

PRACTICAL KNOW-HOW FOR PORTCO INVESTORS

Predicting with precision if leadership can scale

Harnessing independent assessments in human capital due diligence

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Maximising human capital investment throughout the deal lifecycle

63% of PE firms cited "human capital" within portfolio companies as their number two concern in 2019 behind revenue and margin growth. [1]

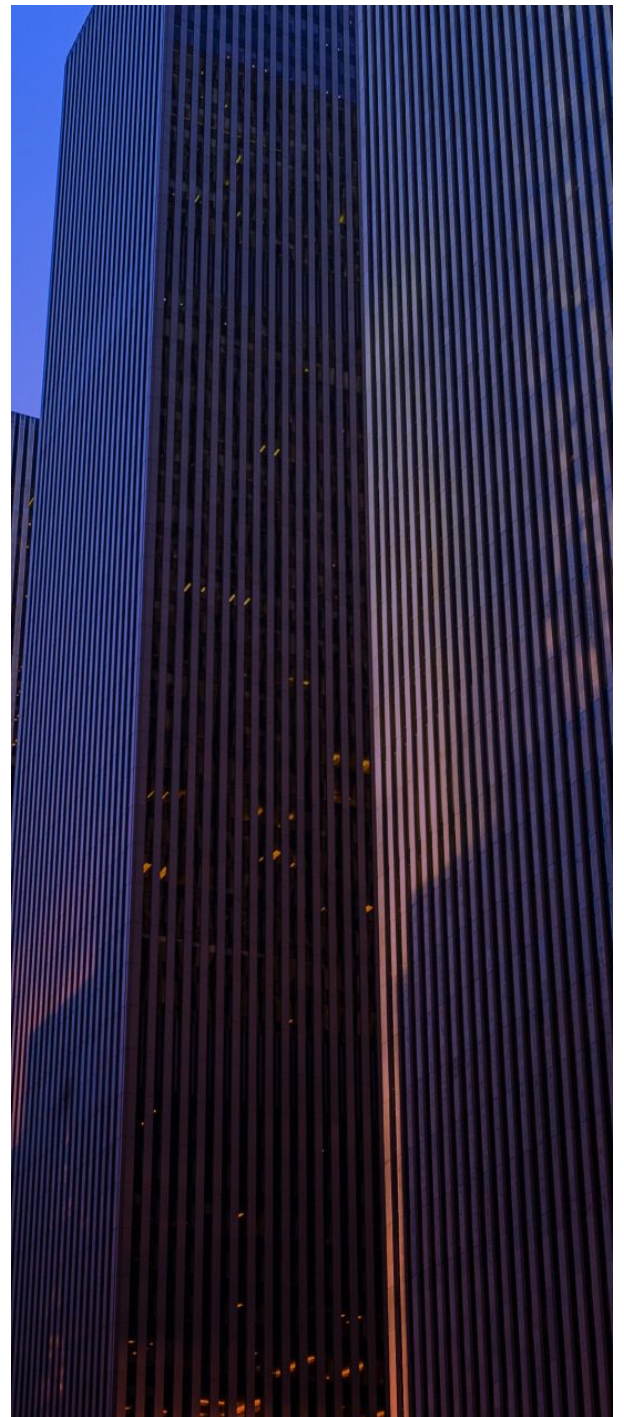
PE firms are increasingly aware of the importance of human capital in creating value from an acquisition. But, they are still not putting sufficient attention on leadership capability during the crucial due diligence phase of the investment lifecycle. Investors will find a smoother path to creating value and success from deal execution to exit if they apply the same rigour to assessing leaders as they do to analysing figures and projections.

73% chance a portfolio company CEO will be replaced during the investment lifecycle. [2]

The mistakes PE houses make in due diligence

- Deploy routine background checks only not a formal assessment process
- Trust their own gut instinct over an independent assessment
- Get caught up in 'deal fever' with confirmation bias leading to overestimating leaders
- Overweight charisma confidence and presentation skills in judging leadership talent
- Run a recruitment-style candidate assessment that is unfit for the context
- Use assessment methods which patronise or antagonise the management team
- Assess only the CEO not the wider leadership capability

[1,2] Alix Partners Global Research 2019



Can this leadership team really deliver on our growth and exit strategy? >>

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Can this leadership team really deliver on our growth and exit strategy?

When you're in the due diligence phase of a PE deal, it's one of the most important questions to answer. But too many PE houses are still failing to ask the question at all. Or they're not digging deep enough to make an accurate prediction.

The result? They often end up paying a heavy price further down the line. Performance stalls. Leaders have to be replaced. The hold time extends. The returns fail to meet expectations.

Conducting an independent leadership assessment as part of deal due diligence to assess suitability and capability of the prospect portco's leadership is a simple and effective solution for preventing unwanted setbacks – and will increase the chances of maximising returns while speeding time to exit.

By predicting the performance of leaders, you can see how fit they are to deliver your future strategy. Armed with this insight, you can then take steps to mitigate risk and speed the success of your investment.



The power of independent assessment >>

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The power of independent assessment

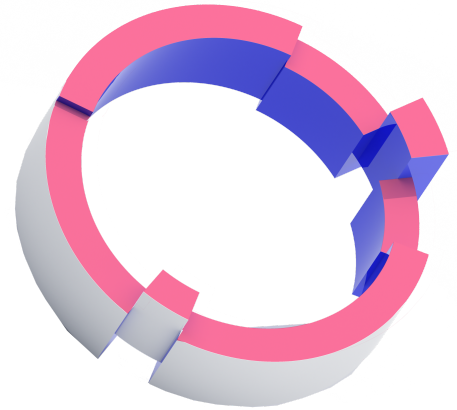
By engaging a human capital due diligence specialist, you benefit from an expert, objective analysis that draws on evidence-based methodologies.

The process is far from time consuming; it can be comfortably fitted in around conventional due diligence activity. Nor is it costly, especially given the sums at stake in the investment.

The assessment approach and methodology will need to deliver an unbiased and objective assessment of capability through the lens of the investors ambitions and goals for driving high performance. To be truly meaningful, the assessment should investigate leadership capability as whole, not just the CEO's abilities. So, you should also assess the CFO and other board leaders (or anyone earmarked to join it). There has to be a focus on the team dynamic and their complementary skills, not just their individual abilities.

The relationships in an assessment process are complex and nuanced. An independent assessor understands their duty of care to the individual, the investor and the company. When delivered professionally, the assessment will give the assessed leaders confidence in the purpose, transparency and fairness of the whole exercise.

More than this, leaders will feel valued and more likely to engage positively with the process and see it as a learning experience.



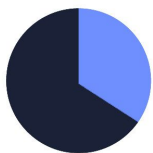
Solving the scaling problem >>

Solving the scaling problem

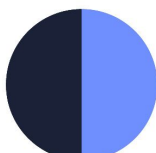
The same story is told anecdotally many times. Post-acquisition, a CEO and leadership team struggle to deliver growth. Despite their earlier achievements, they can't scale up the business at the speed the strategy demands. One or more of them end up being replaced.

The statistics show it happens more often than you might imagine. Nearly three quarters of CEOs are replaced before the exit date. Over half are replaced within two years. But of those only 15% are moved on straight away.

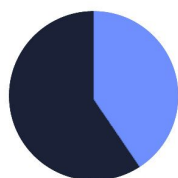
This research suggests that PE houses are making ill-informed predictions about the capabilities of leadership teams. To compound the problem, they are taking too long to make improvements or changes at the top. Clearly mistakes are being made in the due diligence phase.



35%
of PE firms find it hardest to measure leadership skills.



50%
find it toughest to gauge leaders' 'fit' to roles.



40%
of PE assessments are unstructured and miss success factors.

Through an independent assessment, you can gain is a true picture of each leader's capabilities and motivations – and their fit for the role they will be expected to perform. You will be able to predict how effectively leadership will deliver both as individuals and in tandem.

The right way to approach assessment

- Assesses individuals and leadership team dynamic
- Specific role and goal benchmarks assigned to each leadership position
- Unconscious bias removed from process
- Tailored assessments using mix of tools: interviews, 360degree feedback, psychometrics, questionnaires, observation
- Open, non-judgemental, two-way conversations
- Full feedback discussed with leaders
- Final report featuring practical recommendations

Spotting warning signs & success predictors >>

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Spotting warning signs & success predictors

The right assessment methodology will highlight any red flags over future performance. It will also identify whether leaders possess the positive traits they require in their post-acquisition roles. Some people believe it's impossible to predict future performance with any accuracy. The evidence suggests otherwise. Specific values, skills, behaviours and motivations are proven to influence commercial performance. At the same time, cultural fit can be measured. A skilled assessor will look back at the leaders' track record to see how the strengths and weaknesses of the top team have boosted the business or held it back. Equipped with benchmarked data, the assessor can then assess how those strengths and weaknesses will impact on the delivery of the growth strategy.

WARNING SIGNS

- Reluctant to delegate
- Resistant to change
- Narrow, incremental experience

FUNDAMENTAL SUCCESS PREDICTORS

- Bright, quick learning and open
- Significant drive manifest in a willingness to work hard and do what it takes
- Emotionally resilient
- Know how to make a business operation work
- Entrepreneurial outlook (not a personality attribute)
- Has the courage to take difficult decisions
- Builds strong teams

LONGER TERM SUCCESS PREDICTORS

- Continually reappraises issues
- Changes direction quickly when things don't work
- Draws on the resources and people around them and builds a strong relationship with the PE house

If leaders score strongly on success predictors, you can have confidence in their future performance. If you find some gaps, you can take steps to address them, from coaching and mentoring to bringing in new talent.

Prepare leadership to thrive, not falter >>

40% of a firm's superior return on investment and 35% of its income growth stem from the strength of its CEO and management team

Prepare leadership to thrive, not falter

You will have the metrics, analysis and insight to inform key decisions – in the short and medium term. In extreme circumstances, the results may put you off the deal altogether. More likely, you will have a clearer understanding of how to make the investment a success. You can take steps to mitigate risk, address gaps and accelerate performance.

Leadership assessments do not just provide data for the PE house, they also provide leaders in the portco with information that can help them improve what they do and help them understand how best to work with the PE house.

Acting on performance predictions

Personal Development

- Create personal development plans
- Mentoring from the chair and/or external coaching
- Team workshops and interventions

People & Roles

- Identify most suitable Chair
- Change leaders' roles/remit/responsibilities
- Replace one or more leaders
- Add new talent to the top team
- Begin succession planning – build a future leaders' pipeline

Intelligence-led talent solutions for enhanced ROI >>

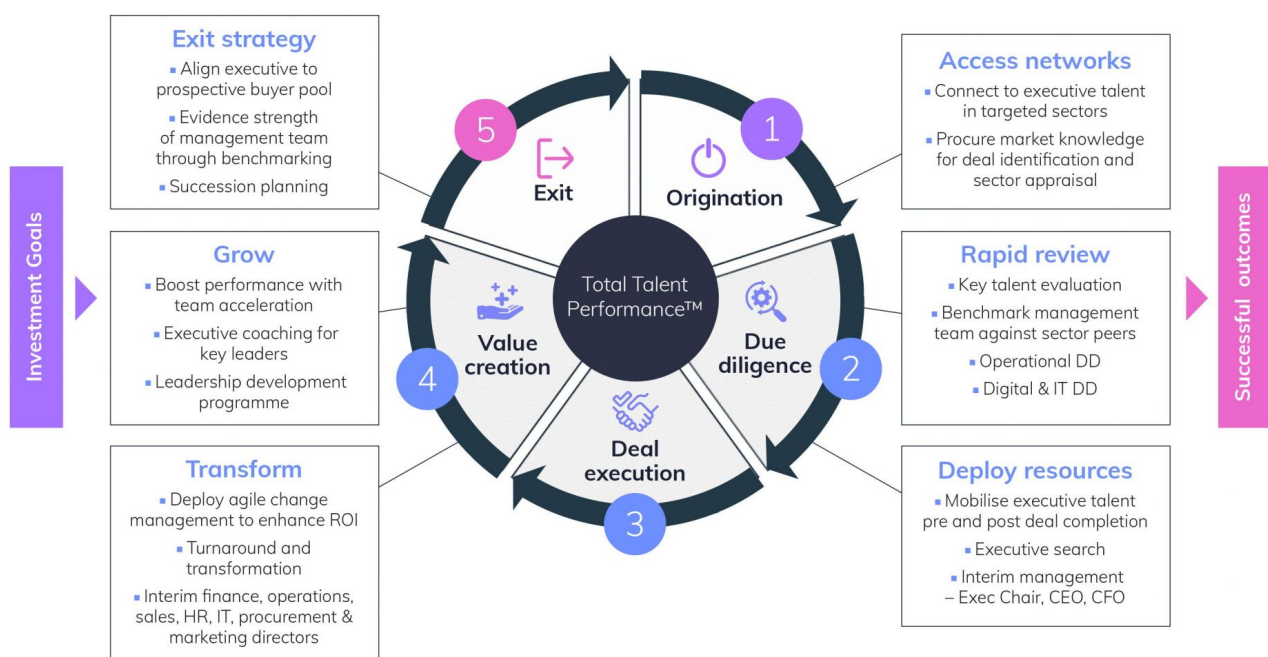
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Intelligence-led talent solutions for enhanced ROI

At New Street Group, we understand that strong financial performance is simply an output of good management and talented human capital. People are the key to making the right investments, to growing portfolio businesses – and to getting the best possible return at the exit date you desire. For over 40 years we've built lasting relationships with many world-leading organisations in the private equity sector. During that time, we've recruited, assessed or developed over 10,000 leaders.

We provide talent acquisition and talent consulting services across the whole deal lifecycle. You can engage us from start to end – or just at the stages when you want value-creating support. Through an ongoing partnership, we can pre-empt your needs and plan strategically to deliver your goals, up to and including exit.

We integrate best-in-class services in assessment, leadership development, interim leadership and executive recruitment, to create robust, rounded, intelligence-led solutions. Our unique Return on Interim (ROI) methodology monitors and measures performance of senior interim assignments, ensuring a maximum return from human capital investment and better business outcomes.



For advice on human capital at any stage of the investment lifecycle, please do not hesitate to get in touch.

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