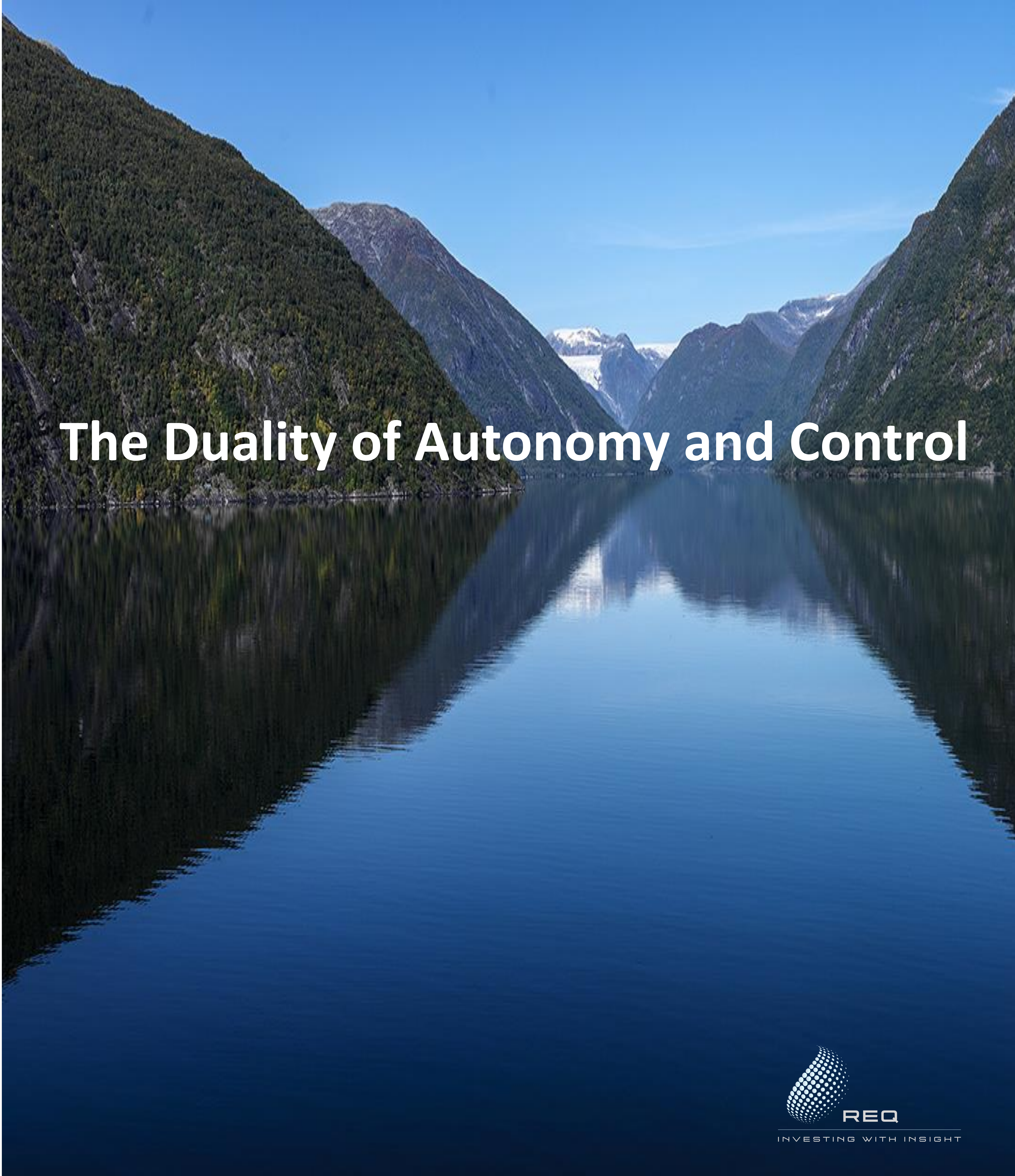
The Duality of Autonomy and Control



REQ

INVESTING WITH INSIGHT

"You have to believe it," insists Nick Howley. "You have to pass up at times apparent cost savings on the belief that the loss of entrepreneurial spirit and ownership will more than overcome what you might save by having a common accounts receivable department or a common sales force. You just have to believe that." As the founder and former CEO of TransDigm—a global aerospace company comprising 50 independent units providing critical parts for commercial and military aircraft—Howley deeply values decentralization and treating employees as owners. He believes true business strength doesn't come from rigid structures or unified sales teams but rather from empowering autonomy, fostering entrepreneurship, and cultivating true ownership.

On the other side of the debate is Brad Jacobs, a serial entrepreneur who prefers operational integration through deep standardization across all business units. Having overseen more than 500 acquisitions—including with companies like XPO, United Rentals, and his latest venture, QXO—Jacobs takes a different approach. He emphasizes integration and standardization. "I've never managed companies with hundreds of independent units," Jacobs says. He stresses that operational integration relies on speed and consistency. Rapidly incorporating an acquired business into a unified technology system is essential: a single enterprise platform, unified HR and CRM systems, central business intelligence, and internal communication tools. Operations are streamlined using one KPI dashboard, a standardized training program, and a common email system. New employees receive a comprehensive manual, including the company's code of ethics, to ensure consistency.

Cultivating a strong culture

Jacobs also highlights the importance of cultural integration, calling it the most crucial element for successful post-acquisition management. Rather than imposing an authoritarian style, Jacobs emphasizes respect and genuine communication, recognizing the value of new team members and fostering unity. For Jacobs, both operational and cultural integration are key to achieving economies of scale. His focus is on industries where synergy grows with scale—where companies can spread SG&A costs, enhance technology, and leverage a broad network. While Jacobs acknowledges the benefits of decentralization for customer proximity, his companies excel by maximizing efficiency and synergy through standardization.

The essence of many successful acquisition-driven compounders is rooted in deep decentralization, which serves multiple purposes: fostering entrepreneurship, enhancing customer proximity, and maintaining a small-company feel even as the organization scales. Decentralization allows newly acquired, often niche, businesses to retain what made them successful. Smaller niche markets, ideal for acquisition-driven compounders, compete on intimacy. Autonomy allows business units to make swift, market-driven decisions and fosters a sense of ownership. This trait is rare in large corporations, where culture often struggles to scale. In decentralized setups, companies grow big by staying small.

Finding the balance

The level of decentralization is not a one-size-fits-all solution; it varies by company. For some, it means full autonomy across all business units, while for others, autonomy may be limited to specific divisions, with each division running its own playbook tailored to its unique industry landscape. In some cases, a light synergy approach works best—centralizing core functions like finance, HR, or IT while maintaining operational independence to preserve entrepreneurial energy.

Companies that share foundational elements across end products may pursue a higher degree of backend integration, such as common sourcing, while still allowing significant entrepreneurial freedom at the customer interface. This approach enables full flexibility in decisions related to product selection, pricing, and marketing. For example, IMCD—a global leader in the formulation, sales, and distribution of specialty chemicals—follows an integration strategy that involves incorporating new chemical companies into their digital platform on the backend. However, it safeguards autonomy at the customer-facing level. This strategy allows IMCD to achieve operational efficiencies while maintaining independent decision-making. This approach fosters a culture where freedom to act is encouraged, yet allows IMCD to benefit from a centralized digital platform across all acquired companies.

Similarly, Brown & Brown illustrates this blend of backend integration and customer-facing autonomy. As a successful acquisition-driven compounder encompassing a network of insurance brokers, Brown & Brown grants each of its acquired brokers full local autonomy, including P&L ownership, allowing them to retain their original branding. This structure enables each branch to focus on customer relationships and local growth, while centralized support functions—such as compliance, IT, accounting, and marketing—enhance operational efficiency. This model, like IMCD's, strikes a careful balance between synergy and local empowerment.

Specialists with heterogeneous attributes operating in global markets often thrive by using a focused playbook while protecting autonomy where it matters most—whether at the customer touchpoint or in the creative process. For example, LVMH, Bernard Arnault's luxury conglomerate, has mastered a dual strategy of vertical integration for efficiency while preserving brand integrity and culture. Functions like logistics, talent mobility, and advertising are centralized as "light synergies," but each brand retains its creative autonomy. This balance allows LVMH to achieve scale efficiencies while maintaining the uniqueness of each brand—a crucial factor in the luxury market.

Pull integration

Across our Nordic portfolio companies, we see a common theme best described as a "pull integration" strategy, a term coined by one of our portfolio companies, Bufab, a trading company that offers a full-service solution for sourcing and logistics of C-parts. This approach emphasizes that acquired companies should retain their entrepreneurial spirit and operational independence. The pull integration strategy allows each newly acquired company to determine the pace and scope of their integration into the larger organization. This flexible approach enables companies to draw on resources, practices, and benefits as needed, rather than being forced into a rigid framework.

This emphasis on autonomy and selective integration is a recurring theme across our portfolio. The focus is on growth synergies rather than cost synergies, ensuring acquisitions can seize opportunities when joining a larger group while avoiding disruptions commonly associated with forced restructuring or cost-cutting. By prioritizing autonomy and leveraging local expertise, while providing access to Bufab's resources and best practices, the pull integration strategy fosters sustainable growth and preserves the unique strengths of each acquired company.

Acquired companies retain full autonomy in choosing the integration approach that fits their needs. Some may adopt shared ERP systems within the group, but this decision is driven by local accountability rather than a centralized mandate. In cases with significant specialization across divisions, companies may opt for more operational integration—achieving lightweight cost synergies, such as in sourcing—while retaining autonomy and ownership mentality.

Similarly, other Nordic leaders, including Bergman & Beving and its spun-out companies like Addtech and Lagercrantz, as well as Indutrade and others, have varying degrees of shared services and "toolboxes," equivalent to a "pull integration" strategy. Employees can voluntarily utilize the common knowledge within the organizations, freeing up time for CEOs to focus on strategy and growth.

Plow Horses and Meritocracy

A common pattern that runs through the best acquisition-driven compounders is that decentralized autonomy exists alongside centralized control. Managers are free to run their units, often with full P&L responsibility, but this freedom comes with relentless accountability. This culture of accountability attracts a distinct kind of individual—one who thrives under pressure, finds motivation in numbers, and embraces financial discipline. The balance between entrepreneurial freedom and financial control can feel like walking a tightrope—maintaining entrepreneurial spirit while meeting financial demands.

A portfolio example is Ametek, a specialized manufacturer of advanced products across multiple end-markets with a nearly century-long history, including numerous accretive private acquisitions. Ametek values substance over style, referring to this philosophy as being 'plow horses rather than show horses'—a deep-rooted preference for meaningful work and steady commitment over superficial display. The company has had only four CEOs over 58 years, contributing to cultural stability while successfully navigating numerous pivots and course corrections along the way. At Ametek, hitting financial goals is non-negotiable. Underperformance is addressed directly, creating a culture where results are essential and performance drives recognition. This results-driven environment attracts people inspired by accountability and committed to delivering consistent outcomes.

Highly decentralized companies attract business heads who want to prove themselves with full P&L responsibility. High-performing cultures with deep-rooted meritocracy are not for everyone; they naturally self-select for top performers. This culture can often be lost in centralized structures.

The integration spectrum in acquisition-driven companies spans a wide range—from highly decentralized models that prioritize entrepreneurial freedom, even at the expense of easy synergies, to tightly integrated approaches, like Brad Jacobs', which focus on maximizing scale efficiencies with minimal decentralization. The "pull integration" strategy, which is prominent in many of our portfolio companies, represents an effective middle ground. This approach balances synergies with autonomy, allowing each business unit to decide the extent and nature of its integration based on its unique needs, thereby preserving the entrepreneurial spirit.

At REQ, we have great respect for acquisition-driven compounders that prioritize genuine autonomy and an entrepreneurial spirit. These companies invite synergies rather than enforce them, and when they do introduce synergies, it's done thoughtfully to preserve autonomy where it's most needed. We believe that balancing autonomy with control is essential for "growing big by staying small," creating some of the world's best ecosystems for entrepreneurs.

*Nick Howley's quotes are from the 50X Podcast
**Brad Jacobs' quotes are sourced from an interview with The Knowledge Project Podcast and his book, 'How to Make a Few Billion Dollars'
***REQ funds have positions in Addtech, Bergman&Beving, Indutrade, Lagercrantz, IMCD, Brown & Brown and Ametek