

Identifying organisational bottlenecks up-front to accelerate value growth

Humatica's 3rd Organisational Excellence Breakfast Seminar
Workshop materials and outputs

27th September 2017

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1 | Key insights

- Many ways in which sponsors are currently trying to get better information on organisational performance below the senior management.
- Approaches are mostly indirect, through the senior management, which has an asymmetric information advantage with regard to organisational behaviours and established management practices.
- Many challenges with trying to get more transparency on organisational performance, in particular potentially increasing insecurity among the management, high complexity of the factors of performance, a clear definition of performance and national cultural differences.
- Deep transparency on organisational performance is viewed to be beneficial in that it creates a fact-base for constructive discussion between management and sponsor, builds trust and accelerates transparency on soft-factor and leadership issues so that these can be dealt with earlier in the holding period.
- In order to introduce an effort to get deep transparency, the benefits for senior executive management should be clearly described – that this will help the portfolio company leadership to make better decisions on org changes that enable them to achieve the business plan.
- Changes resulting from a deep organisational assessment could be disruptive and take a long time if not done systematically.
- The best time to initiate a deep organisational assessment is right after deal closing. This creates the least amount of turbulence and helps the management by giving them and the sponsors a fact-based change roadmap to fill identified gaps.

2 | Humatica's purpose - Organisational performance & enterprise value growth

New reality

- Good products & services, the right strategy and efficient processes are necessary, but no longer sufficient for **sustained** value growth
- Success in changing markets is increasingly driven by the collective ability of an organisation to **adapt, innovate, transform and renew**

Behaviors are critical

- **Quality** of employee interaction increasingly drives differentiation and a firm's ability to collectively process information, recognise patterns of opportunity & risk, and act quickly on them

Humatica founding idea:

Deliver hard facts analysis and implementation support to optimise the human factors that increasingly drive performance, innovation, productivity, differentiation and enterprise value



Delivers bottom-line performance improvement

- proven to deliver outstanding results
- focus on impact and sustainability to achieve rapid organisational change
- deliver sales, cost and profitability improvements

2 | Cutting through complexity of the organisation

How Humatica helps sponsors and senior executives grow value

Pre-deal

- Modular organisational due diligence depending on the level of access
- Fact-based understand organisational risks at all levels that could hinder the implementation of the value creation plan
- Includes senior management team's ability to execute the value growth plan
- Estimates of cost and time to resolve for factoring into the investment case

Better deals

Post-deal

- Deep organisational transparency including culture, behaviours, management processes, leadership practices, structures and enabling systems
- Recommended measures to accelerate implementation of the value growth plan
- Fact-based foundation for trust-building between sponsor and management
- Catalyst for change with front-line buy-in

Faster implementation

3 | Overview of Humatica's Organisational Excellence Breakfast Seminar

- Humatica's 3rd Organisational Excellence Breakfast Seminar was held at the Ritz in Mayfair on September 27th
- Over 20 participants including deal-makers, operating partners and portfolio company CEOs
- 7:30 breakfast reception, 8:00 start, 9:30 end with coffee and pastries
- Key focus on identifying organisational bottlenecks up-front to accelerate value growth
- Topics of discussion included:
 - What are the early warning signs of gaps in the organisation and leadership processes?
 - How to get fact-based transparency up-front on needed organisational changes to drive the value creation plan?
 - How can sponsors facilitate needed changes without jeopardising management accountability?
 - What is the role should the "HR Operating Partner" play?

3 | Seminar Participants



4 | Getting transparency – Questions and plenum discussion responses

Question: How are you getting transparency on organisational performance and bottlenecks currently post-deal?

Seminar
Discussion
Results

- Interaction with CEO/CFO – both questioning and observed behaviours
 - CFO for hard factors
 - CEO for soft factors
- Meetings with portfolio company operational teams – both 1:1 and in groups
- Discussion with management during 100 day planning
- Having the right KPIs to understand early when issues are emerging
 - If KPIs are not met, need to dig deeper to identify issues
- Employee surveys to identify staff churn issues
- Senior team assessments
- Board presentations

4 | Transparency obstacles – Questions and plenum discussion responses

Question: What are the most difficult obstacles to getting transparency on organisational performance post-deal?

Seminar
Discussion
Results

- Insecurities and fear of Private Equity ownership lead management to be less open
- National cultural differences hinder communication
- Degree of managerial openness varies by geography and size of portfolio company
 - *Smaller companies are less “corporate” and tend to be more sceptical to best-practice change introduced by Private Equity*
- Too much information makes it difficult to prioritise what information is important
- Availability of relevant data / granularity of data
- Politics between the management team and with the Private Equity team on what data is shown to the sponsor
- Limited access to people lower down in the organisation
- *Difficult to go “too deep until something goes wrong”*
- Request for more data creates additional fear and insecurity among the management
- Need to understand what organisational performance really means – clear definitions

4 | Transparency benefits – Questions and plenum discussion responses

Question: What are the potential benefits of deep organisational transparency?

Seminar
Discussion
Results

- Upfront issue identification to save time in resolving and avoid unexpected delays later
- Better knowledge of department interactions in the portfolio company
- Clarity about different views on existing issues
- Clarity on organisational bottlenecks that help to drive consensus
- Clarity on true potential of the company
- Ability to measure and, therefore, manage performance
- All the organisation on the same page and aiming towards the same goal
- *Clarity on management team's strengths and weaknesses*

4 | Transparency challenges - Questions and plenum discussion responses

Question: What are the challenges with implementing it?

Seminar
Discussion
Results

- Transparency can create new conflicts:
 - Manager insecurity
 - Impatience for getting results
 - Short-term prioritisation of actions and levers
- Need to be positioned as constructive for management team – to help them
- Too much information and data can overwhelm the organisation
- Potentially large amount of work to implement and challenge in prioritising
- Unclear return on effort for specific measures
- Once transparency is known, the next step is to resolve issues identified
- Additional resource requirements can potentially be a distraction for management
- Time required to implement change – does it fit in the investment time horizon
- Fear from lower levels of the organisation to consequences of being honest
- Potential loss of key people
- Cultural change can bring more pain than benefit
- Must obtain transparency early. There is a risk that buyer will hold results against you if done late, before exit
- Risk that too much transparency creates disruption in the organisation

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