



## Maximise Private Equity Returns by Getting Leadership Right from the Beginning

When you don't have the right management team in place, private equity leaders have to work extra hard to make up for the team's deficiencies. Dealing with such issues costs more than just your time and energy.

### What Impact Does Inferior Management Have on Sale Prices?

#### **PEI International Operating Partners Forum Panel Discussion Reveals that Inferior Management Can Cost 1-2 Multiples When a Portfolio Company is Sold.**

At Private Equity International's recent [PEI International 2017 Operating Partners Forum](#), we hosted a panel discussion that addressed the utilisation of **human capital management to maximise deal value**. We discussed challenges and best practices for understanding team dynamics, when to accelerate or delay management changes, and how to use organisational transformation as a value lever.

Before our discussion we asked the PE firm leaders in the audience what impact an inferior management team has on final sale prices. Responding via an electronic polling tool, the vast majority of audience members estimated based on painful experiences, no doubt – that poor management can cost 1 to 2 multiples when a portfolio company is sold.

That's why leadership is a core focus of our due diligence work with private equity firms. Much of the early deal conversations revolve around future growth, and aligning the growth visions and goals of the company leaders and the PE firm. Those conversations determine if a deal proceeds, and if it does proceed, whether new leadership will be required.

## **What to Look For: Top Management Team Qualifications**

During the operational due diligence process, we help evaluate the company's operational top layers. We look at qualifications and degrees, which can be an indication of an intellect and promotion potential. But mostly we evaluate team dynamics, leadership styles, experience and track record.

That starts with looking at the management team as a whole. Are the right people in the right roles? Are they positioned to succeed? Is the team achieving the anticipated results? Looking forward, we evaluate how well managers will be able to manage future growth and leadership roles.

For operational managers we look for the ability to see possibilities and establish priorities. We look at how passionate they are about driving improvements. We try to get a feel for how hard they push the organisation and their ability to hold people accountable. Do they follow a management script based on what they know, or do they build teams and promote collaboration? We then check out their track record – as a team and individually – for increasing productivity and achieving year-over-year performance improvements.

## **Key Question: Can the Current Leadership Team Adapt to Future Growth?**

Any shift in ownership will change the leadership dynamics and expectations. Starting with the acquirer's expectations, we gauge how well current managers understand and anticipate those expectations, and how capable they are of meeting them. If the management team is getting average results at current volumes, it's doubtful that they will be able to successfully manage future growth.

While some people may need to be replaced, some will be able to step up. Typically, some managers have been waiting for a chance to demonstrate how they can perform in a more demanding environment. The challenge is figuring out where all operational leaders fit in the future organisation.

Beyond the financials, judging the full potential of an acquisition requires a thorough assessment of current leadership capabilities. This process starts in the initial introductory meetings and extends throughout the due diligence and integration phases. Getting leadership right will speed up the transformation timetable and maximise returns when it's time to sell.



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