

Linking Behaviour to Bottom Line Performance

Management Due Diligence

Four Groups has developed a new model for understanding and predicting relationships and team dynamics called 4G. One of the areas of application for 4G is management due diligence and ongoing portfolio management within the private equity industry.

The Problem

There have been a number of studies that have pinpointed quality of the senior management team as the most important variable in the relative or success of a private equity investment¹. Arguably the effectiveness of the management team is even more important in current times. However, despite the maturity of the private equity industry in the UK, General Partners (GPs) are still relying on insufficient or incomplete data and gut feeling to make a decision to back a particular management team.

Quality of management refers not just to the abilities or experience of team members but to the team's ability to effectively collaborate and work together. For private equity, GPs need to know the potential and quality of team dynamics prior to investing.

Underlying this is the fact that existing methods of conducting management due diligence such as rigorous reference checking, aptitude testing and dissecting past performance are notoriously poor indicators of future success.

With the focus on gathering information on key individuals, these methods fail to quantify other key intangible factors such as the quality of relationship and communication within the management team, the quality of relationships and communication with the GP and the cultural suitability to the task i.e. does the management team have a suitable cultural outlook to execute the required strategy.

Assessing the strength of the management team is a notoriously imprecise and time-consuming task. This is exacerbated by the unique variables and complexities of each transaction meaning that there is no simple formula for success. Indeed, a team that may have performed well in the past may struggle given new strategies or priorities. Likewise, assembling a team of highly capable and experienced 'stars' is also no guarantee of success. Even with highly talented individuals, without positive relationship dynamics, the results could be less than the sum of the parts. There is further complexity when one takes into account the evolving relationship between the management team and the GPs. In short, a

small change in team composition can significantly change the dynamics and effectiveness of a management team.

The key variables, when looking at relationships that impact team performance include;

- Relationships with investors
- Performance under stress
- Internal relationships and dynamics
- Cultural suitability to the proposed strategy

4G supports the existing management assessment and due diligence process by providing systematic information in these key areas. By understanding the underlying relationships within the management team, 4G makes it possible to take more informed decisions based around traditionally intangible variables. 4G also provides information regarding any likely areas of tension or interpersonal conflict and abilities to function under stress. By informing any potential problems, steps can be taken to mitigate against these outcomes before any difficulties or problems emerge.

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Pre Deal

4G sheds light on the following issues;

- Understand the cohesiveness of key relationships within the executive team
- Underlying relationship strengths and weaknesses
- How to improve existing relationships
- Underlying cultural attitudes and suitability to particular strategies
- Understanding the likely implications of any culture or strategy change
- A team's ability to adapt and be flexible
- Likely causes of stress or tension within the team

Post Deal

Once a deal has been completed, 4G can also be used to help develop and optimise the ongoing relationship between GP and the management team. Particularly during times of stress or change, this relationship is likely to come under pressure. 4G provides the explicit insight and strategies on how best to manage these key relationships.

Furthermore, in situations where the GP is able to appoint a Non-Executive Director to the board, 4G can provide key information on the likely impact of any candidates on existing team members. Once a decision has been made,

4G helps accelerate the process of onboarding and understanding the internal dynamics of the board room, meaning that relationships become productive quicker than would normally be the case.

The Process

4G can be deployed very quickly, requiring an hour or so to complete an online questionnaire. This is then followed up with a 30 minute feedback session to confirm the results. Given the time constraints in such situations, Four Groups would aim to deliver results within 48 hours of the first briefing.

Reports are delivered in hard copy and clients are also able to take advantage of the 4G Visual Team Builder software that allows for the dynamic modelling of relationships and interactions within the team, enabling GPs to answer "what if" questions prior to taking any action.

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Footnotes

1. Two relevant studies can be found at the links below

<http://fourgroups.com/link/?84>

<http://fourgroups.com/link/?85>

About Four Groups

Four Groups has developed a new approach called 4G to understanding behaviour, relationships and culture. 4G provides its users with insight into personal characteristics, how relationships develop within teams and groups and how culture can be best defined and managed.

4G provides organisations with information on how best to deploy and optimise the performance of their people. It also enables preventative measures to be taken which prevent the more negative aspects of interaction and group dynamics such as minimising personal friction and reducing misunderstanding between colleagues.

4G represents a systematic approach to managing previously intangible aspects of organisational life. The methodology is easily replicable and can be implemented quickly and efficiently.