Private equity firms look to close the human capital gap in dealmaking

As turnover rises and hold periods stretch, new buyout shop Civaris aims to prove that human capital – not capital formation – is the real lever of PE value creation.

Iris Dorbian

Having the right talent in place is crucial to the entire dealmaking process, from ensuring a company is worth investment in the first place to making the right staffing choices as the business grows.

But a recent study by the Transaction Advisors Institute, a Chicago-based M&A intelligence platform, and HR consulting company Mercer found that while most corporate acquirers acknowledge human capital as a value creation factor, **less than half consider it when targeting assets**.

It's a cognitive dissonance that Jordan Earnheardt, a former vice president at **White Wolf Capital**, found also applies to private equity – and then some. He decided to redress it by forming Civaris, a lower mid-market buyout shop that targets businesses where human capital is the primary asset. Based in Miami, the services sector-focused firm officially launched on October 22.


Jordan Earnheardt

Earnheardt, who serves as managing partner, said the idea for the firm had been in the planning stages for several years. For him, Civaris serves a pressing need.

“If you look at the market today, one thing that’s obvious is that private equity is focused on capital formation but not much on human capital formation,” said Earnheardt. “High levels of competition in the market have led people to do smaller platforms and more add-ons. Smaller deals tend to have less bench strength. We’re seeing many firms struggle to generate DPI, despite dry powder near record highs. To us, that’s not a capital problem – it’s a human capital problem.”

Studies bear this out. AlixPartners’ ninth PE leadership survey last year found that six out of 10 portco CEO replacements happen during the first year, while 53 percent of PE executives said that retention risk was up. The annual study, which polls PE leaders and C-suite portco executives, reported this year that 86 percent of CEO turnover is driven by the PE firm, with 83 percent of respondents agreeing that unplanned turnover lengthens hold times.

To err is human

PE Hub reached out to several human capital partners at PE firms for their thoughts on whether a human capital problem exists within GPs and portfolio companies. The responses were decidedly mixed.


Barry Becker

Barry Becker, a managing director in **Gryphon Investors**' human capital group, agreed with Earnheardt. For him, the chief culprits are the economy and market changes – the dual bugaboos lengthening hold periods beyond their usual three- to five-year timeline.

“You have to examine every value creation lever,” said Becker. “Human capital is one of the most critical, and it’s becoming increasingly urgent. The longer you hold an asset, the more important it is to build a durable, scalable organization that can sustain performance through exit and beyond. Strong leadership and talent don’t just run the business; they drive execution, growth, and ultimately, enterprise value.”

David Cohen, a human capital partner at **Kelso & Company**, insisted this is not a new problem. Rather, it’s a perennial challenge that industry professionals wrestle with.

“I’ve been in private equity for over 16 years doing this work – with two different firms,” noted Cohen, who also worked at **American Securities** before Kelso. “I’ve worked with more than 75 companies, and in almost every one of them, talent or people is important. Having the right people in the right seats is a necessary element for success.”

Or as Claudine Lussier, a human capital partner at **the Sterling Group,** put it simply, “When you have the right people, things go well; when you don’t, things don’t go well. I think there’s a higher awareness on the impact of talent on both GPs and portfolio companies."

'Like tarot cards'

To ensure that the right people are in the right roles, Earnheardt said Civaris has the data and applied science to solve the human capital conundrum that many PE firms face.

"Our process is empirical and repeatable," said Earnheardt. "We quantify key talents, benchmark them against a large dataset and use those insights to inform decisions around leadership, team composition and culture. The talents that are critical for one role may differ for another – or even for the same role at a different company. No two organizations are identical, so the talent profile we're seeking will vary accordingly.

"That's why résumés and reference calls, while useful, aren't sufficient on their own. To us, résumés are a lot like tarot cards. You might think they help you predict the future, but they don't. Past performance does not guarantee future results."

However, as Becker, Cohen and Lussier attest, using data and various analytical assessments to vet prospective leadership or senior-level talent is a commonplace tactic. What then are GPs doing to make sure that human capital is considered an integral element from the inception of a deal and not after the investment closes?

"Human capital is always part of our evaluation," said Becker, who joined Gryphon in 2022. "I can't imagine a private equity firm ignoring it unless they're buying a company for its parts, which we don't do. We partner with teams. The question is: can this leadership group help grow the business based on the needs of the investment thesis? If some of the talent may not be able to scale, that insight informs the plan for growth and value creation from day one."

Cohen echoed the sentiment.

“When we go into a deal, we invest behind successful companies that are growing with stable leadership teams,” he said. “We are the type of firm that wants to back a successful leader and team. We ask lots of questions – not just about the company’s capital structure but about how the leadership team handles various situations that are challenging. That tells us a lot about how effective the leadership team is.”

At Sterling, Lussier said she meets early in the investment process with both the deal team and HR teams of portfolio companies to make sure the human capital component remains an essential part of the execution. And she doesn’t stop there.

Claudine Lussier

“I meet with the head of HR, either biweekly or once a month,” said Lussier, who joined Sterling in 2017 after serving as the head of HR for the petroleum and chemical businesses at Jacobs Engineering Group in Houston. “I hold quarterly HR meetings with the portfolio companies, and we talk about different programs. I also do an annual HR conference where I bring all of the HR leaders together. I did this in October. One of our deal professionals talked about M&A and how critical human capital is when we do add-ons. I get perspective on what is going on in the business from HR, and I can provide that insight to the deal team as well.”

Better talent, better investments

Where do they see human capital's role in the future when it comes to deals?

"Our job is to think like investors," said Becker. "That means understanding which levers truly drive growth and value creation. Human capital is one of the more powerful levers. I often ask leaders, 'What skills will your organization need a year from now?' The best investors and operators start building that pipeline today. Markets move in cycles, but strong talent strategies create lasting value through every phase."

For Cohen, whose pre-private equity career highlights include HR roles in Bristol Myers Squibb and General Electric, the changes in the human capital space have been marked.


David Cohen, Kelso & Company

"When I joined private equity in 2010, there were about 10 or 12 people focused on human capital in roles like I was," he said. "Today, there's 200 people. I see more and more PE firms putting in roles just like mine because they realize the value and opportunity to get talent right. Where they get it right, they do better with their investments. I think that trend will continue in the years to come."

Whatever the outcome, the use of AI will likely factor into that equation.

"What we like about AI is that it runs on data, not instinct," said Earnheardt. "Most of human capital practices are intuition-driven. AI is going to change the way companies operate, obviously. They're going to have new human capital strategies. You're going to see a major evolution in the way businesses are running. We have those strategies and will help folks make that transition."

Because AI is still in its infancy, Cohen is far more concerned with what can be done today versus in the future.

"Don't worry about the science fiction of tomorrow," said Cohen. "Let's not worry about everything that could be – let's get excited about where AI can add value today. I feel like I'm having déjà vu with the early days of the internet. It did change things, but it took a long time."

For more on how private markets firms are using AI internally and as an investment opportunity, read '**Artificial intelligence: Transforming alternative assets, from fundraising to exits**' from PEI Group's **Private Markets 2030** series.