<u>Transitional Excellence: Family/Founder-Owned to Private Equity Aligned Organizational Assimilation</u>

<u>The Situation:</u>

In a recent M&A Survey, more than 80% of respondents expect an increase in M&A of family and founder companies through 2016 because of increased valuations. Further, 70 to 90% of global GDP is created by founder and family businesses, making them a significant force in the market. They face challenges as they try to scale and stay competitive which makes them attractive acquisition targets for Private Equity firms.

While these make compelling targets for Private Equity firms, there are often issues associated with buying a founder- or family-owned business because the culture and ways of doing business are unique and difficult to uncover. The personal nature and influence of leadership in these companies can make getting to the truth regarding the culture and current management problematic. In fact, many Private Equity firms find that this is one of the greatest areas of concern during due diligence and presents some of the most intractable challenges post-close.

There are five areas where Private Equity firms can encounter more significant obstacles in a family owned versus professionally managed transaction:

- Valuation – sellers and buyers can have vastly different approaches in getting to a sale
- Transfer Provisions and Approvals – careful review of the company's charter, bylaws or separate agreements
- Operational Transition – close evaluation of the depth and breadth of the management's skill sets throughout the organization and the impact of the sale on all employees as new performance metrics are established
- Tax Planning - how the sale will be taxed and any delays in the closing due to the family's estate planning timeline
- Communication – having insight into the family's reason for selling the business, the underlying relationships, identifying the decision makers/influencers and the emotional impact on the family and current employees

Often overlooked, but a key to a successful acquisition, is understanding the company's true culture as well as assessing the depth of the leadership talent at all levels. Talent and culture diligence tends to be more art than science and is short-changed during the acquisition and post-close process. However, these are critical to the operational strategy moving forward and they are difficult to discover in the traditional transfer of information. Additionally, hidden de-railers of success arise from a lack of real understanding of the employees' skill sets and organizational knowledge. Drilling into this information quickly and laying out a rich assessment and action plan will help the Private Equity firm, CEO (whether current or new), and the Board to be most effective and efficient while implementing strategic organizational change.

<u>The Solution:</u>

Steve Dimowitz & Associates has developed a proprietary **three-part approach** to achieving greater organizational effectiveness while avoiding cultural, leadership and operational pitfalls. This approach

1266 EAST MAIN STREET, SUITE 700
STAMFORD, CT 06902
www.stevedimowitz.com

OFFICE: 203-539-6276
CELL: 914-714-0509
steve@stevedimowitz.com

encompasses **1. due diligence, 2. post-close assessment with action planning and 3. alignment around the plan.**

We partner closely with the Private Equity firm principal, the Chair of the Board and the CEO to lay out a comprehensive plan. Our process includes deep discovery through employee and stakeholder interviews. We have found that employees at all levels will readily "share the truth" and point out organizational issues when they meet with an outside expert whom they trust. Our rigorously developed and proven interview guide helps get to the truth fast while protecting the employees' anonymity. We unearth hidden agendas, toxic employees, key talent retention issues, operational inefficiencies and potential financial or legal compliance irregularities. Our clients have found this more rigorous approach to be highly valuable in the pre/post assessment, CEO transition and post-acquisition program.

<u>The Steve Dimowitz & Associates Approach:</u>
We create a strategy and develop a plan to ensure that the acquired company moves forward in a way that is positive and sustainable for the duration of the Private Equity ownership. The work is specific to the organization's needs, current and future capabilities.

<u>Deliverables:</u>

- Create a comprehensive understanding of individual perspectives regarding the culture, business needs, areas of improvement, and expectations for the future of the company
- Capitalize on key learnings through an execution plan that will allow the organization to succeed beyond expectations
- Ensure that with thorough knowledge of the existing skill sets, culture and chemistry of the company, that mission-critical issues are identified and addressed

<u>The Process:</u>

- Collaborate with key stakeholders on all pre- and post-acquisition communication strategies
- Conduct interviews with all current and potential Board Members, Private Equity sponsors family members, the Executive Team (direct reports to CEO), their direct reports and key personnel at the next level down:
  1. Pre- or immediately post-acquisition
  2. At the end of the first six months of the acquisition date
- Conduct an interview with the previous CEO (if applicable)
- Evaluate current culture (assumed vs real), decision-making ladder and company history
- Develop assimilation strategies for newly hired executives
- Be a part of the interview process when hiring new executives
- Identify points of conflict, obstacles, barriers to success, landmines and hidden agendas
- Identify critical employees, assess risk of them leaving and develop a retention plan
- Develop and present key findings (including potential operational and commercial issues) and recommendations to CEO, Board, Executive Team and PE Sponsors
- Work closely with all stakeholders to ensure the execution of the plan

Steve Dimowitz has over 30 years as an Organizational and Individual Transition expert, working extensively with privately held and family owned companies. Among those he has successfully advised are John Replogle of Seventh Generation and Burt's Bees (AEA) and Eric Beringause of Gehl Foods (Wind Point Partners) and Sturm Foods (Hicks Muse) to create highly effective and efficient enterprises.

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STAMFORD, CT 06902 CELL: 914-714-0509
www.stevedimowitz.com steve@stevedimowitz.com