How to maximise success in a PE buy-and-build strategy

Written by Sandra Aldridge of Highwire Consulting

Having the right leadership in place with strong emotional engagement will drive value through increased innovation, motivation and strategic alignment.

In the fast-paced world of Private Equity, the buy-and-build strategy has emerged as a powerful route to value creation and growth. By consolidating operations, leveraging synergies and optimising resources, private equity firms can unlock significant value and drive returns for their investors. However, this is a complex process and one that is not guaranteed to give the returns envisaged.

> *According to Harvard Business Review, 70-90% of M&A efforts fail to accomplish the strategic and financial business objectives they set out to achieve.*

Strong leadership is critical - getting the right leaders in the right roles is key to a successful buy-and-build strategy and crucial for accelerating performance. Yet too often the focus is on synergies, process, technology, valuation, and so on, and the capability of the leadership team is lost in a sea of data.

Securing the right leadership drives value and long-term success; without strong leaders and a clear strategy companies can suffer culture clashes, demotivated employees and in-fighting, which will likely result in loss of talent and erosion of value.

What does the right leader look like in a Buy & Build scenario?

Research highlights four core attributes which stand out as critical:

1. **Stakeholder communication and relationship building** – to convey complex information clearly and transparently and foster trust, collaboration and a sense of unity.
2. **Strategic thinking** – to anticipate challenges, identify opportunities for growth and make informed decisions that align with the strategy.
3. **Change leadership** – knowing when to transform and when to maintain stability and understanding how to support teams through periods of uncertainty.
4. **Emotional intelligence** – to navigate emotions, manage conflict, inspire confidence and lead with empathy and resilience.

Ensuring these core attributes are present in the senior leadership team is essential to the success of the acquisition. Just as essential is ensuring they have the required skill-sets and capabilities that will really drive growth in the new business model. To do this an organisation needs to look forwards and be prepared to make tough talent calls.

In our experience those organisations that have not made difficult calls at the outset (e.g. elevated senior people with poor people skills and lack of emotional engagement), have had to revisit the decision six months later. The result is lost time and opportunities, with morale and motivation dipping in both the acquired and acquiring company.

When acquiring a company, perform the same level of due diligence on the leadership as you do on commercial and financial matters

Key steps to take:

1. Define the specific skills sets, experiences and characteristics desired of the leaders for the future - be aware that what has worked well in the past may not be right for the future. Include the requisite people leadership skills (as described above).

2. Articulate a clear approach - process, tools, timeline and communication plan to minimise uncertainty.

3. Conduct a thorough, bespoke and objective assessment of the key players in both the acquiring and target company, specifically;

    a) Pay as much attention to leadership potential, culture and values-fit as technical, commercial and industry experience;

    b) Conduct an independent assessment of the key players against a clearly defined skill set, include an in-depth interview, psychometric profiling, real time observations, referencing and, where available, performance data;

    c) Make each person feel valued and emotionally connected during the assessment – make it a positive experience that builds on excitement and lessens anxieties.

4. Use the data to inform talent decisions; don’t shy away from any tough talent calls; create development plans to maximise each person’s potential.

The importance of people leadership and the role of emotional intelligence

There is a wealth of research on the correlation between good leadership and business success. However, one factor that often gets side-lined is the emotional aspect, namely the positive impact of emotional intelligence on managing the human elements of change.

A merger or acquisition inherently involves significant transformation which often creates a sense of uncertainly across all facets of the business. This in turn brings stress and emotion to all involved. When leaders can empathise with employees' concerns, fears and hopes, they can help create a more positive, trust-based and collaborative work environment. This will lead to smoother integration, reduced resistance to change, increased engagement and ultimately better business outcomes.

By recognising and addressing emotional factors in the transaction, organisations can build stronger more resilient and successful combined entities.

Recent research identifies several emotions which play a significant part in the context of buy-and-build strategies:

Anxiety about the uncertain future and changes to the organisational structure.

Trust and distrust emerge as both parties evaluate each other’s strengths and weaknesses.

Fear of the unknown, fear of change, and fear of what this means at a personal level.

Excitement about potential opportunities, new roles, and growth prospects.

Resentment towards the acquiring company, new management, or changes in company culture.

Hope for a better future, greater opportunities, and enhanced career satisfaction.

Managing emotions is even more important when start-ups are acquired

Start-up founders and key employees are often deeply connected to their company at a personal and emotional level. The decision to be acquired can evoke emotions such as excitement, relief, anxiety, and even sadness. On the one hand, the opportunity to be part of a successful acquisition can be thrilling for start-up talent. It validates their hard work, provides financial rewards, and offers the chance to scale their ideas with the resources of a larger organisation.

However, on the other hand there may also be feelings of apprehension about losing autonomy, fear of change, or uncertainty about their future role within the acquiring company.

It is the senior leadership team's role to harness the emotional investment of start-up talent as this will lead to more success post-acquisition, whether the start-up is left as a stand-alone or integrated.

> *"While many believe that post-acquisition talent retention can be easily managed through stay-incentives (e.g. stock options that vest over time), the reality is that many acquired employees from start-ups choose to leave early despite knowing that doing so would leave money on the table."*
>
> ***Harvard Business Review 2024***

> *"Among the most prized assets of many start-up companies is their human capital, often serving as the driving force behind their innovation and success."*
>
> ***Harvard Business Review 2024***

How can leaders leverage the power of emotions during the acquisition process?

Pre-deal - encourage transparent, honest communication and acknowledge and address fears and uncertainties to help manage anxieties;

Post-deal - provide clarity on the vision and objectives of the merger, offer opportunities for employees to voice their opinions and concerns and implement clear change management strategies to ease the transition;

Define the culture – understand and acknowledge cultural differences and promote a cohesive post-merger culture to create a sense of unity and shared purpose;

Don't just rely on incentives for retention - create emotional attachment and intrinsic motivation; enable and empower acquired start-up talent;

Build trust and maintain effective communication throughout the process - demonstrate integrity to build strong and collaborative relationships with all stakeholders.

The investor perspective:

Emotions are also at play in the investor organisations. Private Equity investors play a significant role in decision making and emotions such as excitement (for the deal), anxiety (about future performance), confidence or hesitation (about the synergies and cultural alignment) come to bear as they evaluate the potential opportunities and risks associated with an acquisition. By understanding and managing the range of emotions present within the investor and management team, the Board can improve decision making.

Here, the Chair and Non-Executive Directors play a vital role. By demonstrating empathy and fostering open communication across both the investment and management teams, as well as providing constructive challenge where and when needed, emotional obstacles can be overcome and interests better aligned.

In a recent Critical Eye article, the importance of the Chair and NEDs when a deal is on the table is emphasised:

"As Board members our role is to challenge – if not temper – optimism. The role of the Board is to see the opportunity that's been presented – and not be blinkered by it – but also to challenge the risk side of it."

Points for the Board when leading a Buy & Build strategy for portfolio companies

1. **Board and executives of the acquirer need to stay curious** - this mindset will allow them to see things about the target company that they might otherwise miss through financial and commercial due diligence.
2. **Board to recognise their emotions** – Who is more cautious? Who is bolder? Who has more influence?
3. **Use the Chair to facilitate discussion to ensure all perspectives are considered** - have open conversations about the emotional side of doing deals, recognise and legitimise these; above all challenge each other.
4. **Ensure there is adequate strategic, people and culture capability on the Board.**

In summary ...

While emotions can present challenges in a buy-and-build strategy, they can also be leveraged as a source of innovation, motivation and strategic alignment when managed effectively. Strong people leadership which focuses on emotional engagement is key to unlocking success and achieving growth.

Building a successful leadership team:

Contributed by George Heppenstall of Directorbank Executive Search

Building a leadership team capable of executing a successful buy-and-build strategy is often a challenge for investors. It requires forward planning and a financial commitment to invest in leaders with skill sets and experiences aligned with the future enlarged organisation, long before the business has reached that scale.

Typically, the initial platform cannot justify the cost base needed to support the level of experience required for successful strategy execution. Balancing the short-term financial pressures of the business with the need to hire the right talent is essential.

Effective search and selection, underpinned by deep knowledge of PE buy-and-build exits, is crucial when seeking the right talent to achieve the desired outcomes. Knowing who to hire into the team, and when, is critical and a different blend of experience may be key to success. A CEO to drive the vision and cultural identity of the group, a CFO to focus on financial and management reporting, and a dedicated M&A Director to lead the origination and execution of bolt-on transactions might be the best solution.

Furthermore, a Chief People Officer can play a critical role in focusing on the human element. Their efforts in employee engagement, communication, and organisational design will help to facilitate a smoother transition, one that preserves value and ultimately helps to drive the combined entity toward its strategic goals.

Additionally, the role of an experienced Chair cannot be underestimated in building a high-performance team. Knowing when to hire, which appointments will add the greatest value and recognising who may have reached the limits of their capabilities in a rapidly growing business requires experience. A PE savvy Chair can bring a wealth of knowledge, strategic insight and leadership know-how to the M&A process, significantly enhancing the chances of a successful integration, and driving long-term value creation for the enlarged company.

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