



Goodbye management due diligence; welcome team and organisational strategy

If you change the head and handle of a broom, is it still the same item? [Trigger from Only Fools and Horses](#) thought it definitely was, even after multiple changes.

Similarly to our broom analogy, management due diligence (MDD) also has two main elements: what investors need from it, and what providers do to meet that need.

THEN AND NOW

If we wind back twenty years, when MDD went mainstream in the mid-market, investment dynamics were quite different. Less competition for assets meant lower entry multiples, while value growth was strongly supported by favourable economic conditions and leverage was deployed more liberally. Investees were more often well-established businesses with less need for nurturing. In that context, management due diligence focused on identifying potential red flags across the top few managers.

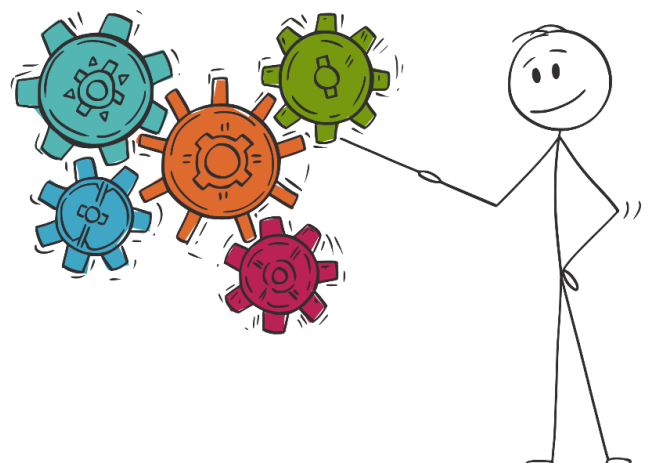
These days, both sides of the equation have shifted significantly. Entry multiples have grown, even for less mature businesses, while the economic context has been unpredictable and less supportive of leverage. Consequently, investors spend more time determining how to shape upside value rather than simply buying well. A greater proportion of value growth is determined by strategy decisions, quality of governance, and enhancing scalability.

IMPLICATIONS FOR MANAGEMENT WORK

Naturally, the implicit requirement for any work on management issues has shifted in several ways:

- The focus has widened from the strengths and weaknesses of a few individuals to the wider team and organisation.
- The purpose has moved from mostly validating the back-ability of the management team to building a roadmap for future development.
- While previously, work was largely confined to the pre-deal period, now we see other options: activity split between pre- and post-deal; entirely post-deal; midway through the investment cycle; pre-exit.

The result of these shifts is that some investors are changing the language they use to describe this activity. We have seen our work labelled as 'the organisation workstream', 'human capital planning' or 'people DD'. These are all signs that the previous consensus around referring to 'management due diligence' has eroded as requirements evolve in different directions.





CHOICES

There are now various distinct ‘flavours’ of team and organisational work:

- Traditional forms of MDD are still present, even prevalent. These are typically provided by 1-2 person providers deploying psychometrics, interviews, and sometimes references. Outputs focus on the strengths and weaknesses of the top few individuals, light touch comments on team dynamics, and recommendations centred on the top team.
- At the other end of the spectrum, people like Humatica deploy heavy weight tools and a classic consulting team structure to analyse organisational risks, effectiveness and change requirements, typically for upper mid-market or larger targets/investees.
- Between those variants sits something we call Team and Organisational Strategy.

At the risk of over-simplification, we have provided a comparison of the three approaches in the chart below:

	Traditional Management due diligence	Classic Organisational consulting	Team and organisational strategy
PURPOSES	Assess the current state	Assess the current state Align stakeholder perceptions Input to strategy/VCP Build team and organisation roadmap	Assess the current state Align stakeholder perceptions Input to strategy/VCP Build team and organisation roadmap Diagnose specific issues Prepare exit
TIMINGS	Pre-deal	Pre-deal Strategy process Midway	Pre-deal Split pre/post Strategy process Midway Pre-exit
COVERAGE	Individuals Team?	Team? Organisation Business context Strategy execution	Individuals Team Organisation Business context Strategy execution Governance
INPUTS	Psychometrics Interviews Background checks? References?	Interviews Team/organisation questionnaires	Psychometrics Interviews Background checks References Team/organisation questionnaires Role questionnaires
OUTPUTS	Reports Client briefings Management briefings	Reports Client briefings Management briefings Data packs Team workshops Board sessions	Reports Client briefings Management briefings Data packs Team workshops Board sessions



TEAM AND ORGANISATIONAL STRATEGY

To earn that label, the following essential features need to be present:

PURPOSE

To synthesise multiple insights into a coherent understanding of current state that informs decision-making in the context of business model, market and strategy.

To offer a practical roadmap that focusses and energises investee management teams. That roadmap should be looking to add at least one point to the exit multiple.

COVERAGE

To explore **management** – i.e. all the activities and decisions which sit between strategic intent and execution - not just **managers**.

AUDIENCE

To offer value to investors, Chairs and, above all, the investee management team.

PRACTITIONERS

Ideally delivered by people who have been part of senior teams and/or boardrooms dealing with growth company dilemmas

COMPONENTS

Implied by the use of the word strategy is that any exercise should:

- A. Efficiently map the wide range of team and organisation issues, using wide spectrum tools.
- B. Likewise, calibrate the business model, market and strategy context
- C. Reach a view on the future desired state in line with investor and management objectives
- D. Offer at least an initial roadmap of vital priorities and sequence to bring that desired state closer
- E. Assist validation of those priorities by stakeholders and alignment around a plan

TIMINGS AND OUTPUTS

By contrast, timing and format of outputs becomes less rigid. Because of different investment dynamics and styles, some investors want work handled pre-deal and delivered as a report. Others may want support mostly to feed post-deal strategizing, with less in writing. Others still may want lighter or more workshop-based interventions to respond to fast growth, under-performance or the need to build a story for exit.

THE PAYOFFS

Reframing and relabelling this activity in that way brings a couple of important benefits:

- It distinguishes between quite different options of intervention available to investors. At Catalysis we now refer to traditional MDD as 'assessment plus', a lighter scope with strong focus on individual characteristics. Most of our work, however, is team and organisational strategy and, removing the distinction between pre- and post-deal projects makes us realise we have carried out more than 400 such exercises.
- It makes it clearer to CEOs, Chairs and portfolio (or value creation) directors, that this kind of activity should be defined by the level of benefit it brings to them, not mainly as a validation exercise.

How can we work together better?

- ▶ Our website www.catalysis-advisory.com addresses the points above in more detail, introduces our team and shares some of our thought leadership.
- ▶ Our LinkedIn account shows the good company we keep: www.linkedin.com/company/catalysis-advisory-ltd/

- ▶ We are happy to put on training sessions/webinars for firms interested in the challenges of growing companies.
 - ▶ But the best way to compare notes is to fix an initial chat:
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