Practical Applications of

When to Go and How to Go? Founder and Leader Transition in Private Equity Firms

Overview

In *When to Go and How to Go? Founder and Leader Transition in Private Equity Firms*, published in the Fall 2021 issue of *The Journal of Alternative Investments*, Josh Lerner of Harvard Business School and Diana Noble, founder of Kirkos Partners, examine leadership transitions at private equity (PE) firms. They find that the philosophy of the founder and the context in which the firm finds itself usually drive most leadership transitions, which typically are complex multiyear processes with substantial frictions. PE firms encounter challenges with leadership transitions partly because there has been little research about the process. As the PE industry matures, the pace of leadership transitions will accelerate and the need for accepted best practices for the process will be amplified.

Practical Applications

• **Leadership turnover in PE firms is exceptionally low relative to other industries.** However, these transitions will become more frequent—and understanding them will become more important—as the founders in this relatively young industry age.

• **Because of the lack of experience and research in this area, PE firms can benefit from accepted best practices and governance in affecting successful leadership transitions.** LPs increasingly recognize the important role that well-executed transitions play in the value of their investments.

• **Leadership changes in PE firms are different from well-studied transitions in public corporations.** An understanding of these differences can help establish practices that increase firm value.

Discussion

The subject of leadership transitions in PE firms is important, as firm leaders in the relatively young PE industry are predominantly founders, and transitions likely will become more common as