

SPRINGBOARD

Perfecting performance

Management can be measured, argues Alison Gill



Private equity professionals believe that the three most critical success factors in PE & VC investing are ‘Management! Management! And Management!’ But how does this belief translate into the due diligence process investors adopt pre-investment?

The answer varies incredibly. Some GPs that you would expect to be ‘old school’ have relatively sophisticated processes in place. However, many more houses adopt ‘reference checking’ and ‘substantive, structured close personal dialogues’ (also known as discussing the business plan over a long lunch). Very few adopt a scientifically based approach using the latest tools and techniques to accurately measure current capability, future potential and intrinsic motivation to adapt at the proposed speed of the planned business.

This wide range of relatively low-quality due diligence on management teams has generally not led to prominent issues during the buoyant markets of the past 10 to 15 years. However, with the future options for financial engineering significantly reduced and exit multiples falling, the ability to optimise the performance of the management team and identify the development support needed to succeed will be a primary driver of success.

A widely held myth is that it is difficult to ‘prove and measure’ people capability. However, the precision by which the measurement of people and performance has evolved over the past 10 years is

immense. This should be good news for financiers and advisers, who tend to be comfortable with things that can be proved, measured and predicted. The key challenge for leaders in the industry is to understand how such techniques can be used to significantly enhance the predictability of business performance.

The measuring game

‘Talent’ is often used to imply a gift or innate quality that is difficult to control and predict. In business and in sport today, the science of talent management is just that, a sophisticated discipline that increases the likelihood that individuals and teams will attain their full potential and the achievement of the investors’ business goals. It is no coincidence that the British cycling and rowing teams achieved such Olympic successes in China last summer. The teams were built with the skills and knowledge to support success and the individual athletes on those teams have been measured, monitored and developed using the latest psychological, physical and biomechanical techniques.

Best in class assessment and development of management teams must be designed in collaboration with the investors to include an analysis of the current complexity of the business and its proposed phases of growth.

At Crelos, we use measures of:

- appropriate psychometric tools selected from an online library

- role complexity and future team and organisational structure
 - behavioural event interviews with each individual
 - interactive referencing discussions with a number of referees using the Crelos 360 degree technology.
- This analysis provides a talent benchmark report showing current and future potential against the proposed growth plan; personality (what the individual/team likes to do); intrinsic motivation (what will the person/team do?); derailers (what will stop them, often including lack of self-awareness?), intellect (what are they capable of?) and behaviour (what have they learnt to do?). Research using Crelos’ Talent Index methodology highlights that using a robust process enhances the predictability of performance by as much as 75%.

Plan for the future

With any assessment exercise, there is a decision to be taken in terms of readiness, and ability, to deliver now and in the future. This decision should be made with full consideration of the type of support that will best help an individual to accelerate their potential. We turn our assessment data into a Management Team Development Roadmap. This roadmap will specify the type of development that will best suit the individual, the type of people that will be required in the team and the typical organisational structure within which an individual will excel. The type of development required will vary considerably for different individuals, as will the typical team and organisational structure. For example, coaching, mentoring and team-based, workshop-based, psychotherapeutic and instruction-based development are different techniques that are suited to different types of people in different situations.

Private equity houses have been searching for the holy grail of a specialist programme to assemble the most suitable management team to execute the plan. There has been considerable progress in the field of organisational design and management due diligence. It is time for the profession to reflect on the tools and techniques available and how they can be used to best effect during the due diligence process and enhance investment success. ■

Alison Gill is co-founder of Crelos, a consultancy that specialises in using psychology precisely to enhance business performance (www.crelos.com).