Why some search fund acquisitions fail and how to prevent it

Search funds have been growing for decades, but some key problem areas can cause them to fall at the last hurdle.

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The evolution of search funds has shown much promise in recent years. A record number of new funds have been launched, the success rate of acquisitions has increased and the model has internationalized. However, when cases of value destruction are examined, shared causes come to the fore.

Two studies by IESE professor Jan Simon analyze what *doesn't* work in search fund acquisitions and what can be done about it. Their findings suggest that many failed investments share a small number of critical factors. Some appear after the acquisition, such as leadership issues or interference from the former owner. Others can be detected during pre-acquisition analysis, such as customer concentration or exposure to government decisions.

For boards of directors and investment committees, understanding these risks is essential.

Main causes of value destruction in search funds and how to prevent them

The seller does not fully disengage from the company

Sometimes, the owner who sells the business remains involved after the transaction. This can lead to operational interference, second-guessing of decisions, and weakening of the new

CEO’s authority.

- **Lesson:** Carefully limit the seller’s role after the transaction. If any link is maintained — whether as adviser, employee, board member or investor — clear governance mechanisms and exit options should be established.

The CEO is not leading effectively enough

In the search fund model, the new CEO often has limited prior experience running companies. The risk arises when the executive fails to evolve into a more effective leader.

- **Lesson:** Ensure the acquired company has an experienced board. The new CEO must quickly develop management capabilities and, within a few years, become a leader with specific competencies, strong listening skills and the ability to fulfill fiduciary responsibilities with entrusted resources.

The board lacks leadership

Not all leadership problems originate with the CEO. The board can also fail when it does not fully exercise its fiduciary duties. In the search fund ecosystem, a culture of supporting the entrepreneur can sometimes lead to insufficient oversight.

- **Lesson:** The board must balance mentorship with fiduciary responsibility. This includes setting clear goals, monitoring performance, identifying potential conflicts of interest and avoiding interference in day-to-day management.

Excessive dependence on one or a few customers

If one or several clients account for a substantial portion of revenue, the company is exposed to significant risk. Beyond concentration, customer correlation also matters. For example, five clients in the same cyclical industry may pose greater risk than two clients with long-term contracts in different sectors.

- **Lesson:** Renew or expand contracts during the acquisition, increase product differentiation, develop tiered pricing structures or build a diversified customer base across low-correlated sectors.

Exposure to highly disruptive industries

Search fund managers often take a cautious approach to business management. Unlike many startup founders, who prioritize speed even at the cost of mistakes, they tend to focus on deeply understanding the business before making major changes.

This approach works well in stable industries but can become a disadvantage in sectors where technological change is fast-paced or business models are being disrupted. When environments change quickly, adaptability becomes critical. More agile competitors may pull ahead.

- **Lesson:** Before investing, assess whether the sector is vulnerable to technological disruption or business model shifts. In high-risk situations, it may be better to avoid the investment or back companies capable of adapting through innovation.

Government intervention

Public sector decisions can abruptly alter a company's economics. Regulatory changes, removal of subsidies, new taxes or price controls can directly affect revenue and margins.

The problem is that these risks are often underestimated during pre-investment analysis.

- **Lesson:** Explicitly evaluate these factors as external risks and analyze their potential impact on sales, margins and cash flow.

Ultimately, the goal is to understand the most common problems and identify possible solutions, though these will always depend on context and are rarely universal. Still, they can serve as a basis for new reflections, discussions and useful ideas for CEOs and board members in the search fund ecosystem.

About the research

The work combines analysis developed at IESE's International Search Fund Center with observations from investors gathered during the 6th IESE Search Fund Investors' Summit, held in Madrid in May 2025.

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