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DUE DILIGENCE

The assessment and development of management teams

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Due diligence: management teams

INTRODUCTION

There are many factors to be considered when assessing a business for investment of which management is one of the most important. With effective leadership and management a business can prosper, without it this business will almost certainly fail.

Studies have shown that 40% of a firm's superior return on investment and 35% of its income growth stem from the strength of its CEO and management team[1]. While most investors would argue that a strong management team is an important part of the process, not all investors approach management assessment and development with a formal process and there seems little agreement among investors about what is 'best practice'.

While the process of due diligence varies for different types of companies, we argue that the key to the human capital due diligence process is to use rigorous evidence-based techniques to gather objective information about the people risks and opportunities. This information must be analysed in the context of:

1. A backward look: How have the strengths and weaknesses of the team helped and hindered the business?
2. A forward look: How will their strengths and weaknesses help them to deliver the forward-looking business plan?

The profile of the management team alongside financial information in the business plan will provide a clear line of sight about the opportunity of eliminating unproductive people cost (such as duplication of activity, lack of engagement caused by highly skilled people doing low-value jobs or ineffective leadership decision making causing productivity issues) while also identifying the human capital components that will ensure sustainable profit and growth.

By using the right tools, insights can be drawn and decisions taken about the capability and potential of the existing management team to deliver the proposed business plan, the ability and motivation of the management team to develop and change and the people risks within the business that might constrain growth.

The skills of selection and assessment decision making are prone to substantial human bias; developing accuracy and reliability requires quality training and substantial practice. Expert assessors rely on highly organised and extensive knowledge structures to rate individuals and make selection decisions. Assessors don't need to be qualified psychologists; however the quality of assessor training has been shown to make a difference to the predictability of selection decisions[2].

This guideline focuses on currently accepted best practice among occupational psychologists in the assessment and development of management teams and the role this has in understanding the human capital drivers and constraints on growth both during the due diligence preceding initial investment and during periodic performance evaluation of investments.

Given that human capital costs consume nearly 40% of corporate revenue[3] and are more complex to manage and measure than the costs of physical or financial capital, there is an opportunity for both investors and their advisers to learn from the field of human development in order to improve the predictability of organisational performance.

The recommendations in this guideline are based on both the authors' practical experience and empirical data about techniques that can be used to assess and develop roles, people and organisations in order to ensure that the management team strengths are leveraged and weaknesses do not become the limiting factor to the performance of the business.

EXAMPLE

A review of the management team in a recent transaction in the built environment sector identified that project direction skill was the main driver of profitability. With a shortage of qualified and experienced project directors available in the marketplace, a project management academy was launched to resolve both the short-term retention of existing directors and to build a long-term talent pipeline that would provide competitive advantage.

1 Pamela Owens and Paul V. Martorana, 'Strong management teams, not hero CEOs, make companies prosper: Organizational performance and CEO personality: Explaining more of the variance through top management team group dynamics' of the University of California at Berkeley Department of Psychology. This paper was selected as a 'best paper' (top 5%) by the Academy of Management and was presented at its conference.

2 The International Journal of Selection and Assessment; Volume 6, Number 3, 1998

3 This is the average reportedly spent on human capital each year for salaries, benefits, hiring costs, training investments and the like. Chartered Institute of Personnel Development 2008

Due diligence: management teams

THE IMPORTANCE OF THE MANAGEMENT TEAM

Leading management guru Professor Harry Schroder spent many years observing and recording what leaders of high performance businesses do and how they do it. Simply, he identified four fundamental categories of activity that a high performance managerial team must demonstrate to create a high performance business:

- **Strategic thinking and decision making** – by seeking information, analysing causality and considering options (continuously seeking, exploring and analysing opportunities);
- **Developing individuals, teams and the organisation** – through listening, coaching and facilitation (developing, re-energising, learning and delivering);
- **Inspiring** – through influence, communication and celebration of success (communicating strengths, connecting and motivating in the market); and
- **Continuously improving** – proactively removing barriers to action, measuring and monitoring performance, enhancing the key drivers of business value (focused on delivering value).

Schroder's research demonstrated a significant difference in how ordinary and high performance leaders execute these activities. High performance leaders focus on making systemic change while their less high performing counterparts focus sequentially, task on task. Finally, Schroder observed that even in the highest performing businesses, leaders rarely had strength in each category – they knew their own strengths and weaknesses and built around them a team of people with different and complementary strengths. Each team member was considered interdependent and of equal importance for the skills they brought to the team.

Schroder's model is a behavioural model, which means that evidence of what a person has done and how they have achieved can be observed, recorded, evaluated and classified against a framework of high performance. This method is core to understand what an individual leader is capable of at a given point in time. The impact of what they do and how they do it will be evidenced in everything they do: the interactions with staff, the processes and systems they create, and decisions that they make.

Schroder's work was focused on complex, fast-moving sectors where for every action there is an outcome. In a turnaround or high-growth business, where the speed and complexity of the challenge is highest, it is crucial to specify the criteria required for people to be successful in key roles. These criteria should not be arbitrary or overly descriptive but precise and linked directly to the context in which the business is operating.

Armed with clear criteria, individual leaders and leadership teams can be benchmarked to show how their current capability compares to leaders of high growth and high performing business units.

In markets where future options for financial engineering are significantly reduced and exit multiples falling, the ability to optimise the performance of the management team, to identify the development support required by this team, and to predict its likely impact on both the cost base and the sustainable profitability could be a primary driver of success.

ASSESSMENT

Assessment is a means of accelerating understanding of the current and future potential capability of an individual, a team and an organisation at a given point in time within a given context. Assessment is a starting point, not an endpoint.

At the individual and team levels the purpose of due diligence is to create an in-depth understanding of how an individual and team will perform within their role(s) in the context of the organisation's future business plan.

Equipped with rigorous reliable information, investors and the individuals assessed will be able to more accurately predict three key things:

- what an individual is capable of, motivated to do and enjoys doing, and the fit against a specified role;
- what development individuals will need to truly excel in these roles; and
- what human capital practices need to be embedded within the organisation to ensure the workforce is optimised and talent is managed.

The assessment process itself is just one component of the overall due diligence process. To maximise the value of the data contained in the assessment process, both the investor and the individuals being assessed need to be involved in the feedback process and the recommendations tightly interwoven into the business plan in order that the recommendations are used to effect change.

If the data collated in the due diligence process is not aligned to the business plan, the insights will be lost and management's priorities will be elsewhere. This is a mindset shift from how many businesses operate today where development is left to chance.

In this section we look at assessment from an individual, team and organisational context exploring what tools are available, what they measure and what to look out for.

There is a person behind every profile

At the heart of every assessment are continuously evolving human beings. Good assessment practice has a duty of care to the individual, the investor and the organisation. When assessment is delivered effectively, assessed individuals will feel valued, be engaged in the process and will learn from the experience. When delivered badly, the individual will feel bruised, ignored and disgruntled.

Many business leaders, even those who have been working within a corporate environment, will be new to detailed individual assessment thus, as with any investigative personal process, they may be apprehensive. From the start, the assessor and assessment process should establish that the process will be open, transparent and collaborative.

Assessment done well is a mechanism for individual as well as organisational decision making. Communicating clearly at the outset what is being assessed, how it will be assessed, how the information will be used and when the individual will receive feedback is crucial. Investors who have experienced detailed assessment themselves will be best placed to communicate the benefits and alleviate concern.

THE STAGES: LEVERAGING ASSESSMENT DATA

- Communicate assessment purpose
- Establish role benchmarks
- Select assessment tools
- Assess
- Analyse
- Report (individuals and team)
- Feedback (investor and individuals)
- Review and, if necessary, additional data collation
- Individual and team development roadmaps
- Final report and recommendations
- Agree priorities, resources and timescales
- Define the ongoing review process and embed in business metrics
- Business plan amendments

> **'Communicating clearly at the outset what is being assessed, how it will be assessed, how the information will be used and when the individual will receive feedback is crucial to the integrity and transparency of an assessment process'**

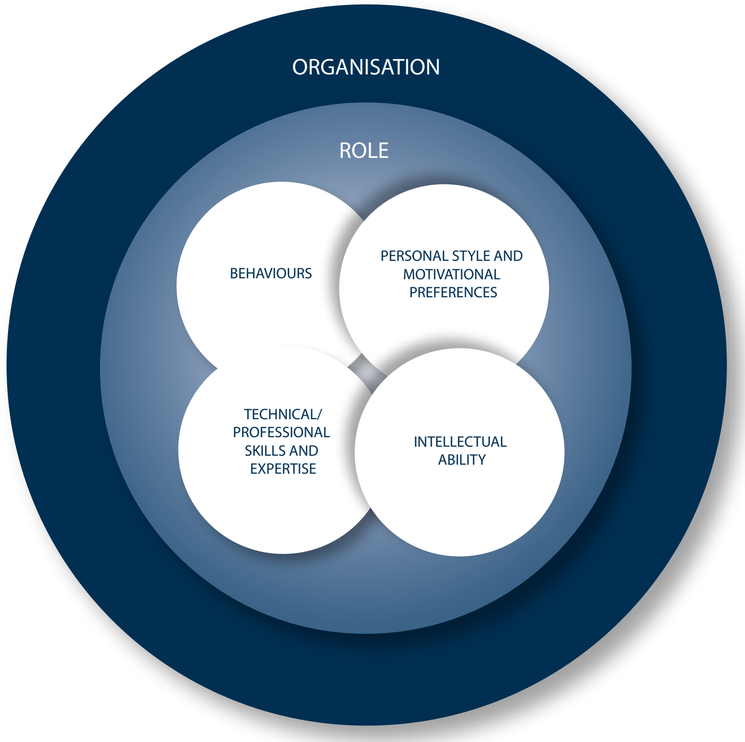
Tools of the trade

The aspects of an individual that can be assessed can be summarised using the diagram on the following page.

The four circles in the centre of the diagram overleaf represent the basic building blocks of any individual assessment: behaviours (sometimes referred to as competencies or capabilities) personality and motivational preferences, cognitive abilities of the individual as well as their technical skills and expertise.

The two outer circles represent the context within which the individual will operate. Roles are designed to

THE SIX PRONGS OF ASSESSMENT



provide clarity of expectation and a role sits within the context of an organisation (the outermost circle). While many roles have similar titles – CEO, FD, MD – the variations in terms of what people expect from the role and what the organisation needs can be immense. Implicit in any assessment process therefore is to establish what are the vagaries in the role that are specific to the organisation; an assessment process must match the organisation requirements, the role definition and the individual's strengths, preferences and needs. It is in ensuring this match that individuals and management teams excel.

There are two further circles not shown on this diagram; those of the market in which the business is operating and the society in which the organisation sits. These factors too will influence the challenge, but are outside the scope of this particular guideline.

This six-pronged approach enables the major variables to be taken into account which might impact someone's ability to perform on the job, to achieve the objectives of the business and face the key leadership challenges that lie ahead. Such challenges could include leading in continuously ambiguous circumstances, or balancing the need for innovation, creativity and imagination with the need for risk management and business ethics.

One of the challenges faced by businesses that embark upon assessment for due diligence is the myriad tools available. There are literally thousands of 'psychometric tests' and assessment exercises which vary considerably in terms of how well known (ie, well marketed) they are, their reliability (ie, how accurate they are), their validity (ie, how easily people relate to the outcomes) and what qualifications are needed for people to access and use them. The table on page 7 summarises the different types of assessment tools.

The role in the context of the business plan

The starting point for any management team assessment is to get to know the business.

What industry is it in? What challenges does it face? What is it like to be an employee of that business? What is the culture of the business? And, most importantly, what are the short- and long-term goals and objectives; the strategic imperatives facing that business? These need to be converted into clear success criteria for people to be successful in key roles. Getting this right is crucial and requires collaboration between the individual, the investor and the psychologist.

It is advisable to establish key criteria in all four dimensions:

- intrinsic motivation (will, want, need to do) and personality (likes, dislikes, 'derailers');
- intellectual ability (intellectual horse power);
- behaviour (leadership strengths and limitations);
- technical skills and expertise (experience and know-how).

To explore these criteria we would typically use a series of structured interviews along with benchmark data from similar roles in other similar businesses. It is critical to establish the quirks that are specific to the culture of particular industry sectors, ownership structures, businesses and teams while establishing objective criteria that can be used to fairly and reliably assess people.

Intrinsic motivation

Intrinsic motivation is a largely unrepresented area of assessment, but it is an absolute must for accurate assessment. Different roles and organisations have different motivational characteristics. The trick is to link what people will do (their intrinsic motivation) with what they are capable of doing (their

EXAMPLE

When sourcing a CEO to run the development of a controversial wind power plant in an area of outstanding natural beauty, it was identified that a key component of the role would involve constant local meetings, press interviews and potentially difficult briefings with various representation groups. While the behavioural data indicated that the CEO was a skilled communicator, his Intrinsic™ motivation profile highlighted that he was highly demotivated by this aspect of the role. A new CEO was selected from the existing management team. The outgoing CEO described the decision as 'an immense relief'. While he enjoyed the cut and thrust of the business, it was only through detailed individual analysis and consideration with a skilled assessor that he was able to reconcile and admit the level of stress he was suffering in this role.

intellectual ability) and with their behaviour and personality and finally with what they know how to do (their skills and expertise).

Intrinsic motivation can be measured using a psychometric questionnaire. For example, a tool called Intrinsic™ assesses if someone is motivated by being a general manager, line manager or technical expert. Typically, owner managers of firms where the technical component of the business plan is high will be motivated by being both an expert and the general manager. For a time this will be an asset, the leader will retain a strong operational control on the technical direction of the business. However, at a certain point this can conversely constrain the creativity and growth of the business. Intrinsic™ is also good for looking at other factors for example whether to accelerate someone's career, slow it down, or slam on the brakes.

Personality testing

Personality is the most well known of the psychometric measures and is often misused. Personality tests provide good feedback on self-awareness, personal preferences and explain individual differences.

The best-known psychometric test in the world is called the Myers Briggs Type Indicator (MBTI). It has been used by executives for many years as a means to understand how differences in personality can explain communication and team interaction dynamics. MBTI is a good development tool because it is simple to understand – it is not, however, sufficiently reliable as a selection tool.

TYPES OF ASSESSMENT TOOLS USED IN INDIVIDUAL ASSESSMENT

Assessment method	Purpose	Predictability of performance in role	Notes
Psychometric Tests	Measure personality and motivation	Variable	Select the right test
Timed Tests	Measure cognitive and numerical ability	High	For managerial capability
Benchmarking	Measure key drivers of human capital value	Medium	Select the right benchmark
360^0 Feedback	Collect evidence from stakeholders	Medium	Dependent upon objectivity of responder
Structured Interviews	Measure competency	Medium	Limited breadth of applicability
Behavioural Event Interviews	Measure high performance behaviour	High	Requires skilled interviewer
Work Based Tests	Assess experience and specific skills	High	Less relevant for leadership roles
Observation	Collate evidence of team or person working	High	Requires a skilled observer

Due diligence: management teams

The types of personality tests that are useful during the due diligence process are tools that have been designed to identify personality at work. They can uncover detail about factors such as typical response to stressors, the level of openness to new experiences, the degree to which an individual enjoys change and attitude to risk.

Some of the best-known tools are: Orpheus, which has a scale that measures integrity; The Hogan Development Survey, known colloquially as the 'Dark Side', which measures typical 'derailers' (ie, the types of behaviour that individuals may demonstrate when pushed to the extremes); and OPQ, which is a standard measure of personality. In terms of building teams, personality data in particular will identify the extreme individual differences that are often at the bottom of dysfunctional team dynamics.

Intellectual ability

Critical and numerical reasoning stand at the core of the 21st century enterprise. Think about how much we have to take in, digest, analyse and decide in any one day at work. At school we struggle to learn conversational phrases in a foreign language or the capitals of other states over many weeks. Any one day at work, by contrast, demands that we understand and take hundreds of decisions about areas from finance and product design to the problems in the relationship between members of a team.

This is what cognitive and numerical reasoning tests address – our ability to:

- define a problem;
- discriminate between information and identify that which is critical to solving the problem;
- recognise assumptions and related risk factors and sensitivities;
- create, select and test hypotheses; and
- draw valid conclusions and check whether inferences are valid.

These are essentially measures of intellectual horsepower and are key predictors of future success in high growth, turnaround and complex managerial roles. The primary job of a leader is to make decisions; the faster moving the markets, the more important this ability becomes.

There are two important points to make about the place of critical reasoning in organisations:

- **It's getting more important:** The digital information flood makes it even more crucial that we ignore irrelevant information and stringently check the evidence presented to us. We don't know the status of much of the information on the internet and certain 'facts' and assumptions get reproduced and distorted until they become the business equivalent of urban myths. We need critical faculties to a greater extent than in previous, information-starved, ages.

- **It gets more important the more senior your role:** Leadership and senior management are not about knowing everything. They're about using analytical and judgemental skills to evaluate other people's highly informed arguments in specific areas. Critical and numerical reasoning tests measure leaders' ability to do this.

There is an element of controversy surrounding these tests because they suggest a ceiling to career advancement. Many people hear about critical and numerical reasoning tests and wrongly assume these tests are related to educational achievement – this is not so.

Intellectual ability testing is less 'sexy' than personality testing and with the rise of interest in the idea of 'emotional intelligence' the more responsible the job, the fewer intellectual ability tests many assessors use. There are good reasons for this: leadership success depends on behaviour and you can get some idea of leaders' intellectual ability by their track record. There are also bad reasons: leaders feel they are too senior to be 'examined' or 'tested'. Falling prey to leadership vanity is a mistake investors would do well to avoid.

Levels of cognitive ability alone do not predict career success; they only predict those with the potential to succeed. It is, however, rare to find high performance leaders who score low on these tests.

> **EXAMPLE**
>
> While conducting due diligence for an executive position in a spin off for a large complex organisation, one of the executives expressed concern about how well she would do given her past history of poor educational achievement. She had left school at 16, failed a B-Tech diploma and joined the company as technical support 20 years earlier. Her career had involved rapid progression through the ranks during which time she had also taken two full years off for maternity leave. The results of her critical and numerical reasoning test showed her to be in the top 2% (99th percentile) of the population. This was a major surprise to her but certainly explained her success in the business!

Behaviour: you are your history

Behaviours and competencies are terms that are often used interchangeably. It can be confusing but boils down to something quite simple; how do individual leaders achieve what they achieve? Behaviour works as a measure because it is observable and has a direct consequence or an outcome. It is also learnable.

Behaviours can be assessed in multiple ways, for example, through evidence-based interviews, or by observation in real or simulated environments, or using 360 degree feedback, or references.

Organisations can only assess behaviours and competencies if they have set up a valid framework against which individuals can be measured. There are plenty of sample frameworks but of varying quality. One good example for investors to look at is Schroder's framework of high performance managerial indicators, which were developed specifically to set a benchmark for high management performance.

The key to assessing behaviour in managers is to use a process known as ORCE (Observe, Record, Classify, Evaluate). This process requires the assessor to collate evidence of what an individual has achieved and how they went about achieving it, then to classify the evidence against a known framework (such as Schroder). This method can be used in interviews or when observing an individual or team in simulated or real work environments. One of the most reliable forms of interview is called a 'Behavioural Event Interview' which is a semi-structured interview in which the interviewee is asked to describe in detail a number of projects (both successful and not) and how the outcomes were achieved. The interviewer probes and records the evidence, then later classifies and evaluates what was said. By leaving the classification and evaluation until after the interview, the interviewer's typical bias is significantly reduced.

> **EXAMPLE**
>
> Leaders who score low on cognitive and numerical reasoning may have coping mechanisms, such as one CEO of a highly successful high-growth recruitment business who, aware of his less than optimum thinking ability, surrounded himself on the team with highly intelligent advisers, and built his value to the team around his own extraordinary communication and marketing skills.

Another method of assessing behaviour is to observe individuals or teams carrying out simulated work-based tasks in an 'Assessment Centre'. There is considerable skill involved in designing accurate assessment exercises – poor design inevitably means poor reliability. Activities must be conceptually straightforward and carefully designed and validated to ensure that they elicit the behaviours that need to be assessed.

For example, to assess a CEO's ability to facilitate a complex group meeting it is vital that the topic for discussion is suitably engaging for all participants, that peer-to-peer relationships are established in the group (ie, there is no imposed hierarchy) and that flip charts and other such visual aids are removed from the room so that the activity of the group is centred on engaging in debating and problem solving.

Typical assessment centre exercises might include producing a strategy document to assess thinking behaviours; conducting a performance review and development conversation to identify the skills of developing people; delivering a presentation and answering questions from the audience to assess communication behaviours; and conducting a complex negotiation to assess listening and influencing ability.

Assessors need to be accredited to ensure that they can assess with 85% reliability in assessment centre work based on interview or other observation assessments. This level of accuracy ensures that whichever assessor conducts the assessment, the scores they give will be within 85% accuracy of another equivalent assessor. This level of reliability between assessors (known as 'inter-rater' reliability) substantially reduces the risk of flawed assessor decision making strategies, which are known to cause inaccuracy in selection. The quality of assessor training is vital to ensure the accuracy of an assessment profile[4].

Schroder's framework provides a breakdown of ability against 11 behaviours which has been developed into an overall benchmark score against a talent index. The talent index is used to set benchmarks for specific roles and also to enable comparisons between high performance in different organisations and at different stages of growth. For example, to be a high performing CEO in a high-growth, complex business may require an index score of 85 versus an index score of 75 for a high performing sales and marketing director.

These benchmarks are critical in determining the reality gap between what a manager is doing now and what they will need to do to lead the organisational improvements set out in the business plan. Particularly in buyout, start-up or turnaround situations, where personal financial risk or high debt loads leave little margin for error, the plan typically will require radical action.

Pushing individuals or leadership teams outside their comfort zones can lead to all sorts of dysfunctional leadership behaviour such as micro-management (focusing on the jobs of others in order to avoid the challenge of the new bigger, more complex challenges); an inability to make decisions; or to rapidly change priorities. These patterns degrade trust and drive a wedge between investors, managers and employees which can slow needed changes being effected and expected growth achieved.

The role of referencing

Due diligence typically involves collating references from people who have known credibility and authority or who are known to the individual

being assessed, the investor and/or the investor's adviser. Referencing can add valuable evidence about an individual's strengths and weaknesses. Referencing done well is focused on evidence collated against a framework. The skill in referencing is to listen to and explore what's not said as much as what is said.

4 The International Journal of Selection and Assessment; Volume 6, Number 3, 1998

EXAMPLE

As part of the due diligence process in an acquisition of a leading provider in the built environment and construction sector, succession data showed that there were two individuals on the succession plan who scored 15 percentage points above the high performance benchmark on the chosen talent index. These two individuals were appointed to the integration team and successfully led the integration of the new business.

Understanding the motivation of the referee and the relationship between the referee and the individual being assessed is vital. Ideally, the person collecting the references should be the same person who does the rest of the assessment.

Skills and expertise

Professional qualifications, continuous professional development, career history and work-sample tests are the best means of assessing for skills and expertise. In instances where large numbers of people are to be recruited or there are roles that have very similar skill demands then it may be worth investing in technical skill frameworks. An obvious role where skill and expertise is important is that of the FD.

Hiring FDs with the requisite experience in financial engineering, managing debt and cash flow can be difficult; finding an FD with these technical skills and the ability to operate strategically can be even harder. A framework of technical expertise can readily be created by a subject matter expert in combination with a qualified assessor. It is also worth seeking advice from professional associations, many of which will have skill development frameworks at the heart of their ongoing professional development or professional qualification programmes.

Management team's approach to the assessment process

The management team under assessment holds the key to enabling the assessment process to take place smoothly, efficiently and effectively. The uncertainty of the outcome of the transaction, as well as regarding their personal future, can at times make it difficult for the team to view the assessment process as objectively as possible.

However, in today's fast-changing environment high performers are constantly asked to adapt to new situations, and should know that the more knowledge they have about themselves, the easier it will be for them to understand what drives them and how they can further improve those areas in which they lack either expertise or skills.

TALENT

In Greek times 'talent' was a unit of money. In today's language 'talent' is often used to imply a gift or innate quality that is difficult to control and predict. In business and in sport today, the science of talent management is just that: a sophisticated discipline that increases the likelihood that individuals and teams will attain their full potential and the achievement of the investors' business goals. It is no coincidence that the British cycling and rowing teams have achieved such success on the world and Olympic stages. These teams were selected, built and developed using skills and knowledge that are adaptable to support commercial success. The individual athletes on those teams were measured, monitored and developed using the latest psychological, physical and biomechanical techniques.

In conclusion on assessment

A widely held myth is that it is difficult to 'prove and measure' people's capabilities. However, the precision by which the measurement of people and performance has evolved over the past 10 years is immense. This should be good news for investors, financiers and advisers, who are largely comfortable with things that can be proved, measured and predicted.

The key challenges for investors are: to become familiar with the tools and techniques available; to try not to be put off by the ubiquitous jargon of psychologists, but to fully engage with these fellow professionals; and to get under the skin of these tools and techniques. When used properly, this type of data significantly enhances the predictability of individual performance.

THE TOP FIVE MYTHS OF ASSESSMENT

Personality is predictive of performance – it is not. Personality per se indicates likes and dislikes: there are as many successful CEO introverts as there are extroverts. Like many measures, personality is just one which, combined with other metrics, helps to predict performance and potential.

You don't need to assess a leader's intellectual ability – you do and should. Success means many different things, getting into the right position at the right time to some is success, to others it is just luck. If you want to be sure your investment is in safe hands, ignore the vanity cries and test for ability.

Emotional intelligence is one of the main differentiators of high performance – this may be true if all your leaders share the same level of intellectual ability but is certainly not a true statement in its own right.

You can accurately predict individuals with high potential – this statement is misleading. There are certain criteria that enable you to identify those with the highest potential to succeed in the most complex roles but the more important question is: 'What are we assessing for, potential for what?' Many supposedly high potential individuals fail to achieve their potential because they end up in the wrong role at the wrong time or with the wrong team. The role of CEO can vary tremendously depending upon the size and complexity of the organisation and the market in which it operates.

Assessment is the domain of psychologists – evidence-based assessment is a skill that can be learnt. A good assessor is someone with an enquiring mind and a commitment to supporting human development. Training, experience and qualification like any profession takes time; however, to the serious leader it will be a worthwhile investment.

DEVELOPMENT

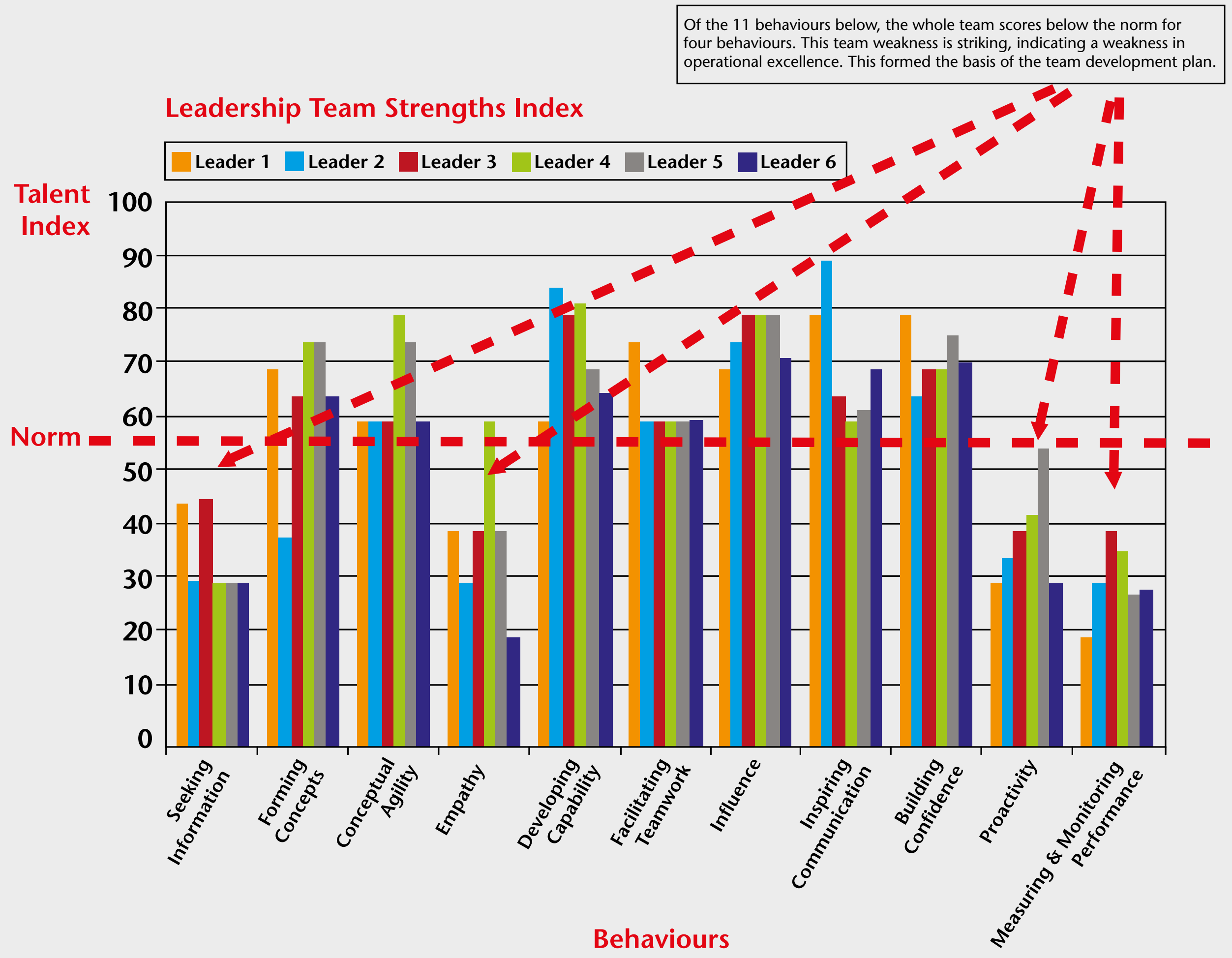
The purpose of the assessment in this context is to define how management can be more effective. The assessment report is just the start; it provides a set of metrics that are value drivers. These metrics need to be linked to the business priorities so that leadership and management practice are inextricably linked to profitability and value creation.

EXAMPLE

In a turnaround situation, a leading telecoms company set its leadership development priorities around the behaviours required to improve customer service. Each leader was aligned with a number of strategic customers and measures were embedded into a quarterly review process. Peers and customer groups were asked to provide evidence of the quality of service improvement plans; the empathy customers felt the leaders demonstrated in understanding their needs; and the creativity with which the leaders approached their businesses. Client turnover and engagement scores were tracked quarterly and reported publicly to employees. Each leader was expected to improve the relevant behaviours relative to their starting point on the talent index. Developing high levels of empathy, creativity and proactivity were seen as 'must haves' to improve customer satisfaction and engagement, to reduce customer churn and to increase revenues.

EXAMPLE

The following team profile was produced for a MBO team. The business, a sales-led technology organisation had a tremendous reputation for entrepreneurial product development. As part of the due diligence process the investors had identified radical opportunity for cost saving through outsourcing operations and re-organisation. The leadership team and roles were benchmarked against an appropriate talent index. The assessment process subsequently identified four significant areas of behavioural weakness which highlighted concerns about the team's ability to lead the delivery of the business plan. The behaviours associated with the ability to manage, organise and continuously improve operational excellence were poorly developed across the team.



Giving feedback

The first stage of the development process is to give feedback on the assessment results. The information should be delivered one-to-one by a qualified professional separately to both the individual concerned and to the investor.

This stage of the process is crucial. The way the message is delivered will play a large part in building confidence in the information; motivation to develop; and the level of priority placed on aligning individual development with business performance.

It is rare to find an individual with a perfect fit for any given role and even rarer to find individuals without areas that need development. It isn't rare however, to come across individuals who haven't actively considered the effect that their personal development could have in improving the performance of the business.

The goal of the feedback process is to get a shared understanding between the investor and the individuals in the management team of the 'reality gap'; that is how individual strengths and weakness will help or hinder the delivery of the proposed business plan. A shared understanding at the start can then be translated into ongoing dialogue and improved focus.

Due diligence: management teams

A high-quality report will contain information on three key areas:

- what an individual is capable of, motivated to do and enjoys doing and the fit for the specified role;
- what development the individual will need to truly excel in this role (against relevant benchmarks); and
- what human capital practices need to be embedded within the organisation to ensure the workforce is optimised and talent is leveraged to achieve the business plan.

A seasoned assessment professional will quickly engender an open and collaborative conversation focused on understanding the results. It is critical that this process is non-judgemental and open. The individual may agree or disagree with certain elements and as a result the psychologist may either uncover additional important evidence or identify a need to make further enquiries.

Equally, the psychologist may identify an area of disagreement about the data. In this instance the psychologist and the individual will need to explore the nature of the disagreement, which may be a 'blind spot', a defensive reaction to the evidence presented, or an area where evidence has been missed or misrepresented.

Individuals respond differently to feedback. Some people are open and curious about the insights; some defensive and cynical; some want to go in to every detail; others just want the 'good and bad news'; some will not question the information and want to move rapidly from feedback to action planning; while others will need time to process the information before planning what to do with it.

A skilled professional will be armed with information about potential reactions to the insights contained in the report and will be prepared, whatever the response, to manage the interaction to a positive conclusion. From the therapeutic world evidence suggests[5] that successful feedback and coaching is underpinned by the skills of the professional in terms of:

- the quality of the relationship – how well understood and safe the client feels;
- the degree to which the practitioner can draw on a wide range of experiences and interventions to address preconceptions rather than adhering rigidly to a narrow framework; and
- the extent to which the information is offered cautiously, creatively and within a continual process of reflection and exchange.

Using a skilled professional to deliver the feedback will reduce the likelihood that the data will be distorted or critical messages withheld.

Mistakes that are easily made at this stage of the process include:

- **Collusion** – the investor or other third party inappropriately denies the importance of the data presented, often with the genuine aim of defending or protecting a relationship or preventing conflict (with which they may personally be uncomfortable);
- **Denial or distortion** – data is used inappropriately to draw conclusions or inferences which are not supported by the data collected;
- **Premature action planning** – in the heat of the deal, time is of the essence. If the investor is serious about the significance that personal development can have, the management team will need to understand the priority and importance placed on the data;
- **Confused or unclear messaging** – the data is not presented with sufficient clarity which leaves all parties slightly unclear about the priorities.

EXAMPLE

The business plan indicated a need to radically improve customer service. The executive's assessment profile indicated average ability in the communication behaviours of enabling openness and inspiring communication. The executive's development agenda was focused on building trust with the business' top 10 strategic customers. His goal was to radically improve how he communicated in order to ensure he was close to his customers' needs. A coach was engaged to work with the executive on his style and a quarterly feedback process from employees and customers was developed to track progress.

5 Leuzinger-Bohleber, Struhr, Ruger & Beutel, 2003

The role of the feedback process is building awareness and understanding. This stage is crucial if development is to occur. People rarely change behaviour unless they have a full and complete understanding of the changes required, the positive consequences and the effort required to make these changes.

Feedback can take some time particularly when the insights provided are new to the individual or the reality gap is substantial. However, if the goal is high performance, it is a very crucial stage in the processes of both assessment and development and it must be managed with precision.

The development plan

A high-quality development plan for an individual will have metrics that are linked to the strategic priorities of the business plan. A typical development plan might focus on a deep dive (focusing on one particular behaviour) or breadth (where development is focused on small changes across a number of behaviours).

Developing high performance leaders and teams

The type of development required will vary considerably for different

individuals, teams, organisational structures and business strategic goals. Considering all different types of development is out of the scope of this guideline but it is worth considering the conditions that are critical in order that development can occur.

Develop is what we humans do. The pace at which individuals, teams and organisations develop is dependent on so many factors. Some factors are out of the control of the organisation; eg, the home life, history and wellness of the individuals. Others are under the direct control of the organisation; eg, the ability to progress individuals when they are ready, the provision of appropriate support and challenge, the creation of an engaging, inspirational culture and a focus on psychological wellbeing of individuals. Never before has this been more important. Organisations in advanced economies are dependent upon the people within them.

Creating an organisation which stifles development is easy; the long-term survivability of such organisations will be questionable as the ability of the organisation to adapt to market conditions and learn from its successes and mistakes will be limited. The key to creating an organisation which is healthy is to create an environment in which development is directly linked to the delivery of the business plan.

Three of the most effective types of development for management teams to explore are:

- executive coaching;
- board and team workshop-based interventions and facilitation; and
- organisational transformation and cultural change.

It is beyond the scope of this guideline to cover all three areas. Given the emphasis which is usually placed by investors on the chairman's role as a mentor and coach, and therefore the importance of getting this right, executive coaching is covered in detail.

EXAMPLE

The CEO presented his executive coach with the following problem that he needed to resolve:

'I have noticed sales are declining month on month. How can I engage the whole business in creativity around short- and long-term cost optimisation without creating a panic around the potential future of the business?'

After a two-hour coaching session the problem had been reframed in the executive's mind. The coach hypothesised that the executive believed that the business was in long-term danger that might not be resolved just by operational cost cutting. Having acknowledged the real issue, the client worked with the coach to define a targeted and confident plan to discuss with his management team the following day.

ELEMENTS OF GOOD COACHING PRACTICE

1. Genuine commitment to the executives and their success
2. Clear contracting so coach, executives and organisation have shared expectations and objectives and a shared explicit agenda about confidentiality
3. Honesty: no secret agendas between coach and organisation
4. Know and work within the coach's own limits
5. Clarity about what type of issues are legitimate
6. Appropriate role boundaries and awareness when there is conflict or confusion: facilitator, instructor, mentor, expert, friend
7. Awareness when there is potential for creating dependency and integrity not to exploit this
8. Regular review of the coaching work including supervision of the coach

Executive coaching

The 1980s saw the introduction of the term 'executive coaching' in the UK and since then it has become a burgeoning industry. A report published by *The Economist*[6] indicated that executive coaching was growing at 40% per annum.

The origins of executive coaching in the UK were driven by two main influencers. First, the shift of sports coaching from purely instruction-led to questioning-led techniques largely influenced by Tim Gallwey, a professional tennis coach who introduced 'The Inner Game' and the 'GROW' model[7] to his tennis-playing corporate clients. Then, at their request, he translated the model from the tennis court to the workplace. Secondly, the discipline of Organisational Role Analysis (ORA) which is a therapy-based method to help individual managers and leaders to transition into new roles.

Rapid pace of change, shorter term performance targets, a high focus on image and reputation, increased regulation, the possibility of executive litigation, shorter executive tenure and a diminution of trust among politicians, leaders and organisations are societal changes that are influencing a need for executive coaches[8].

Business executives report[9] a need for a relationship with a trusted adviser who provides objectivity and confidentiality, ongoing help interpreting and evaluating events in a turbulent and chaotic world. Particularly in organisations where change is rapid, meaningful lasting relationships are harder to form, individuals tend not to stay in a role for long and frequently changing reporting relationships inhibit working group dynamics.

Given that human development requires creativity and opportunity for experimentation, a coaching relationship needs to be sufficiently robust to withstand strong feelings of anger, anxiety and other emotional responses. Executives are therefore able to be less defensive and open to opportunity, creativity and exploration. The skill of the coach is to listen as much to what is not being said and to present hypotheses for the client to explore in order to identify barriers to action that will improve performance.

The value of executive coaching has been reported in a number of independent studies[10]. Estimates suggest that, typically, executive coaching produces a return of six times the cost of coaching. In reality the figures may be substantially more in terms of improving the speed of decision making, challenging unconstructive dynamics and improving productivity.

There are many definitions of executive coaching. There is broad agreement among leading practitioners that coaching is a two-way process that enhances performance, and in which the coach's role is primarily facilitative, enabling executives to find their own answers rather than providing them. Inherent in this definition is a set of values and beliefs about the innate capabilities people have: that the executives rather than the coach are the experts in their own business and are responsible for the choices they make. The coaching process is specifically designed to enable the executives to unpick, process, clarify and define/redefine action. Coaching is a creative process in which the executive learns rather than is taught.

Possibly the biggest area for confusion within coaching comes when the coach has considerable experience in the field in which the executive is operating; in such cases the coach may play the roles shown overleaf:

6 The Economist (2002), a report on executive coaching

7 GROW (Goal, Reality, Options, Will) is a popular coaching framework used to align coaching interventions with specific outcomes

8 Jim Mackay and Karen Izod, 'Insights on Executive Coaching', from The Tavistock Institute, 2007

9 Helina Brunning, 'Executive Coaching: Systems Psychodynamic Perspective', Karnac Books, May 2006

10 Executive Coaching: Brunning 2006

Guideline

1. **Mentor** – Where a more experienced person works with someone less experienced to pass on their knowledge and wisdom; or
2. **Instructor** – Where a skilled practitioner provides the answer and directs an individual to act in a particular way.

Working with an executive coach who has the particular functional expertise and is experienced in the relevant industry sector is often perceived by executives to be important. The studies on the effectiveness of this are limited; however the rationale seems to be more about the relationship building process. Some executives find it easier to relate to those who can 'speak a common language and share common experiences'. Others stress that for the coach to have domain-specific knowledge is important so that they can draw on a wide range of similar perceptions. Typically, however, the more skilled the coach, the less domain-specific knowledge seems to be important.

Executive coaching of boards and management teams has typically been the responsibility of the chairman, who often informally or formally adopts the role of 'team coach'. There have been limited independent studies on the effectiveness of the chairman as coach; inevitably there is a potential conflict of interest that may not necessarily offer the consistency and safety which is critical for the maximum possible development to occur.

IN CONCLUSION

The percentage of businesses that deliver outstanding returns is, in reality, small. The impact a management team can have on a business is obviously enormous. Yet, despite the contribution the management team makes to business success it is rare to find investors, leaders and leadership teams who engage in regular management assessment and development and who use that information as an integral element of the business planning and management process.

The accurate assessment of individuals and management teams requires the application of robust, proven, evidence-based techniques to identify and define strengths and weaknesses and to predict potential. Only with accurate data about the management team can the business draw accurate insights about how well they are placed to deliver the business plan and what development support will be required.

Humans are designed to learn and develop. A developmental culture is inspiring and encourages innovation. Creating a culture in which development priorities are led by the management team and linked to the strategic priorities of the business is crucial to high performance. Very few businesses do this well. The rules of business are changing – financial engineering alone is insufficient as a means to accelerate business value and those businesses that don't have strong human capital processes and data risk losing human assets that will be vital to survival, repositioning and growth.

Whether 'high performance' relates to return on investment, business turnaround, value creation, profit improvement or high growth, the focus needs to be the same:

- focus on opportunities;
- execute to perfection;
- develop excellence in developing people; and
- ruthlessly focus on continuously measuring, monitoring and looking for improvement in operations and performance.

To improve your approach to management assessment and subsequent development, focus on the following elements:

During due diligence

1. Embed a thorough evidenced-based assessment process in the due diligence to establish, for individuals and the team, strengths and limitations to deliver against the business plan.
2. Use an independent external expert who is free from conflicts to ensure that the data collected is accurate, predictive and acceptable to both the investor and the management team.
3. Make sure your assessor has a duty of care to the individual and the organisation. Remember, there are individual people behind the reports produced.

Throughout ongoing evaluation

1. Link individual leadership development priorities to the strategic business agenda.
2. Establish regular review processes that feedback progress; this data should be analysed at least quarterly.
3. Don't pay lip service to your human assets. Establish people metrics of features that you believe in and that are known to deliver value to the business such as employee engagement, talent progression and leadership behaviour.

In creating a high performance organisation

1. To optimise development humans need the appropriate level of support and challenge. Design roles to provide this.
2. High performing businesses are continually changing. Change is destabilising and people need to form collaborative, rewarding and secure relationships. Embed mechanisms that encourage long term relationships.
3. High performing leaders create high performing organisations. Many people state they want to be part of high performance, yet not many people ever are.

Notes

Notes

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Ali Gill is the co-founder and CEO of Crelos Ltd and Getfeedback.net Ltd. Gill's passion and expertise is talent and management. She believes that sustainable change within an organisation is best delivered through people. Over the past 15 years and across various consulting assignments, she has witnessed the way in which psychology, when applied precisely during a change process, helps leaders accelerate change in a way that positively affects people.

After graduating from Oxford University in Psychology, she developed her particular interest and expertise in the psychology of change and performance both through her professional career as a business psychologist and in her personal life. She is an entrepreneur, an adventurer and a triple Olympian in rowing. She has advised on talent and human capital strategy in both turnaround and high performance organisations.

Gill is an author and a frequent and sought-after contributor in the media with recent contributions in *Sunday Times Careers*, *Talent Review*, *Personnel Today* and on *Woman's Hour*. Gill is invited to speak on a range of topics including, most recently, Talent and Innovation, The Psychology of the High Performers and The Psychology of Change. She has been included in the Top 100 Most Influential in HR, a survey which considers those who are seen to have made the greatest difference to the world of work.

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Sanders brings to his role significant experience of developing global, publicly listed and private equity-backed businesses, as well as developing teams in both mature and emerging markets, and in both start-ups and spin-outs.

He is ardent about creating and building high performance businesses and teams. He has a strong background in corporate finance execution, both as a principal and as an adviser. He coaches executives – specialising in entrepreneurial coaching. He is a keen sportsman and has played international hockey.

CRELOS

Crelos Ltd is a change management consultancy that specialises in using psychology precisely to improve business performance through people.

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- built environment;
- business & professional services;
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- public sector;
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Recent ICAEW related material:

Faculty of Finance & Management, *Special Report 22*, *Managing Talent*, Various, September 2008

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Corporate Finance Faculty, *Best-Practice Guideline Issue 42, Management Buyouts: A Private Equity Perspective*, Tung, Matrix Private Equity Partners, December 2006

General references:

BVCA 'Evaluating Management Teams Course' (a two-day programme)

EVCA 'DD of a Management Team' (a two-hour session in the two-day EVCA Institute Due Diligence Master Class)

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