeing on how to achieve them. The single biggest ask that portco leaders have of their PE boards is for more support in the area of strategic direction, followed by support in translating strategy into incentives and goals.

Portfolio companies: What kind of support do you need from your PE firm? (select top 3)



78%

OF PORTCO
executives say they understand their investors' expectations extremely well or very well

Ted Bililies
Global Head of Transformative Leadership
AlixPartners | New York

The Transformative Leader and Private Equity

The leadership agenda for C-level executives in portfolio companies can be described in one word: transformative. These executives are asked to drive disruption in their industries, produce significant change in company cost structure, oversee end-to-end digitalization, and integrate one or more acquisitions, all of it while growing organically—and to do it against an audibly (read: deafening) ticking clock.

Under those circumstances, it is important that investors provide the right support for those portco executives. We can think of such support in at least two forms. One is strategic and structural: working with portfolio management to translate financial goals into strategic initiatives and programs, helping management identify and obtain the resources needed to carry out those programs, aligning on the resources, and providing the right communication structures and incentives. The other form is personal and cultural: helping portcos build leadership capability through targeted and informed assessments, robust and outcomes-measured development programs, well-crafted and deliberate learning opportunities, informed and pragmatic succession planning, and other programs that identify and train current and future leaders.

Transformative leaders understand that without deep and continuous change at the human level, the organization will be much less successful at navigating the waves of disruption ahead. To drive the needed transformation, these leaders take ownership of and effectively communicate crucial elements that form their organization's desired direction. They know how to set the direction for the organization, inspire people with a vision that creates strong followership, and how to win sustained commitment to the organization's purpose, mission, values, and strategy.

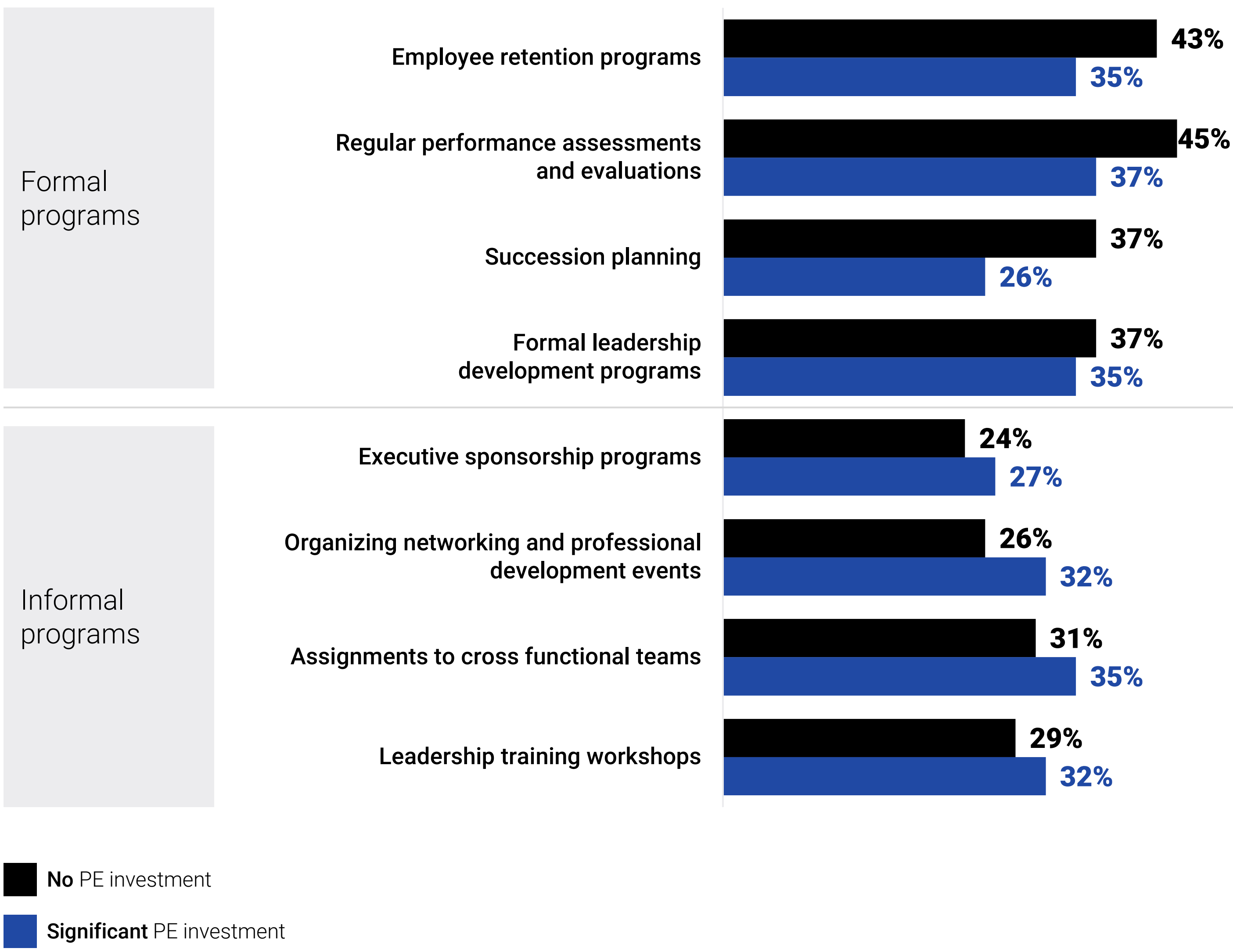
Achieving mastery as a transformative leader starts with the C-suite and with how executives lead, how closely they are aligned, what types of leaders they in turn hire and promote, and what kinds of behaviors and results they reward. The mastery must cascade to all leaders and managers at every level in the organization. Indeed, the transformative leadership model isn't just for those at the top of the house but also for the development of leadership talent throughout the organization. The result? A strong and nimble talent bench that's rich and vital for robust succession planning, which in turn is a crucial ingredient in strategic talent management and culture building.

3. Learning and development

About half the executives in portcos want to share knowledge with their peers in other portcos. Networking and learning events are fairly common: two-thirds of PE respondents say they host them. But the desire and the opportunity seem to be deeper and broader in this age of continuous disruption—there is hunger not just for learning among executives but also deeper in the ranks. Although 63% of portcos rate themselves very good or excellent at developing talent, only 44% of PE firms give themselves the same grade.

A deeper look reveals that PE-owned companies approach learning and development in a more ad hoc fashion than their corporate counterparts do. Portcos stack up well beside non-PE corporations when it comes to informal talent development programs, but they lag well behind them when it comes to formal processes like succession planning and regular performance reviews. These data are not affected by company size, which is virtually identical for both groups.

PE owned companies lag in providing formal leadership development programs



4. Culture: Too Often an Afterthought

When it comes to the culture of an organization, PE-owned companies act much less than they talk. Though 88% of portco executives say their company's culture is a competitive advantage, less than half (48%) say they regularly discuss culture at board meetings, and 12%—more than 1 in 10—say they talk about it rarely or never.

For owners, it's about the same: 49% say they discuss portco culture regularly and formally during the holding period. An insignificantly greater number—51%—conduct formal cultural audits during the first 100 days of ownership, and 38% during due diligence.

Advantage or not, culture in portcos can improve in at least three ways, as data and our experience show

Executive-team agility

Something portcos say is a problem 40% of the time, which is twice as often as non-PE-firm leaders do.

Employee engagement

PE-owned companies are much more likely to report both lack of employee engagement and quiet quitting, wherein an employee performs only the bare minimum required for the job and puts in no extra time, effort, or enthusiasm. Forty-five percent of portco executives see these as problematic, whereas just 25% of corporate executives do. At the same time, a majority of PE-owned company executives—53%—say shifts in workforce values are causing disruption in their company, which is a problem for only 38% of corporates.

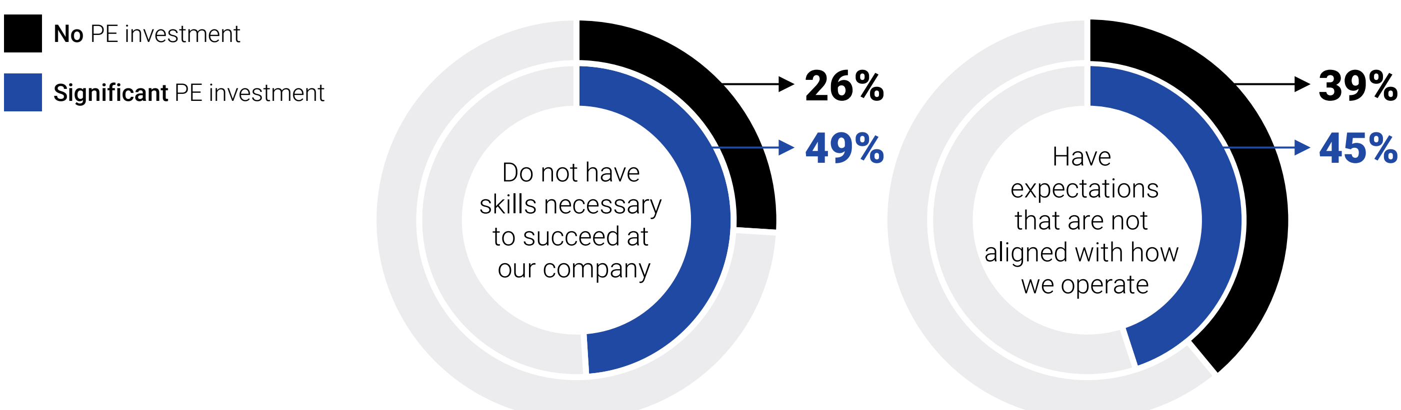
Organizational adaptability

The agility issue isn't confined to the executive floor: Portco executives are 50% more likely than corporates to worry that their organization as a whole is not adapting quickly enough to changing circumstances and, by the same margin, to complain that employees are too set in their ways. Portco leaders are about a third more likely to say the pace of change is rapidly putting employees' skills out-of-date.

What should be done? First, the issue of culture ought to be surfaced regularly and explicitly—something that happens a little less than half the time. Formal discussions also lead, or should lead, to value-oriented measurements: absenteeism, turnover, and disengagement are costly every day; and at the end of the day—or, actually, the end of the holding period—a vibrant culture adds to the value of an enterprise, especially for that substantial minority of buyers who consider culture in evaluating and diligencing targets.

A private equity generation gap?

Employees entering the workforce



Clark Perry
Partner
AlixPartners | New York

Strengthening the Relationship Between a Portfolio Company and a Private Equity Investor

The relationship between a portco and its PE investor is fundamentally collaborative, with both parties aligned toward maximizing growth and financial returns. Portco executives often face immense pressure to meet aggressive performance targets—especially under PE ownership, where expectations for operational improvements and value creation are high. It is a good sign that 85% of PE executives describe the relationship with their portco as collaborative; and it's not bad that 66% of portco leaders say the same. But that 19-point gap signals an opportunity need for a more engaged and strategic partnership.

To provide meaningful support, the PE investor should first ensure that the executive team has access to relevant expertise and resources. That access may involve using the investors network to bring in experienced advisors, industry specialists, or interim leadership to overcome critical challenges. Additionally, PE firms can offer operational playbooks, best practices from other portcos, and access to shared services or procurement efficiencies to ease the burden on management.

Another key area is the fostering of open and trust-based communication. Investors should establish regular check-ins that go beyond financial oversight to discuss strategic hurdles, talent gaps, and leadership concerns. A more collaborative approach to problem-solving rather than just setting performance mandates can improve alignment, morale, and results.

Finally, PE firms should consider adjusting their performance expectations when warranted by market conditions. Flexibility in financial targets or investment timelines can enable the executive team to focus on sustainable long-term value creation rather than short-term financial engineering.

By providing strategic, operational, and emotional support, PE investors can enhance portco performance while strengthening their relationship with management.

KEY FINDING #5:
Human Capital Partners and Chief Human Resources Officers Play Critical Roles in Improving Portco Performance

Many PE firms and portcos have responded to the changing competitive environment by beefing up talent management. In the past 10 years, we have documented progress in some areas—particularly in the use of formal assessments of CEOs, other top executives, and teams as part of the due diligence and onboarding process, a change that has improved their hiring. (See below.) Starting a few years ago, some firms—at that time, mostly the largest—created a new senior position to manage leadership issues, often called the Human Capital Partner.

That role is rapidly becoming the rule rather than the exception: In this year's survey, 62% of PE respondents said their firm has someone in that position—even many smaller firms among them.

Also, this year 50% of portco executives reported that their company has a Chief Human Resources Officer. The roles and responsibilities of these executives vary. At some PE firms, the Human Capital Partner works with colleagues and portcos on the whole range of talent issues—from recruitment to coaching, to development and more; at others, the role is limited to running searches or coordinating outside vendors. Similarly, some CHROs are full-fledged strategic partners of CEOs, whereas others are more transactional, overseeing pay and benefits and little more.

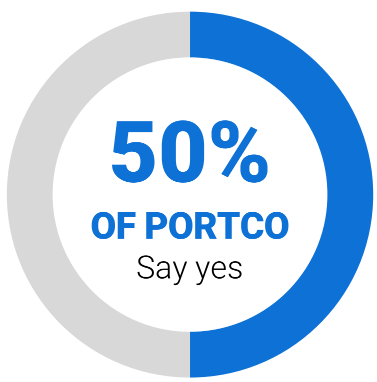
But by comparing firms and portcos with and without C-Suite talent executives, we can begin to gauge the impact these officers are having on firm performance and on the PE–portco relationship.

> Senior-team alignment and culture are extraordinarily important for value creation in private equity—especially as holding periods have grown longer and deals have become more complex. The best PE firms and portfolio company executives make sure that the human side of change is at the forefront of their planning."

Nicolas Beaugrand
Partner and Managing Director
AlixPartners | Paris

PE: Do you have Human Capital Partners?

Portco: Do you have a CHRO?



Hiring smarter

As the use of formal executive assessments has grown, the amount of unplanned CEO turnover has dropped.

IN 2018, our 4th Annual PE Leadership Study showed that 61% of PE firms did external interviews or conducted assessments of CEOs during due diligence

TODAY

formal assessments happen

97%

of the time for CEOs

85%

of the time for CFOs

IN 2018, 55% of CEO turnover was unplanned—that is, the CEO's departure was not something that the PE firm or CEO had envisioned or agreed upon as part of the deal and integration process

TODAY

the percentage of unplanned departures has declined to

45%

Several things stand out among firms that have human capital partners

BETTER MANAGEMENT OF CEO TURNOVER

A certain amount of CEO turnover is inevitable—indeed, is desirable—in PE. What's not good is *unplanned* turnover, which happens when a PE firm discovers that a top executive can't cut the mustard or because a CEO resigns unexpectedly for whatever reason. The data show that PE firms with human capital partners manage such turnover better. At firms with human capital partners, CEO turnover was planned 56% of the time, and unplanned 44% of the time. The percentages are exactly reversed for firms without human capital partners: 44% planned, 56% unplanned. The percentage of CEO turnover that PE firms planned was 56% at firms with human capital partners—that is, they are making the call and are not being led by events—versus 44% at firms without human capital partners. CEO exits are slightly more likely to happen quickly when a human capital partner is on staff, which is a good thing; **as we showed in the third edition of this study**, later departures cause more disruption and have greater negative effects on value creation.

BETTER OVERALL OPINION OF LEADERSHIP QUALITY

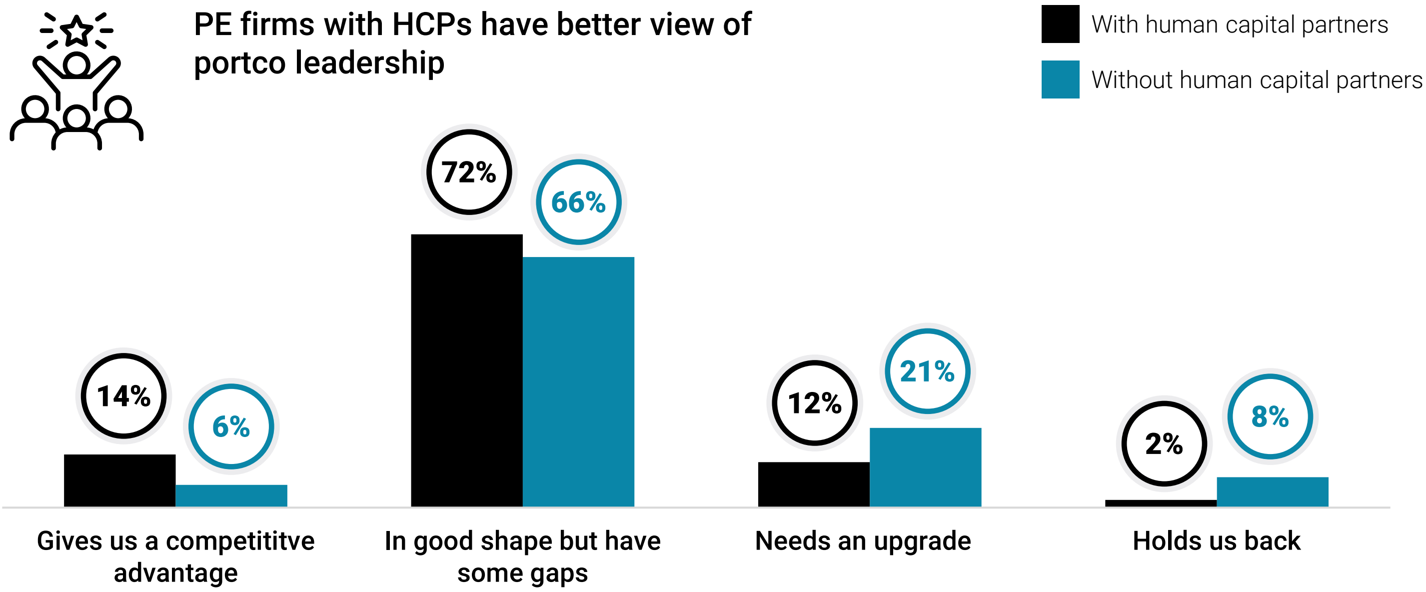
PE firms with human capital partners have a better opinion of portco leadership than firms without human capital partners. They are more than twice as likely to say leadership gives a competitive advantage, and 20% more likely to have a positive opinion overall, which could be because those leadership teams are indeed better. But it's also possible that firms with human capital partners have different conversations about the causes of performance problems and are less likely to just point a finger at portco leadership.

BETTER SUCCESSION PLANNING

Firms with human capital partners are much more likely to have an established process and a regular cadence of board-level discussions of succession.

How human capital partners make a difference

PE firms with HCPs have better view of portco leadership



Frequency of succession-planning discussions at PE firms

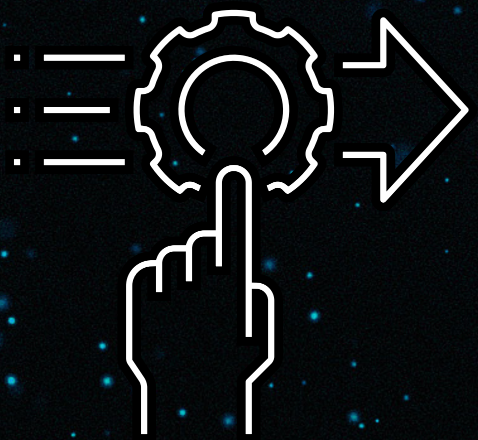
	With human capital partners	**Without** human capital partners
Quarterly or more	**21%**	**8%**
Annually	**44%**	**52%**
Only if there is problem	**27%**	**33%**
Never	**6%**	**6%**

Ability of PE firms to assess, support, and develop senior portco talent

BETTER TALENT ASSESSMENT, SUPPORT, AND DEVELOPMENT
Leaders of PE firms with human capital partners give themselves much higher marks for their ability to evaluate and develop senior portco leadership; half say they do an excellent or very good job—while at firms without human capital partners, a bit more than a third say the same. Learning opportunities might be one reason they do better. As we saw earlier, 85% of portco leaders say they need more support and learning to help them cope with the demands of their job and the disrupted business environment. Seventy-two percent of firms with human capital partners say they offer portco learning programs, which are offered by just 58% of firms without human capital partners.

A CALL TO ACTION
for PE and Portco Leaders

At the heart of this research lies a fundamental truth: Effective leadership is the strongest lever for value creation in private equity. PE firms and portcos must move beyond short-term performance pressures to build sustainable, high-performing leadership teams that can weather disruption and drive long-term value.



For **PE firms**, that means strengthening leadership alignment, supporting talent development, and integrating leadership and culture into value creation strategies at every stage of the deal life cycle.

Portco executives for their part should proactively engage with PE partners, advocate for leadership development, and embrace a culture of adaptability and resilience.

The firms that get leadership right will win not just in financial returns but also in building enduring enterprises that continue to thrive long after the investment cycle ends.

A CALL TO ACTION
for PE and Portco Leaders

Several specific initiatives can help drive positive results:

01
ALIGN EXPECTATIONS BEYOND FINANCIALS

PE firms should define success metrics beyond financial targets by including leadership effectiveness, execution capability, and talent retention.

02
USE OBJECTIVE LEADERSHIP ASSESSMENTS

PE firms should implement structured executive evaluations pre-deal and annually, thereby ensuring both sides have a shared understanding of leadership capabilities and gaps.

03
BRIDGE THE EXECUTION GAP WITH CLEAR PRIORITIES AND A PERFORMANCE FEEDBACK LOOP

PE firms should co-develop a short top-priorities list together with portco leaders at the start of the investment period to ensure a shared road map. And they should hold quarterly strategic alignment meetings at which PE executives and portco executives review progress, recalibrate expectations, and resolve disputes early.

04
BALANCE GROWTH AND EFFICIENCY IN TECHNOLOGY INVESTMENTS

PE firms should encourage portcos to adopt AI for both efficiency (PE priority) and growth (portco priority), striking a balance that maximizes impact.

05
SUPPORT INTEGRATION BEYOND THE DEAL

PE firms must provide more-structured support post-acquisition to ensure that cultural, technological, and operational integration plans are well resourced and executed.

06
BUILD RESILIENCE THROUGH LEADERSHIP DEVELOPMENT

PE firms should offer targeted coaching, mentorship, and peer learning programs for portco leaders to help them navigate disruptions.

07
BE PROACTIVE ABOUT TALENT STRATEGY

Rather than replacing CEOs reactively, PE firms should create clear career pathways and retention incentives to keep top leaders engaged throughout the investment cycle. At the same time, they and portcos should make succession planning a board-level priority, mandating at least annual succession planning discussions with portco leadership. And portcos should—with PE support—invest in leadership development beyond the C-Suite.

08
TREAT TALENT AS A CORE VALUE DRIVER

Every PE firm should have a Human Capital Partner or dedicated leadership expert to improve hiring, talent development, succession planning, and executive coaching.

09
LEVERAGE THE POWER OF PORTCO NETWORKS

PE firms should facilitate regular cross-portco learning sessions to share best practices to help leaders navigate common challenges by applying peer insights.

ABOUT OUR 10TH ANNUAL PE LEADERSHIP SURVEY

Each year, findings from the AlixPartners PE Leadership Survey deliver valuable insights on themes relevant to the success of PE investments. In previous years, themes we explored included:

- Key success factors in the first 100 days after a PE investment deal
- The impact of portcos' human capital management practices on PEs' internal rates of return
- New imperatives that portco and PE leaders must meet during times of disruption
- The role of a portco's organizational culture in investment performance
- Leadership capabilities for a new era of value creation

Our survey collects insights directly from private equity and portfolio company executives regarding the challenges of value creation. The survey explores how market trends are influencing different facets of leadership, investing and growth, investor/portco relationships, succession planning, and talent strategy. This year's survey was administered online from October through December 2024. Respondents consisted of 161 private equity firm managing directors, operating partners, or founders, and 200 portfolio company executives, the majority of whom are CEOs or CFOs. Sixty-six percent of the PE firm respondents come from companies based in North America, as do 62% of the portfolio-company respondents; 29% and 37% come from Europe, including the United Kingdom. A large majority (80%) of portfolio company executives come from companies with annual revenues greater than $500 million. Among private-equity executives, 25% work for firms with $20 billion or more in assets under management, 20% from firms that manage between $5 billion and $20 billion, and 55% from firms with less than $5 billion under management

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ABOUT US

For more than forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges—circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA—so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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