



The Indispensable Asset: Quality Management

In a good or bad economy, quality management can make the difference.

by Mark D. Working

Quality leadership is always an essential element of a successful business, but, in a tough economic environment, it is absolutely paramount. As the economy lags and performance pressure on businesses increases, the importance of the management that formulates and executes the right business plan rises to the top of the priority list. Finding and retaining quality executives may be the single most important responsibility of a board of directors and/or shareholder group that seeks to maximize the success of the business. And, of course, identifying and cultivat-

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ing “quality management” is no simple feat. Experienced business professionals have a difficult time defining quality management, and probably find themselves in a position akin to Supreme Court Justice Potter Stewart when he said that he couldn’t define obscenity, but “I know it when I see it.”

To gain some insight into the elusive characteristics of “quality management,” we surveyed partners of private equity (“PE”) funds to gather their thoughts about the most important characteristics of high-performance management talent, on the theory that PE firms represent the category of business owners most reliant on the talent and competence of business leaders. We surveyed senior partners who have been in the business of investing in privately held businesses for a long time, through multiple business cycles and funds, and who have experienced both successes and failures. The distillation of their collective thoughts on the management characteristics they value emphasizes four general themes.

Track Record and Strategic Vision
PE investors value managers that have gained industry-specific experience successfully directing businesses through multiple market

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cycles. They are looking for evidence that key executives have a sophisticated understanding of the business model, know the rationale for its elements, and have a real-time sense of the condition of the business. A quantitative perspective with detailed insight into the dynamics of the enterprise and the interaction of key business drivers is seen as a hallmark of superior talent. This is in contrast to executives that rely principally on well-worn industry rules-of-thumb and customs that fail to recognize and account for the impact of innovation and competitive change. PE investors

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believe that the best leaders use their superior understanding of the business to articulate a clear vision of how the enterprise must evolve to compete successfully in the future. Nothing is more vexing to PE investors than

surprise. Thus, great credibility is accorded to managers that demonstrate a keen, almost instinctive, sensitivity to the pulse of the business and can anticipate deviations from expectations that may cause future problems. That difficult-to-acquire sense of the business increases reaction time and the opportunity to implement early corrective action.

Leadership Culture “No successful business is run by one person,” is how one experienced PE executive put it. Not only is a one-person team risky, it is not scalable, therefore growth becomes more challenging. It is not surprising that the risk-loving, auto-cratic gunslinger is rarely a fit. A quality CEO earns his/her pay by hiring highly capable people, articulating organizational goals, delegating responsibility, and building a cohesive team environment in which the members actively support and inspire each other to

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achieve common goals. An executive team that sets goals and expectations, and routinely measures against them, is highly valued. Investors look for leaders who instill a customer focus throughout the organization, acknowledge contributions and spread credit for success, emphasize a clean and safe work environment, and exhibit a degree of charisma that promotes progress by the organization. Unlike the “presidential” style of leadership that often prevails at major corporations, the ideal leader of a middle-market company is more of a field general that is frequently on the front lines in the middle of the fray. Patton would be preferred over Eisenhower.

Personal Characteristics Investors believe that effective leaders exhibit the ability to delicately balance a passion for the business and a healthy perspective on life (can't wait to get to work, but have other interests, as well), aggressive, but realistic, expectations for the business and its employees, and a sense of urgency and attention to detail. The action sequence of "Ready, Fire, Aim" doesn't work.

Character Honesty and frankness are core qualities. PE executives look for straightforward and direct leaders that candidly share the bad, as well as the good. A CEO should

be upbeat and optimistic, but if his/her view of the business's prospects and challenges are consistently cast in a rosy light, red flags are raised. Experienced investors know that business is a continuous battle, with victories and defeats. Adjustments are always necessary to meet and overcome new challenges. Again, the unexpected is the bane of investment success. Problems cannot be dealt with by concealing them. Investors expect the "straight scoop," so they can work together with the management team to solve the inevitable problems that surface.

The goal of a PE firm is to establish a system of employees, assets, and a strategy that is measurable, repeatable, and sustainable. PE investors believe that management teams composed of honest, capable executives who are easy to work with and for, have an open communication style, and possess a personal passion for the business, offer the best chance of success in building that system. Quality management, when coupled with the proper incentives and a thoughtfully conceived strategy, are a proven recipe for creating value. ♦



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Zachary Scott is an investment banking and financial advisory firm founded in 1991 to serve the needs of privately held, middle-market companies. The firm offers a unique combination of in-depth knowledge of the capital markets and industry competitive dynamics, sophisticated analytical capabilities, and proven expertise in structuring and negotiating complex transactions. For more information on Zachary Scott, please go to ZacharyScott.com.

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