

Which team would you rather hire: An A-Team with a B-idea or a B-Team with an A-idea?

By Kinuthia Mike

August 6, 2021 – The new season of the English Premier League is about to kick off. Club owners and managers are busy rebalancing their squads, recruiting new players, trimming off the dead stock and even hiring new managers. All these so as to have a chance of winning the trophy.

When private equity (PE) managers and investors, like Pearl Capital Partners and many others, are considering investing in companies, we tend to focus on the hard cold numbers. Numbers around the market, strategy, cash flow and the first 100 days post-investment. So do owners and CEOs of the companies that we seek to invest in.

Yet evidence shows that human capital is the strongest determinant of success, or failure of a PE investment.

Pearl Capital Partners (PCP) has invested in 45 businesses across East Africa over the last 15 years. A good number of these have been star successes with PCP investing in multiple rounds followed by stellar exits, providing excellent returns to investors. Others have been average and yet others have failed, beaten back by a variety of factors.

Our experience shouts loudly that the success or failure of these PE investments is largely determined in the first six to twelve months of investment. This is the period that the investees execute the strategy agreed upon and articulated in the approval documentation. This period immediately after investment also coincides with the time when both the investor and the investee business tend to breathe a sigh of relief after a grueling due diligence and approvals. How have we learnt to address this potential pitfall?

First, is by choosing the right partner at the get go. Has the business and management executed well by themselves before coming to us for financing? If not, then we will avoid the whole deal.

If the business has executed well in the past, then now comes the hard part of ensuring that this is sustained post-investment. Sustained post investment with a larger pot of money available to scale up the business several times over – typically three to five times larger.

To support this, we will agree with the business to build a competent management team below the entrepreneur to support this scale-up. We agree this before the investment and identify this talent then so as to shorten the six to twelve months execution runway and avoid the difficulties of repairing the airplane when it is mid-air.

The entrepreneurs who have followed through on hiring talent and letting them loose to do what they know best have been rewarded with good success. The others, who are keen on holding back control and micromanaging, have performed as well as the teams that were relegated last season in the Premier League.

In this COVID season, how are you, the entrepreneur, managing your squad? Let's catch up mid-season when the next transfer window opens.

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