Management Buyout and Leadership Succession – Motivations

Management buyout (MBO) and leadership succession transactions are options for owners that seek to exit. In my earlier blogs I overviewed these transactions, pointed out common features, and considered valuation. In this blog I will take a step to the side and consider motivations.

Some Vendor Motivations

An MBO or leadership succession transaction in my experience has, and is fuelled by, a discrete window of opportunity. The classic motivation is a lack of family succession within a business where the owner seeks to retire.   Drivers of retirement may be

- health,

- simple desire to cash out,

- a "knowing" (remember the definition of that word from my last blog?) that the next phase of business development is not for them,

- a particular opportunity or threat that by virtue of timing of an MBO approach brings such a transaction into reality,

- legacy drivers to have a degree of assurance that facets of the nature of what the business does or how it does it will endure through an ownership change,

- concerns in release of confidential information is a wider contested process that steer vendor aspiration towards an MBO or succession transaction,

- forthcoming capital or operating turning point that the owner simply does not seek to invest in – being an investment of both personal and financial capital.

These factors can be divided into those that go to value, and those which go to meaningfulness. I have often encountered the proposition that an MBO or succession transaction, with staged sale of equity, gets a better overall and eventual return to the vendor. Analyses can be provided showing the value added by the incoming leadership group being shared over time between vendor and purchaser in the completion of equity transfer. But that is only part of it. A vendor in an MBO or succession transaction in my experience is most likely one who has solid attachment to their business being meaningful and they value their strong engagement with it.

Some Purchaser Motivations

Purchasers are motivated by opportunity. This opportunity might be financial, as in it is seen as a "good deal" or a "great deal". This is readily understood. I have however seen this as a partial explanation but not the whole. Greater attraction comes from the purchaser aspiration to be engaged in what is meaningful, to create grow and develop a business because that success is itself for the purchaser, ultimately, the means to another end. So the financial characteristics are "good enough" to serve as the foundation of these more developed aspirations.

Again from my experience, purchasers have (or need to have) well developed and considered aspiration to leadership, an understanding of how ownership will change you, a healthy attitude to understanding risk and de risking, and a confidence that I describe as humble confidence.

The Intersection of Motivations

I picture this as the point of intersection of two sigmoid curves. I am sure you have all seen them. The task for the vendor is to exit when their curve peaks and for the vendor at the base of their growth phase.
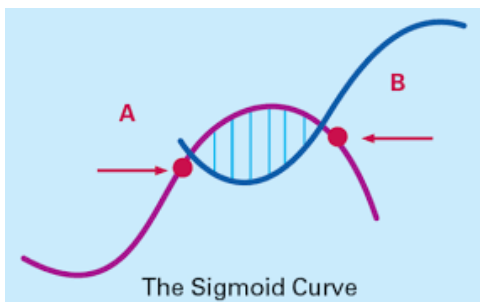
The Sigmoid Curve

A sigmoid curve encapsulates all the financial and other facets of the transaction. Think of each as a line of "knowing" (there is that word again). The curves make very clear there is a moment of opportunity.

Now, as I do, to *words.* Lets consider identity. Oscar Wilde famously said "Be yourself, everyone else is already taken". In the context of an MBO or leadership succession transaction what is its relevance? Well in western culture there is a strong mantra that identity comes from your education, your job, how others perceive your status or reputation. In our present context, no no no. A purchaser will see an MBO or succession transaction as an outworking of their identity, not a means by which they will create their identity.

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