

http://www

Middle Market Methods™
Value Creating Solutions in Private Equity

2012: 1st Quarter

www.middlemarketmethods.com

jalaniem@middlemarketmethods.com

770-806-8768

Improvise, Adapt, and Overcome

By John A. Lanier

Clint Eastwood is a personal favorite—as an actor and director. Eastwood is an icon of the American dream. Industrious and versatile, his work ethic and eye for opportunity has made him an entertainment staple for decades. Some of us remember him in the TV series, *Rawhide*. From spaghetti westerns, through *Dirty Harry*, to directing masterpieces like *Grand Torino* and *Invictus*, Eastwood continues to push the envelope of excellence. Eastwood’s mojo may be summed up in a quote from his character, Marine Master Gunnery Sergeant Tom Highway in *Heartbreak Ridge*, “Improvise, adapt, and overcome.” What better way to segue into this installment of value creation?

Improvise, adapt, and overcome! Indeed, the line reminds me of former Bank of America CEO, Hugh McColl. McColl credited anything worthwhile he knew about leadership to Marine Corps training. His mantra was “When in doubt, attack!” McColl celebrated his Gunnys by giving them crystal grenades to memorialize superior results when they improvised, adapted, and overcame.

*Clear strategic intent
and preparation averts
“Whac-A-Mole”
execution*

McColl’s style is intriguing and worth further thought. How might a leader attack without looking like playing Whac-A-Mole at the carnival? The answer is rooted in the conflation of strategic intent and preparation. When the leader and his or her trained team are clear on the objective, the “Attack!” mantra aligns nicely with “improvise, adapt, and overcome.”

Consider some critical thinking questions. What is the vision for the company? Moreover, why does anyone—especially employees and customers—care? Until these questions have solid answers, consider your team devoid of foundational guiding principles. Assuming you do have solid answers, next pose the “What?” question. In other words, what differentiable actions will the team prioritize in order to bring the vision to life? This is the strategy. When coupled with goals, strategic intent is defined.

The team is now ready for the “How?” questions, or tactics. This is where “improvise,

adapt, and overcome” separates winners from road kill. All competitive arenas are dynamic and mutate into changing conditions. Consequently, tactics change. The ability to change rapidly without compromising strategic intent is a desirable team core competency.

How might a geographically dispersed—even global—team accomplish this? The answer has to begin with shared values. While it is naïve to assume that all employees and the company have identical values, it is imperative that their values be compatible. Teams may benefit by diversity; however, they cannot function if values conflict. This is one of the chronic flaws in recruiting. For example, how much sense does it make for a furrier to apply for a job at PETA or a vegan at a packing plant? Values are the mortar amid the bricks that construct the foundation of execution.

When values are clear and aligned, tactical modifications within spans of control are reasonable risks. The team has ground rules, or rules of engagement, for improvising and adapting in order to overcome. What might this look like in practical application?

Suppose a teammate were on the opposite side of the globe. Not only might a 12 hour time difference complicate things, but further suppose communications were disrupted and a deal-breaking decision hung in the balance. Is the teammate sufficiently equipped with the experience, skills, responsibility, strategic intent, and rules of

Rules of engagement distinguish “hot-box” from opportunistic scenarios

engagement to make the judgment call? If not, leaders should revisit the firm’s training and development process. Case studies, deal post mortems, and mentoring are all beneficial to the cause. Conditioned professionals are then better prepared to say “no” in hot-box situations. Alternatively, they may also take calculated risks with confidence.

If the teammate is adequately equipped, what constitutes a good decision? A practical principle is “satisficing,” or knowing enough to make a high probability choice. Another way to frame this is the Pareto principle, or 80/20. Interestingly, research substantiates that analysis paralysis does not improve the quality of the decision. Seasoned teammates who think they have enough information to make a statistically probable call should go for it. By the time professionals know everything about a decision, the opportunity may be missed. Unless professionals are dealing with life and death situations, making a post-facto midcourse correction is acceptable. For most deliverables, modifications are possible without compromising the objective. Again, alignment with strategic intent should be the guiding principle.

Satisficing has other practical utility: first mover advantage. When professionals think they know enough to start, getting a jump on the competition may be a bonus. Especially in virtual industries where fixed asset investment is nearly moot, scalability enables dominance nearly overnight. Googles and Facebooks are hard to displace. The

laws of physics aid first movers. Momentum and inertia complement the change management aspects of the initiative.

“Improvise, adapt, and overcome” are critical to the middle market. For openers, this is where the bulk of the jobs are created. The health of the economy depends on smaller

*The middle market
can make “improvise,
adapt, and overcome”
differentiable*

companies. Flexibility and time-to-market are sacrosanct. Smaller companies are less encumbered by the groupthink, bureaucracy, and politics of larger companies. This relates to storming phase of Tom Davenport’s forming, storming, norming, and performing cycle. The dexterity of the middle market can both make and defragment markets quicker than

most big companies can comprehend the same market dynamics. The point is summed up in the adage about how easily a dingy can turn in an ocean versus a battleship in a bathtub.

Is there a catch? Of course! As Jeff Bezos of Amazon states, “It’s always day one!” What does Bezos mean? The competitive process is continuous. Surviving today’s storm once does not grant immunity from future storms. Kansans, for example, expect tornadoes each year. Winners excel between the storms.

Among the more interesting things I observe among private equity middle market portfolio companies is that either (i) the investment thesis is rarely operationalized with the portfolio company leadership team, and/or (ii) the plan is only done once at the beginning of the investment. Even though the budget processes may be an annual routine, strategic planning is not. This is precarious on several levels. Let’s explore a few.

Organic and acquisitive growth venues are staples of the investment thesis. Organic growth tends to drive headcount. Some of that headcount may be C-level and supervisory. Interestingly, that new managerial headcount did not participate in the planning process that may have created their position, and consequently, they may not be reconciled to the plan. These people have no malicious intent. Rather, they are trapped in “unconscious ignorance” of pertinent information. Additionally, they may have knowledge of the competitive terrain that could beneficially alter the plan—either offensively or defensively.

Acquisitive growth injects a different company, with a different culture, into the mix. Aside from the ugly odds for successful integration, the acquiree may (i) be unfamiliar with the granularity of the plan and/or (ii) have an execution paradigm foreign to the integration rationale. Who is reconciling the variance?

A final point is relevant for strategic intent. Leadership teams may be grounded in strategic intent and make good tactical modifications, but fail to communicate the changes to the supervisors of the fundamental business model processes. These oversights often yield unintended consequences. Examples include misdirected resources and workflow bottlenecks.

Effective leaders promote organizational clarity

Assumption is the mother of all disaster. In order to turn improvisation, adaptation, and overcoming into a competitive differentiator, leaders must adopt Patrick Lencioni’s admonition about continually promoting

organizational clarity. This includes the metrics and communications mechanisms to promote both alignment and progress against the goals. “Gunny” Tom Highway did this to make sure his company of soldiers was successful.

We started with movies. Let’s end with a pair. *Flight of the Phoenix* and *Apollo 13* are wonderful films demonstrating “improvise, adapt, and overcome.” In *Flight of the Phoenix*, the strategic intent was escaping a desert crash alive. The survivors built a single engine plan from crash wreckage and flew to safety. In *Apollo 13*, the crew, NASA, and contractors endured a space explosion, salvaged remaining resources to cobble together a “lifeboat,” and safely returned the crew to Earth. Analysts referred to the mission as a “successful failure”—no moon landing, but no dead crew either.

None of us is as smart as all of us. When strategic intent is in the hands of prepared professionals, value is created. When not, the scenario tends to look like Abbott and Costello’s “Who’s on First?” Since value creation is not a laughing matter, “improvise, adapt, and overcome” makes much more sense in the middle market.

Middle Market Methods™ offers a toolbox of growth and efficiency solutions for value creation to portfolio companies of private equity firms. The premise is that best practice adoption correlates with a smoother ride during the investment hold period, and results in higher exit multiples. Additionally, deal team time is liberated from operational surprises to invest in new transactions.