HUMAN CAPITALIST

LEADERSHIP. HUMAN CAPITAL. ENTERPRISE VALUE.

Private Equity Doesn't Create Value. Leaders Do.

What $25B+ of enterprise value creation taught me about allocating leadership talent to the roles that matter most.

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> *What $25B+ of enterprise value creation taught me about allocating leadership talent to the roles that matter most.*

Earlier today, I spoke with a board member of a company where I placed the CEO several years ago.

During the past five years, that company has generated approximately **$1 billion in enterprise value.**

One company.

That conversation caused me to think more broadly about the organizations and executives I've worked with over the course of my career.

I've placed roughly 750 executives, including approximately 250 CEOs and C-suite leaders, along with hundreds of presidents, general managers and senior functional executives.

Across those companies, the value created - or destroyed - after a leadership decision can be extraordinary. When I look across the businesses in which those leaders have operated, the aggregate enterprise value affected by those decisions easily reaches into the tens of billions of dollars.

That experience has reinforced a simple conclusion: private equity does not create value by itself. **Leaders do.**

Capital Enables the Thesis. Leadership Delivers It.

Private equity is exceptionally disciplined about allocating financial capital. A sponsor underwrites the investment thesis, determines where capital should be deployed, establishes return expectations and builds a value-creation plan around a relatively small number of critical assumptions.

Revenue growth. Margin expansion. Pricing. New channels. Operational improvement. Capacity. M&A. Working capital. Digital capability. Geographic expansion. Professionalization.

But none of those outcomes happens because they appear in an investment committee deck.

Every one of them ultimately depends on leaders making thousands of decisions, setting priorities, building organizations, allocating resources, confronting problems and creating followership.

> **The investment thesis may be financial. The mechanism that delivers it is overwhelmingly human.**

The best value-creation plans therefore have a second question embedded inside them: Which leadership roles have the greatest ability to accelerate - or defeat - the thesis?

Not Every Leadership Role Carries the Same Economic Leverage

Organizations tend to treat roles democratically. The organization chart places every box neatly in a hierarchy. Compensation bands imply relative importance. Talent reviews often evaluate people function by function.

Enterprise value is not so evenly distributed.

In one company, the CFO may be the most important leadership hire because the thesis depends on integrating acquisitions, creating financial visibility, improving working capital and preparing the enterprise for exit.

In another, the growth thesis may live or die with a commercial leader who can build a retail channel that barely exists today. In a manufacturing business with more demand than capacity, the highest-leverage leadership role may sit in operations or supply chain.

I refer to these disproportionately consequential positions as Enterprise Value Nodes - the leadership seats where exceptional performance can create an unusually wide range of enterprise outcomes.

> **The title is not the point. The leverage is.**

Human Capital Allocation Is Capital Allocation

If a relatively small number of leadership roles carry a disproportionate share of the value-creation burden, then treating every leadership decision with the same level of attention is economically irrational.

The roles closest to the value-creation plan deserve disproportionate rigor: sharper role definition, deeper market mapping, more rigorous assessment, stronger referencing, thoughtful compensation, clearer decision rights and more deliberate onboarding and Activation.

This is not an argument that other employees matter less. It is an argument that scarce leadership attention should be allocated where its economic consequences are greatest.

Private equity firms already understand this principle with money. They do not allocate capital equally across every possible initiative. They concentrate it against the opportunities most likely to create value.

Leadership capital should be treated the same way.

Begin With the Work, Not the Resume

Once the critical roles are identified, the next mistake is to define them conventionally.

Most job descriptions describe responsibilities, experience, competencies and reporting relationships. Those things may matter, but they do not tell you what the leader must actually produce for the investment thesis to succeed.

The better starting point is the business outcome.

What must be materially different in 12 months? Twenty-four months? By exit? What results must this role deliver? What work must be done to produce those results? What context will make that work unusually difficult?

Only then should experience, competencies and candidate credentials enter the discussion.

This reverses the conventional process. Rather than looking for an impressive executive and then deciding whether the person fits the role, you define the required outcomes first and evaluate evidence against them.

Leadership Decisions Deserve Investment-Grade Rigor

Most private equity investors would never approve a major capital commitment based on chemistry, intuition or a collection of favorable impressions. Yet leadership decisions - which can influence hundreds of millions of dollars of enterprise value - are still too often made that way.

A candidate has the right pedigree. The interview feels good. The references are positive. Everyone around the table likes the person.

Those inputs are useful, but they are not an investment case.

An investment-grade leadership decision should connect the value-creation thesis to the outcomes required from the role, the work necessary to produce those outcomes, and the evidence that a particular executive can perform that work in this specific context.

That is a fundamentally different standard than asking whether someone is a strong executive.

> **The relevant question is: Is this the right executive for the work that creates value here?**

A Different Talent Conversation

For sponsors, boards and CEOs, this changes the sequence of the conversation.

1	**Start with the investment thesis.**
2	Identify the outcomes that will disproportionately determine enterprise value.
3	Determine where those outcomes depend most heavily on leadership performance.
4	**Identify those Enterprise Value Nodes.**
5	Define what exceptional performance must look like in each one.
6	Then assess and allocate leadership talent against those requirements with the same seriousness applied to every other consequential investment decision.

Much of my work today - and the subject of my forthcoming book, The LeaderShift Algorithm, scheduled for release in December - is focused on what comes next:

> **Once you know where leadership matters most, how do you systematically determine which executive is most likely to deliver the required outcomes?**

After roughly 750 executive placements and more than three decades of watching leaders succeed, struggle, build companies and transform organizations, one principle has become increasingly clear to me.

Capital can acquire a company.
Strategy can determine where it should go.
A value-creation plan can describe how you intend to get there.
But only leaders can make it happen.
Human capital allocation is capital allocation.

ABOUT JOE HUNT

Joe Hunt is Managing Partner of Hunt Executive Search and a human capital advisor to CEOs, boards of directors and private equity partners. Over more than three decades, Joe has conducted more than 750 senior-level executive searches across C-suite, general management and functional leadership roles. His work focuses on connecting leadership decisions to enterprise value.

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ABOUT HUNT EXECUTIVE SEARCH

Hunt Executive Search is a retained executive search and human capital advisory firm serving CEOs, boards of directors, private equity sponsors and senior leadership teams. The firm specializes in C-suite, general management and senior functional leadership and combines market mastery, rigorous executive assessment and deeply engaged partner-led service.

