

4G and Venture Capital

A new approach to management assessment



Summary

When conducting due diligence on management teams in startup and high growth situations, the complexities and variables involved are arguably greater than in any other area of management assessment.

This poses significant challenges and increased risk to investors who have to understand not only the technical and commercial abilities of team members but also their ability to function as a team and capacity for change in a rapidly growing business.

This difficulty is exacerbated by current assessment methods which leave large gaps in our understanding of the intangibles affecting the management team.

To help deal with these issues, Four Groups has developed a new methodology designed to shed new light on organisational issues that have previously thought to have been unmeasurable, enabling investors to make decisions and plan strategy with far greater clarity and insight into the management team they are backing.

The Current Situation

By their nature, current assessment methods can only provide a partial view into the workings of a management team. The reason for this is that they look at each individual team member in isolation.

Such tools are not without merit and are capable of providing an in-depth understanding of key characteristics, strengths, weaknesses and capabilities of team members. Clearly this provides a good overview of the people within the team and gives us an indication as to whether an individual is capable of performing a specific functional role.

However this leaves a considerable gap in our understanding of the team as a whole and it's potential. In particular, current methods tell us little about the interpersonal dynamics and interaction both internally within the team and also between the management team and investors. For example you may have a team comprising incredibly smart, focused and talented people all with a proven track record, however without the corresponding strong relationships and ability to collaborate effectively, collective performance will always fall short of the sum of the parts.

What is so special about growth scenarios?

When investing in high growth companies, the interpersonal issues and above all relationships and cultural considerations take on particular importance. This is due to a number of reasons:

- Constant day-to-day interaction between team members
- Higher pressure on relationships and collaboration
- Mission critical deadlines that need achieving
- Requires multiple skills and flexibility
- Greater levels of uncertainty
- Processes and systems not fully defined
- Culture is evolving as the organisation grows

In any investment, General Partners rely on strong relationships and collaboration within the management team to deliver the strategy.

Above all, in high growth companies, everyone from the CEO down relies on the strength of our relationships and ability to effectively collaborate to get things done.

About 4G

Four Groups has developed a new methodology, 4G, that goes far beyond the traditional scope of standard assessment tools. In particular 4G provides investors with information on two crucial areas relating to team performance.

Relationships

The first area of innovation that 4G provides is a detailed understanding of how the relationships within a management team will develop. This means that for the first time, it is possible to identify any potential interpersonal issues or areas of relationship weakness that may exist ahead of any problems developing. It is this predictive element of 4G that distinguishes it from other methods.

4G provides detailed information on the key characteristics of each relationship within the management team. It also provides information on how best to optimise each relationship and situations that will put the relationship under pressure. In short 4G provides information that sets out guidance for the optimisation of relationships throughout the management team.

The same insight is also provided into the relationship between management team and investors, again a crucial factor in terms of collaboration and ultimately performance. By providing detailed

information on the nature and manifestation of relationships, it is possible to optimise communication and collaboration between relevant parties and avoid damaging confrontation and poor communication.

Culture

The second main impact on 4G is in terms of the understanding of the cultural outlook of a team or organisation.

The role of culture is often underestimated when it comes to making early-stage investments. Culture not only determines the attitude and manner with which decisions are made and carried out but crucially, the underlying culture of a team also governs its attitude to change, development and future growth.

4G helps by describing the current cultural outlook of the team and identifying its adaptability or ability to change to meet future strategic requirements. This enables long-term planning to take place and the avoidance of painful or difficult change.

Culture is the product of the collective members of the team and 4G is the only method of placing culture in a systematic and easily understandable framework.

Portfolio Management

4G can be used throughout the deal cycle and it's use is not limited to the management due diligence process. Other applications include:

- NED appointments
- Ongoing recruitment
- Buy and build strategies

Delivery

4G is very quick and easy to deliver, on average requiring less than two hours of an individual's time to undertake the online questionnaire and receive feedback.

Four Groups has developed an innovative software application that supports the use of 4G. The Visual Team Builder provides a graphical interface for modelling interaction and relationships. The Visual Team Builder lets users try out and understand the implications of any changes to a team and the subsequent impact on relationships and culture.

By shedding light on the complex dynamics of relationships and culture, investors have a far more detailed understanding of the strengths and weaknesses of a management team as a whole, rather than a collection of individuals.

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