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Middle Market Methods™

Value Creating Solutions in Private Equity

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www.middlemarketmethods.com

jalanier@middlemarketmethods.com

770-806-8768

The Bowtie Effect

By John A. Lanier

About twenty-five years earlier in my career, I worked for a financial services company whose high-potential executives were sent to an executive management program at an Ivy League school. Since a material portion of *Middle Market Methods™*'s clientele matriculated at the same campus, I could not resist this example to make a value-creating point.

Our financial services product was not flashy. However, our subsidiary produced superlative results within the organization. Our business culture was outstanding. The subsidiary was a talent-magnet and the envy of the entire parent organization.

The subsidiary CEO was tapped by the parent company to attend the Ivy League program, as were both his two predecessors and successor. Upon his return, the boss brandished a bowtie. Mysteriously, he catalyzed a fashion trend. I, too, contracted the bug. I remain proud of my ability to tie a bowtie—a skill that comes in handy at weddings and other “black tie” events.

Followers know much more about the leader than the leader knows about his or her followers.

What's the point? Followers mimic leaders. The phenomenon is not limited to the dress code. The stakes are serious.

In his book, *Good Boss, Bad Boss*, Robert I. Sutton imparts that subordinates are attuned to leadership cues that may be assimilated in their own styles. Moreover, followers know much more about the leader than the leader knows about his or her followers.

The overwhelming majority of communication is non-verbal. “Do as I say, not as I do” is not a realistic leadership expectation. “Walking the talk” matters—especially the “walking” part. Executive imitation systemically permeates the organization, including but not limited to

department, values, ethics, pace, teamwork, conflict management, communication, and quality. In fact, practitioners may safely assume that executive imitation affects everything done by the business model.

Research substantiates that employee morale is correlated with productivity. Therefore, leadership tenor matters. Leaders who actively and proactively model good behaviors are more likely to experience good results.

Many middle market portfolio companies have not institutionalized good performance management mechanisms. Consequently, those companies do a poor job of encouraging desirable behaviors and discouraging undesirable behaviors. This is an impediment to the business model scalability required to achieve the investment thesis.

Effective performance management systems encourage desirable behaviors and discourage undesirable behaviors.

Effective performance management is not easy. Many leaders even dread it. Why? Three root causes loom omnipresent. First, leaders were never taught how to do it. This is more likely the case if the executives did not come from institutionalized performance management environments, e.g., Fortune 1000s. Second, it is difficult to give negative performance feedback. Third, it takes time.

The ultimate irony is that employees like to know the score. If employees have clear, measurable goals, they may be capable of managing themselves. Moreover, adopting a feedback regimen throughout the year, e.g., quarterly, is beneficial to both leaders and followers. Among other things, these feedback loops make leaders cognizant of the impact of their verbal and non-verbal communication. Consequently, the final, annual performance review should not be a surprise to anyone.

Increasingly, CEOs of scaling middle market companies must execute by proxy. The pros indicate that world class CEOs spend a minimum of 40 percent of their time on people issues, i.e., the right people, with the right skills, in the right positions, at the right time. Entrepreneurial CEOs who cannot learn to empower and delegate both restrict the enterprise value of the company and the potential of their teams. CEOs who do not “walk the right talk” further limit corporate effectiveness.

Let *Middle Market Methods™* introduce you to leadership best practices that create value.