

WHITE PAPER · BUILD YOUR TEAM

Talent Risk in Due Diligence

Do you know what you're buying?

How private equity investors and acquirers can see the real leadership team before they close, and protect the value-creation plan after.

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Executive Summary

Every serious buyer runs a quality of earnings report, a legal review and a commercial study before signing. Far fewer look as hard at the people who will deliver the plan. Yet when deals underperform, people and leadership are among the reasons cited most often.

A business is sold at its best. Management presentations are rehearsed, the strongest leaders are front and center, and the data room shows what the seller chooses to show. The result is a blind spot. Buyers can model the numbers with precision, but they often close without a clear view of whether the leadership team can carry the value-creation plan, who the business truly depends on, and what happens if those people leave.

This paper brings together research from AlixPartners, McKinsey, Bain, Mercer, Deloitte, Russell Reynolds Associates and others to answer one question: *do you know what you're buying?* It then lays out a practical approach to talent due diligence that investors and acquirers can use before close and carry into the first year of ownership.

KEY FINDINGS

- 1. Leadership is the least-examined part of most deals.** In one AlixPartners survey, 90% of PE investors felt confident assessing a CEO's financial acumen, but 50% said their greatest challenge was assessing fit with the company's culture.⁶ In Mercer's research, 35% of buyers conducted no formal talent assessment of key employees during diligence.⁵
- 2. The leadership team often changes, and the timing hurts.** 65% of PE firms report CEO turnover during the holding period.⁹ Earlier AlixPartners research found 58% of CEO replacements happen within two years of a deal.⁶
- 3. Unplanned turnover costs returns and time.** 46% of PE investors said unplanned CEO turnover was eroding internal rate of return, and 83% said it was lengthening hold periods.¹⁰
- 4. The best deals deal with leadership early.** McKinsey found that in 83% of the best-performing PE deals, but only 33% of the worst, firms strengthened the management team before closing.¹⁶
- 5. Succession is the gap that stays open.** 55% of portfolio companies and 54% of PE firms say succession planning is not a priority or has no process in place.¹⁹

1. The Diligence Blind Spot

Due diligence is designed to remove uncertainty. Financial diligence tests the earnings. Legal diligence tests the contracts. Commercial diligence tests the market. Each produces a clear output that feeds the model and the price.

People diligence rarely gets the same rigor. It is often limited to a review of the organization chart, compensation and benefits costs, employment agreements and a few hours of management meetings. Those inputs tell you what the organization costs. They do not tell you whether it can deliver the plan you are underwriting.

The investors themselves see the gap. In an AlixPartners survey of PE professionals, 90% said they felt confident assessing a CEO's financial acumen. But 50% said their greatest challenge was assessing an individual's fit with a portfolio company's culture, and 35% agreed it is difficult to evaluate a CEO's leadership skills.⁶ Ted Bililies, who led that research at AlixPartners, put it plainly: PE firms "often do due diligence on all aspects of a company except the leadership. Then they realize they have a problem."⁷

35%

of buyers conduct no formal talent assessment of key employees during due diligence.⁵

50%

of PE investors say assessing a leader's fit with company culture is their greatest challenge.⁶

54%

of PE firms believe their portfolio companies have the right leaders in place. Barely half.⁸

Less time, less information

The conditions for good people diligence are getting harder, not easier. In Mercer's research on people risk in M&A, 41% of buyers reported having less time to complete due diligence, and 33% said sellers were providing less information.⁵ Competitive processes compress timelines, and the people workstream is usually the first to be cut short, because it is the hardest to quantify.

That is a costly trade. The same Mercer study found that nearly 89% of companies listed talent issues among their top three integration challenges.⁵ The risk that gets the least attention before close becomes one of the biggest problems after it.

2. What the Seller Shows You

No seller sets out to mislead. But every sale process is built to present the business at its best, and that shapes what a buyer can see about its people.

What you see

- A polished management presentation, rehearsed for weeks
- The strongest leaders in the room, often supported by advisors
- An organization chart showing roles and reporting lines
- Headcount, compensation and retention data, selected and summarized
- Confident answers about the bench and the plan

What you may not see

- How decisions really get made when the founder or CEO is not in the room
- Which one or two people hold the key customers, the know-how or the team together
- Who is already thinking about leaving once the deal closes
- Whether anyone is ready to step into the critical roles
- Whether performance is actually managed, or simply tolerated

We call this the showroom effect. A management presentation shows a leadership team performing at its best, on its best day, about its best results. It is a real signal, but it is a narrow one. The questions that predict whether that team can deliver a new plan, under new ownership, at a faster pace, are rarely answered in the room.

Four risks hidden behind the showroom

1. **Capability gap.** The team that built the business to this point may not be the team that can take it to the next one. Scaling, integrating an add-on or professionalizing operations calls for different skills than founding and growing did.
2. **Key-person dependency.** Value is often concentrated in a few people: a founder who holds the customer relationships, a technical leader who holds the product, a sales leader who holds the pipeline. When they leave, the value can leave with them.
3. **Flight risk.** A liquidity event changes motivation. Leaders who have just been paid, or who did not choose the new owners, may not stay for the next chapter.
4. **Thin bench.** If no one is ready for the critical roles, every departure becomes a crisis, and every crisis slows the plan.

3. The Cost of Getting It Wrong

Most acquisitions do not deliver what the buyer expected. Harvard Business Review authors have estimated the M&A failure rate at between 70% and 90%.¹ In Deloitte's survey of U.S. executives, almost 30% said their integration efforts fell short of success, and 18% said their integration failed to reach its initial synergy targets.²

People and culture sit at the center of that shortfall. In McKinsey's research, 95% of executives described cultural fit as critical to integration success, and 25% cited a lack of cultural cohesion and alignment as the primary reason integration efforts fail.³ Bain found that while culture is an early focus area for 80% of integrations, 75% of acquirers still struggle with cultural issues that require serious intervention.⁴

Leadership turnover in the hold period

In private equity, the most visible cost is turnover at the top. AlixPartners' 2026 survey found that 65% of PE firms report CEO turnover during the holding period, and only 9% say their firms rarely replace CEOs.⁹ Earlier AlixPartners research put the likelihood of a CEO being replaced during the investment life cycle at 73%, with 58% of replacements happening within two years.⁶

65%

of PE firms report CEO turnover during the holding period.⁹

34%

of investments saw CEO turnover that was unplanned.¹⁰

83%

of PE investors say unplanned CEO turnover lengthens hold times.¹⁰

Unplanned change is the expensive kind. In AlixPartners' 2018 survey, CEO turnover was unplanned for 34% of investments. Of PE respondents, 46% said unplanned CEO turnover was eroding internal rate of return, and 83% said it was lengthening their hold times. The timing compounds the damage: 39% of respondents said replacing a CEO after the first year of investment and before the final year to exit is the most disruptive, yet as many as 58% of replacements happen in exactly that window.¹⁰

Timing also matters for exit. Russell Reynolds Associates' analysis of roughly 200 European PE exits found that companies that appointed a new CEO during the first year exited after 4.4 years on average, compared with 7.7 years when the appointment came after year two. The authors note the finding is directional rather than causal, but the pattern points one way: leadership decisions made early are associated with a shorter path to exit.¹¹

Losing the people below the top

The risk does not stop at the CEO. Research by EY, as cited by Gallup, found that 47% of key employees leave within a year of a transaction, and 75% leave within three years.¹⁴ A peer-reviewed study in the *Journal of Business Strategy* found that target companies lose 21% of their executives each year for at least 10 years after an acquisition, more than double the turnover in companies that were not acquired.¹⁵

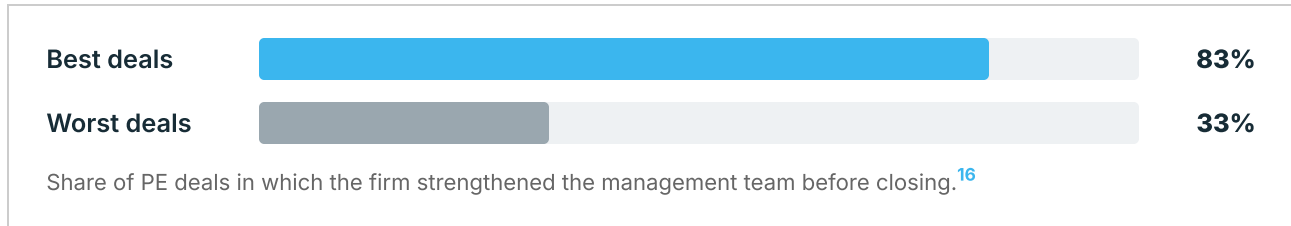
New leaders brought in to fill the gaps carry their own risk. Research from CEB (now Gartner), as reported by the World Economic Forum, found that 50% to 70% of executives fail within the first 18 months of promotion.¹² And for large public companies, Strategy& estimated that forced CEO successions cost an average of \$1.8 billion in shareholder value per company, and that companies with forced successions would have gained an estimated \$112 billion more in market value if those successions had been planned.¹³

The pattern: leadership risk that is not assessed before close tends to surface in the first two years, when it is most disruptive to the plan, most expensive to fix and most likely to extend the hold.

4. What the Best Investors Do Differently

The upside is just as clear. When leadership gets the same rigor as the financials, results follow.

McKinsey's study of private equity deals found that in 83% of the best deals, but only 33% of the worst, firms strengthened the management team before closing.¹⁶



Leadership quality shows up directly in returns. Russell Reynolds Associates reports that top-quintile portfolio company CEOs generate annual shareholder returns about 9 percentage points above industry peers, and that general partners themselves attribute more than half of investment returns to portfolio company leadership (as cited from McKinsey and AlixPartners research, respectively).¹¹ In AlixPartners research reported in Harvard Business Review, 69% of PE and portfolio company leaders named talent as the most important factor in value creation, ahead of operating efficiency (49%) and organic growth (30%).¹⁸

The effect holds well beyond private equity. The McKinsey Global Institute found that just under 10% of companies outperform on both financial results and human capital development. Those companies are about 1.5 times more likely to remain high performers over time, have about half the earnings volatility, and run attrition almost five percentage points lower.¹⁷

The takeaway: the investors who win treat leadership as a value driver to be underwritten, not a box to be checked. They assess it before close, act on what they find, and build the bench during the hold.

5. A Practical Approach to Talent Due Diligence

Talent due diligence does not need to slow a deal down. It needs to ask the right questions of the right people, and connect the answers to the value-creation plan. We use five lenses.

Lens	What we look for	Red flags
1. Leadership fit for the plan	Can this team deliver the specific plan you are underwriting: the growth targets, the add-ons, the operational changes? Strengths and gaps are measured against the plan, not against a generic profile.	The plan requires skills no one on the team has used before. The team describes the plan differently from the deal thesis.
2. Key-person dependency	Where value sits in individuals: customer relationships, technical knowledge, supplier ties, team loyalty. How concentrated it is, and how protected.	One or two names come up in every answer. Key relationships are personal, not institutional.
3. Retention and flight risk	How each critical leader is likely to respond to the deal: payout, role change, new reporting lines, rollover equity and personal goals.	Large payouts with little ongoing incentive. Leaders who were not part of choosing the buyer.
4. Bench and succession	Who could step into each critical role now, in one to two years, or not at all. Where internal talent is strong and where you will need to hire.	No named successors for the CEO or for roles that carry the plan. Every promotion depends on an outside search.
5. Performance and operating rhythm	How goals are set, how performance is reviewed, how decisions are made and how accountability works in practice.	Goals live in the CEO's head. Reviews are informal or skipped. The same issues come back month after month.

How it fits the deal timeline

Stage	Focus	Output
Before LOI	Desk review of the leadership team, organization structure and public signals. Early read on capability against the thesis.	Initial talent risk view to inform price and structure.
Confirmatory diligence	Structured interviews with the top team and critical roles, reference conversations, and review of performance and talent data.	Talent risk report across the five lenses, with a red, yellow, green view by role.
Signing to close	Retention and incentive design for critical people. Leadership changes agreed before day one.	Retention plan and day-one leadership decisions.
First 100 days	Close priority gaps, set clear roles and decision rights, and put a performance rhythm in place.	Year 1 people plan tied to the value-creation plan.

What a talent risk report gives you

The output of good talent diligence is not a stack of interview notes. It is a short, decision-ready view that investment committees and boards can act on.

<p>A view by role</p> <p>Each critical leader rated red, yellow or green against the plan, with the evidence behind the rating.</p>	<p>Dependency and retention map</p> <p>Where value sits in individuals, who is likely to stay, and what it will take to keep them.</p>	<p>Succession and bench view</p> <p>Who is ready now, who is ready in one to two years, and where you will need to hire.</p>	<p>Day-one actions</p> <p>The leadership decisions, retention moves and first-100-day priorities to protect the plan.</p>
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Built to fit the deal, not slow it down. A focused talent diligence can run alongside confirmatory diligence and be scoped to the roles that carry the value-creation plan, so the insight arrives while it can still shape price, structure and day-one decisions.

6. After Close: Protecting the Plan

Diligence identifies the risks. The first year after close is when they are either managed or allowed to grow. Three disciplines make the difference.

Move on leadership decisions early

If the diligence shows a gap in a critical role, the cost of waiting rises every month. Early decisions keep the plan on its timeline. As Russell Reynolds' exit data suggests, leadership appointments made in year one are associated with shorter paths to exit than those made later.¹¹

Build the bench on purpose

Succession is one of the most common gaps in growing companies, and the research confirms it. AlixPartners' 2024 survey found that only a minority of portfolio companies have successors in mind for key positions. A majority, 55% of portfolio companies and 54% of PE firms, say succession planning is not a priority or has no process in place, and 47% of portfolio companies say they cannot find internal candidates. At the same time, 51% of portfolio company leaders say executive retention risk has increased in the past year.¹⁹ The gap is not new: a Heidrick & Struggles and Stanford study found that more than half of companies could not immediately name a successor to their CEO.²⁰

55%

of portfolio companies say succession planning is not a priority or has no process.¹⁹

47%

of portfolio companies say they cannot find internal candidates for key roles.¹⁹

51%

of portfolio company leaders say executive retention risk has increased.¹⁹

Install a performance rhythm

A value-creation plan is only as good as the operating rhythm that delivers it. Clear goals, regular reviews of progress, honest feedback and fast decisions turn a plan on paper into results. Companies that do this well keep their best people longer: McKinsey's research links strong human capital practices with attrition almost five points lower.¹⁷

7. Questions to Ask Before You Sign

Use these questions in management meetings, reference calls and diligence sessions. The answers that matter most are often the ones that take the longest to come.

Leadership and the plan

1. Walk me through the value-creation plan. What has to be true about this team for it to succeed?
2. Which parts of the plan has this team done before, and which are new?
3. How are major decisions made when the CEO is not in the room?
4. Who on the leadership team would you hire again without hesitation? Who would you not?

Key people and retention

5. If two people left tomorrow, which two would hurt the business most?
6. Which customer, supplier or technical relationships depend on one person?
7. What does each critical leader receive at close, and what keeps them engaged afterward?

Bench and succession

8. Who could step into the CEO role on an interim basis today?
9. For each critical role, who is ready now, ready in one to two years, or not yet identified?
10. When was the last time a senior role was filled from inside?

Performance and rhythm

11. How are goals set and tracked for the leadership team?
12. When was the last formal performance or talent review, and what changed because of it?
13. What issue has come back to the leadership meeting more than three times this year?

8. How Coherence Group Helps

Coherence Group helps PE-backed and growing companies create value through people across the hold period. Our practice, Talent, Performance & Succession, works with investors, boards and leadership teams at the moments that matter most.

BEFORE CLOSE

Talent Due Diligence

Know the leadership team you are buying, including the risks a sale process will not show you.

FIRST YEAR

Year 1 Integration

Accelerate to value through people: the right leaders, clear roles and a team aligned on the plan.

HOLD PERIOD

Succession Planning

Ready successors for the roles that carry the value-creation plan, all the way to exit.

HOLD PERIOD

Performance & Talent Management

Goals, reviews and talent reviews that keep performance high through the hold.

Fractional Chief People Officer

For companies that need ongoing senior leadership on talent, performance and succession without a full-time hire, our Fractional Chief People Officer joins your leadership table one day a week. In the first 90 days, we assess your leadership team and talent in Month 1, deliver a talent and succession plan in Month 2, and have a performance rhythm running across the leadership team by Month 3.

See where your company stands

Take the free Coherence Compass, a five-minute assessment of your talent, performance and succession, and get a personalized score with practical next steps:

csgscorecard.com/compass

Or book a Fit & Focus Call to talk through a deal, a portfolio company or your own leadership team: [book a call](#)

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Let's talk about the team behind your next deal.

Whether you are evaluating a target, entering your first year of ownership or building the bench for exit, we would welcome the conversation.

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