The Value of Culture in PE

In private equity there is an assumption that culture can often be overlooked as a softer business issue. **Mary-Anne Baldwin** finds out why it was such a hot topic of discussion at Criticaleye's recent Private Equity Retreat

A company that possesses a good culture is far more likely to achieve success. As well as underpinning positive employee behaviour and external communication, a strong culture will provide a business with greater resilience when undertaking the major organisational changes that come with private equity backing.

At Criticaleye's recent Private Equity Retreat, the question of culture was discussed in depth. It fed into ideas about employee engagement, innovation, customer focus and the dynamic between the CEO and sponsor.

Justin Ash, CEO of PE-backed dentistry provider, Oasis Healthcare, said: "I've spent time working with the PE house to jointly understand the importance of culture. We discuss at board level the connection between culture and return. Ultimately you're doing it to build value."

It's a mistake to think that culture means beanbags, foosball and relaxed Friday afternoons, reasoned **Glenn Elliott**, founder and CEO of employee engagement tech company, Reward Gateway. "Culture's not the thing you do on a nice day when the sun is shining, it's what you do when times are tough," he added.

For **James Boot**, Senior Relationship Manager for Private Equity at Criticaleye, culture is a key component of building value in a business. He urged: "Aligning your management team around culture is more valuable than aligning it around >

equity. You should look to create a business that people want to join and investors want to buy. If you do that, the equity and financial gain will follow."

Moving Fast

Oasis has developed a well-drilled buy and build strategy, whereby independent dentists are acquired and then rebranded under a single operational umbrella. "Each of the 170 dental practices we have bought had a different culture. It's fascinating and you have to keep up with it," said **Justin**. "In a multi-site business, culture matters. It matters to you and your customers."

In the case of Oasis, it's been important to liaise closely with clinicians and nurses while introducing changes to the traditional model, such as extended opening hours. "Every time you're branding a site you're at risk of taking out its culture and ripping it up, so you have to be hugely sensitive to avoid that," **Justin** explained. "We do a temperature check every month in each new acquisition site, and a deep dive every six months to show how the businesses are integrating."

Change at the Top

It's highly likely the portfolio company will experience significant organisational change during the private equity investment cycle.

According to a Criticaleye poll conducted at the event, 87 per cent of respondents expect to restructure over the next 12 to 18 months (**see Chart 1**).

This may include replacing members of the senior leadership team as new skills are required to take the business through its next stage of growth. **Glenn** at Reward Gateway acknowledged: "Firing bad leaders and hiring good ones – and defining the difference between them – sends a strong message."

Criticaleye's Private Equity Survey also found that 93 per cent of respondents believe the behaviour of senior executives can reinforce silos within the business (**see Chart 2**).

Steve Weller, CEO at price comparison business uSwitch, described how layers of management were slowing the business down. He decided to remove them and to create autonomous leadership teams that run each division of the business with the group acting as a support function.

"Management should be there to remove the barriers in peoples' way," he said. "It's meant we've been able to keep an entrepreneurial approach but under the safety of the umbrella company."

Often the speed with which a PE-backed business must move is enough to take away any CEO's breath. >

Chart 1: Do you expect to make changes to your organisational design in the next 12 to 18 months?

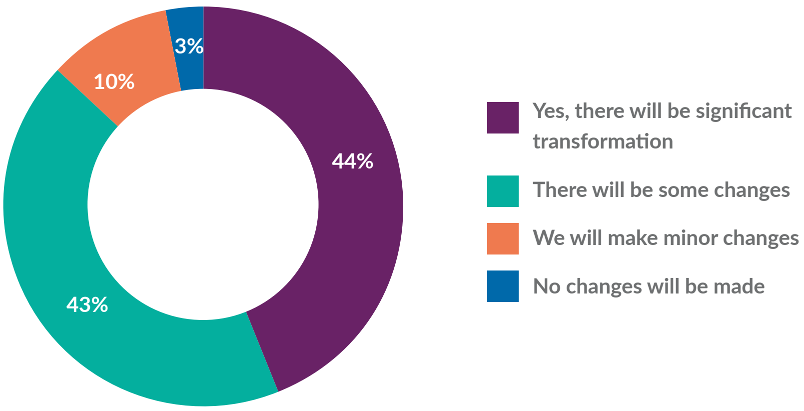
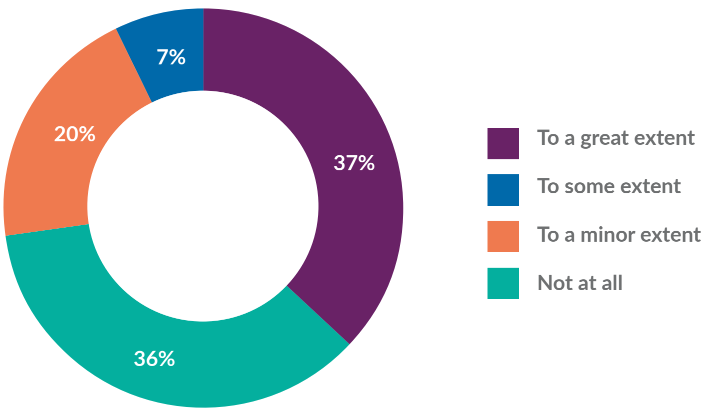


Chart 2: Do the behaviours of the senior executive team reinforce silos within the business?



When **Catriona Marshall** became CEO of Hobbycraft, owned by Bridgepoint Capital, it was underinvested and overstretched. "We needed to make it scalable and at pace," she told attendees.

"In private equity you haven't got much time... It's been quite a challenging journey in that we've had to make big decisions and make them quickly."

Such transformation needs to be communicated to employees in a way that engages them and maintains their momentum while they adjust. "You have to account for the learning curve. Before people give you a real contribution, you're six to nine months into the business," **Catriona** explained.

"We do a lot of craft related things in the office, such as bake offs and card making, which allows staff to better understand both the customer and the product," she said.

Another cultural issue at Hobbycraft has been assessing what style of leadership is needed during different stages of the business' growth.

"A challenge for all of us as leaders in the business has been to understand at what point we need to be very directive and when to stand back," **Catriona** added.

Investing in the Future

As a company nears its exit, the sponsor will often exert pressure on its management team to run more efficiently.

Yet it's also important to invest in the long-term value in the business, such as leadership succession and high quality customer service. As **Justin** explained: "The worlds of culture and PE can bump into each other when it comes to Capex, but it's an enabler for culture, customers and value."

The speakers also agreed that serious thought needs to be given to incentives across the business, rather than just to the senior leaders. "We've allocated equity to as many people as we could, including a significant part of the management equity pot to senior, middle and practice managers," **Justin** said.

Essentially, it comes down to showing you care about people throughout the organisation. **Justin** advised: "You have to live it yourself. Being out there really matters, so people believe the leader is really leading."

The onus is on the CEO to cut a clear path. As **Glenn** put it: "Engaged staff understand the strategy, how their role contributes and fundamentally they really care about the organisation succeeding... Who doesn't want that?" ■

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A CEO must accept that they can't control the timing of an exit and be able to work with that uncertainty

Exiting a business? Do your Due Dil on the buyer: Where are you on their cycle? Who are the individuals and what have they done?

Make change measurable and give people the revenue and freedom they need to make quick decisions

Top tips on tackling culture: Management is there to remove the barriers that get in employees' way

These comments were shared during Criticaleye's Private Equity Retreat 2016. For the full results of Criticaleye's Private Equity Survey, click here

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Featuring Commentary From:


Justin Ash
CEO
Oasis Healthcare


James Boot
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Glenn Elliott
CEO
Reward Gateway


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CEO
Hobbycraft


Steve Weller
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