

A blurred photograph of a modern office hallway with large windows. People are walking in various directions, creating a sense of movement and activity. The lighting is bright, suggesting a sunny day. The text is overlaid on the right side of the image.

The Importance of Human Capital in Portfolio Companies:  
*How the Right Leadership Decisions  
Produce Superior Returns*

In Partnership with ACG

June 16, 2020

# Founded in 1981 and built on the belief that **Leadership Matters**

**Headquartered in  
Minneapolis, Minnesota**

U.S.-based with  
global reach

**Implementing critical  
assessment and development  
strategies to help PE firms  
achieve their goals through  
better leadership**

**Diverse client base**—all  
industries, public and private,  
private equity and non-profit

Proud to say first client is still  
an active client



# Your Hosts



**Sandra Davis**  
Chair and Founder



**Kevin Louiselle**  
Partner & EVP



# Our Panel of Experts



**Jeff Hinds, Ph.D.**  
Principal Consultant  
MDA Leadership



**Dennis Liberson**  
Independent Operating  
Advisor and Director



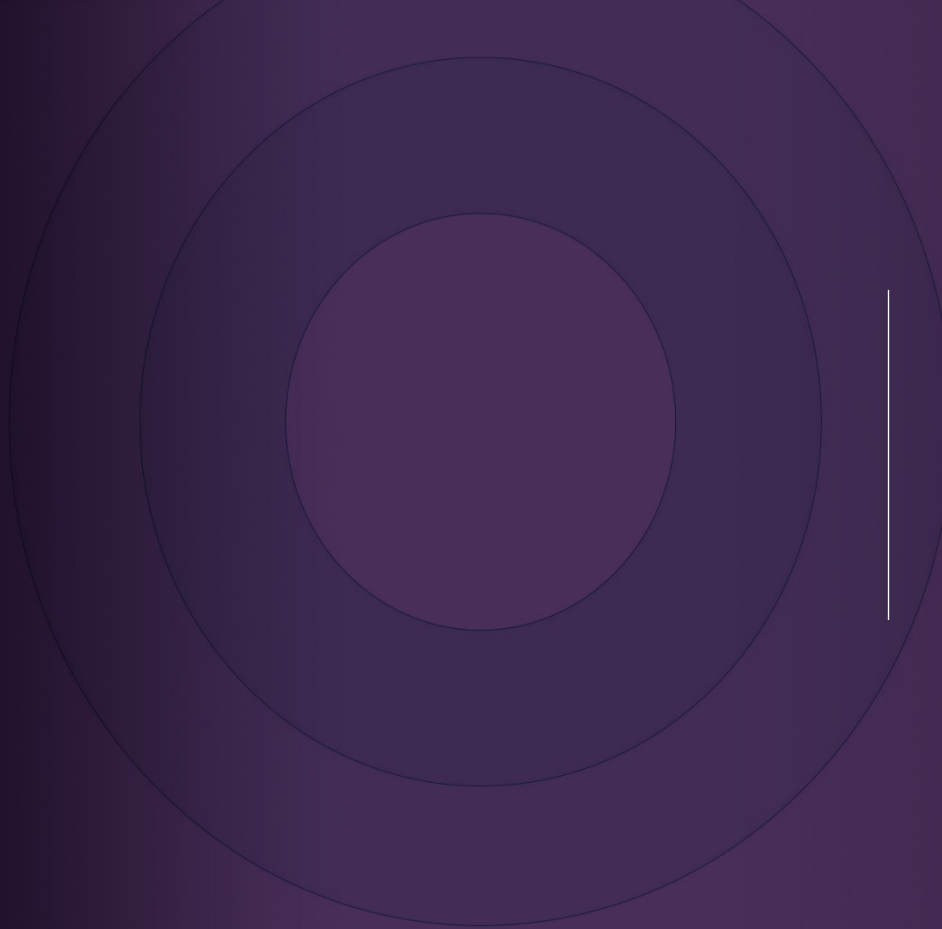
**Chris Snow**  
SVP, Chief Talent Officer  
American Residential Services

# Learning Objectives

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- Why talent due diligence enables you to achieve the highest return
- The best approach for assessing and naming a senior team or critical leadership talent
- Understand the critical success factors and challenges in making tough talent decisions
- How one PE firm significantly increased the value of its investment through better leadership





The Value of  
Talent Due Diligence  
in Private Equity

# How critical is leadership excellence in portfolio companies?

10-15%

impact on financial  
performance

25-30%

impact on market  
valuation

# Better Talent Insights Lead to Improved Outcomes

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Deal Underwriting



Talent Strategy



Execution Risk  
Ability to Scale  
New Capabilities  
Resilience

Improved Investment Outcome







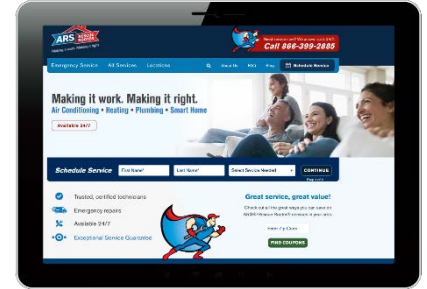
## Polling Question 1

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- How important is it for you to have accurate insights into your portfolio company leadership? (select one)
  - Very important
  - Important
  - Neutral
  - Not important



# The Situation



# The ARS Case Study

# ARS Business Situation

- Better understand and gain more consistent performance from the General Managers of its 72 locally managed service centers (branches) in 24 states
- Pinpoint why sales and profitability at some branches varied so widely (from \$5-6 million to \$10-20 million annually)







## ARS had three clear objectives:

- Help GMs better understand their own development needs through assessment and feedback
- Create development plans to help GMs address any areas that may stand in the way of their success
- Further develop our GM talent strategy related to aggregate assessment data



The image features a dark blue background with three concentric circles on the left side. The circles are centered and have a light blue color, creating a subtle watermark effect. A thin white vertical line is positioned to the right of the innermost circle, separating it from the text.

# The MDA Approach



## The MDA Approach

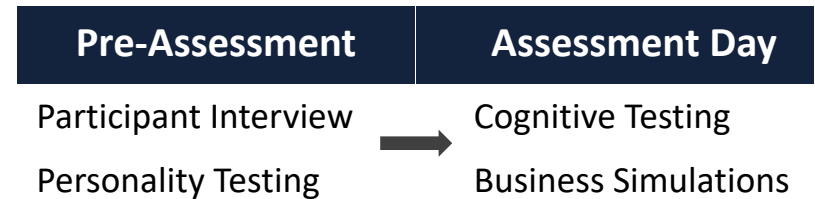
- Define the requirements for future GM success
- Configure and implement an in-depth GM assessment process
- Accelerate GM growth

# General Manager Role Profile

Elements	Examples
<b>Primary Responsibilities</b> <i>The Work GMs Do</i>	<ul style="list-style-type: none"><li>• Establish and Communicate Branch Priorities</li><li>• Manage Branch Operations</li><li>• Drive Branch Sales</li></ul>
<b>Critical Competencies</b> <i>The Skills and Attributes Required for Success</i>	<ul style="list-style-type: none"><li>• Leading and Relating to People</li><li>• Thinking and Deciding</li><li>• Managing Work</li></ul>
<b>Foundational Experiences</b> <i>Opportunities to Develop Critical Competencies</i>	<ul style="list-style-type: none"><li>• Operations or Profit Center</li><li>• Customer Service</li><li>• Supervision/Team Leadership</li></ul>



## Configure and implement an in-depth GM assessment process



### Business Simulations:

- Branch analysis and planning assignment
- Meeting with a call center leader
- Meeting with an HVAC leader





Participant Feedback



Insight Meeting with  
Manager and HR



One-on-One Growth  
Planning Meetings



Alignment Meetings  
with Manager and HR

Accelerate GM Growth



The image features three concentric circles on a dark purple background. The innermost circle is a solid, slightly darker shade of purple. The middle and outermost circles are defined by thin, light purple outlines. A vertical white line is positioned to the right of the innermost circle, separating it from the text.

# The Results

# The GM Experience



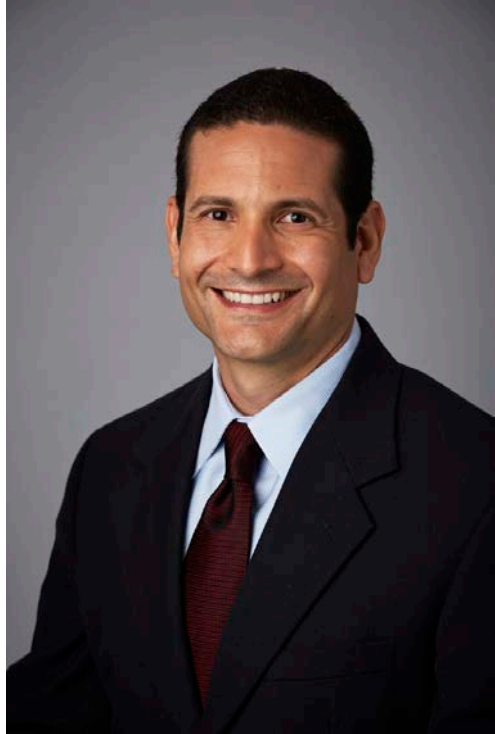
*“Running an \$11 million business is very different than running a \$23 million business. The experience absolutely helped me achieve what we have here today.”*

- Clint Schreck, Division Sales Manager, ARS



*“The feedback really helped me. In managing execution, I learned how to get specific contributions from my employees. Sounds simple, yet I wasn’t always operating this way.”*

- Mike Skourtis, GM, ARS, Manassas, Virginia



## View From the Top

*“MDA’s assessment and development process is a true differentiator for us. It gives us a window into how someone will perform in a real-world scenario before placing them in that situation. We can compare potential leaders to our ideal standard in advance, understand where they are ready and where they will struggle, and strengthen those areas before we formally place them in the GM role. I value the ability to make smart decisions, reduce risk to our business, and help our leaders reach their full potential.”*

-Luis Orbegoso, President & COO, ARS

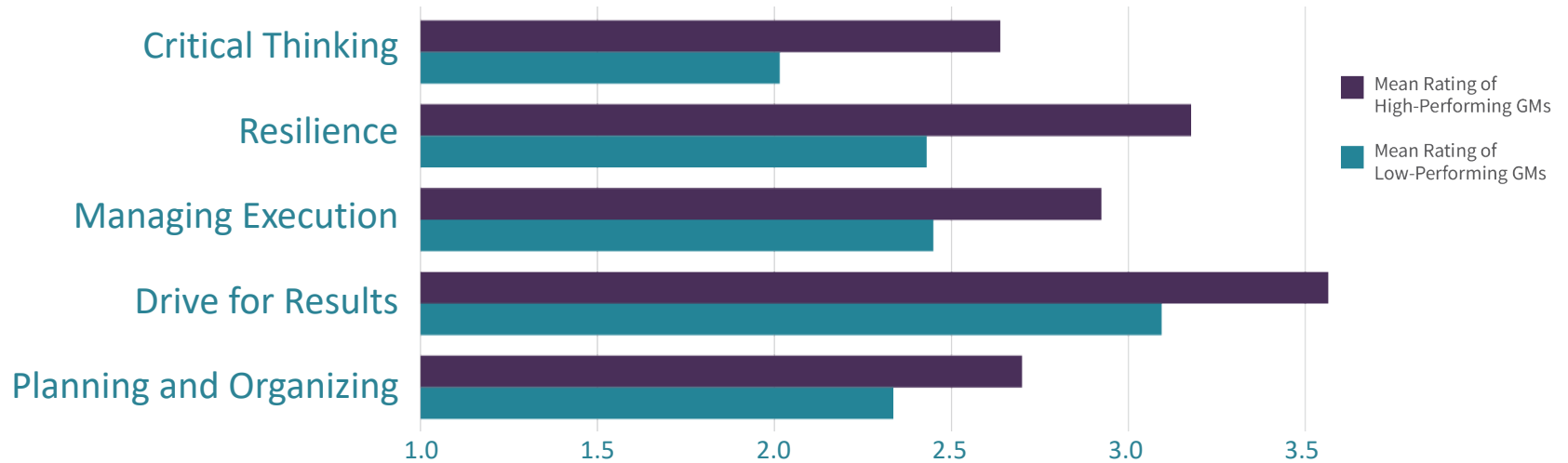


# Measuring GM Performance

- ARS measured GM job performance with:
  - Quantitative performance metrics (e.g., revenue, EBITDA, staff retention)
  - Qualitative, manager ratings of leadership competencies and overall performance
- Overall performance metric (high-performing, moderate-performing, low-performing)

# The Impact

Mean Assessment Ratings for High- and Low-Performing General Managers





# Research Drove Key Decision Criteria



## ASSESSMENT DASHBOARD

ASSEESSEE FIT WITH THE ARS GENERAL MANAGER ROLE					
Low Fit	Mixed		Solid		Strong Fit
Critical skills are missing; poor fit	Some capabilities for the role, but with apparent shortcomings		Good fit to position requirements, but will benefit from development		Strong fit to position requirements
<input checked="" type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6

ARS Specific Watch-Outs
Research demonstrates that if either of the following statements are true, the assessee has only a 25% chance of being successful in the ARS General Manager role.
<input type="checkbox"/> 7 or more of the 9 competencies shaded below are rated Mixed or Development Need. <input checked="" type="checkbox"/> Ratings on <b>Critical Thinking</b> , <b>Drive for Results</b> and <b>Resilience</b> are rated Mixed or Development Need.



## View From the Top

*“The custom validated GM assessment is making us money. We are able to evaluate internal and external candidates against our top-performing GMs in the most critical competency areas that are predictive of success. We have data that shows us if we deviate from the competency profile, then we are less likely to have a successful outcome in terms of performance and profitability.”*

- Scott Kacic, East Zone President, ARS

# ARS Conclusions

- ARS significantly improved its understanding of the requirements of GM success.
- GMs received insights that allowed them to significantly develop their leadership capabilities.
- ARS dramatically improved the consistency and accuracy of its GM selection decision making.



## Poll Question 2

- How can we support you? (select all that apply)
  - Please send the case study and additional solutions information.
  - I would like to speak with one of the panelists further. Please connect me.
  - Let's talk about a complimentary talent audit relative to my situation.





# Q&A Time

AWAKEN, ALIGN, ACCELERATE.





In Closing

# 7 Key Questions for Engaging a Talent Consultant

- What is the type, depth and breadth of your business assessment experience?
- How do you conduct assessments?
- What type of deliverables and insights will I receive?
- How do you engage the participants, so they use the data?
- What is your experience working with a PE firm like ours?
- Can you provide references from other PE firms?
- What additional leadership resources do you offer?



The image features three blue arrows with white shafts and blue fletching, all of which have hit the center bullseye of a target. The target is composed of several concentric circles in shades of blue and white. The background is a soft, out-of-focus light blue. In the bottom left corner, the text 'TALENT STRATEGY FOR THE LONG RUN®' is displayed in a white, sans-serif font.

TALENT STRATEGY FOR THE LONG RUN®