If You Have a Nail, You Still Need The Right Hammer

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Each of us has found ourselves in a situation in which we are dependent upon an expert's assessment of the situation and judgement regarding the best course of action. The decision is ours alone, but we don't have the skills or knowledge to make an informed decision on our own.

Experts, it turns out, are rarely aligned because there are very few technical areas in which there is only one answer or course of action. Experts' recommendations are subject to their own degrees of mastery of the subject, biases, and previous experiences. When investigating the same thin piece of metal, an expert with a hammer might see a nail; another with a screwdriver might see a screw.

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Several years ago, I injured my Achilles tendon. I visited with a recommended foot and ankle surgeon. He examined me and said that I needed surgery–he had done hundreds of these surgeries, I had a classic Achilles rupture, and surgery was the only option. He ordered an MRI and confirmed the tear, instructing me to call his office to schedule the procedure. Someone I respected suggested that a second opinion was warranted. The second doctor asked me if I knew about the controversy over Achilles tendon surgical repairs, informed me that many doctors were not even performing that surgery any longer, and after another exam (and confirmation that I was not pursuing an NBA career), he suggested I avoid surgery. He recommended that I put my foot in a boot for four weeks, followed by physical therapy, and we would then reevaluate. From an outside perspective, both surgeons were very experienced and had many references, but their approaches to the problem were diametrically opposed. How does one choose between the experts? In my case, I chose a third doctor to help interpret and evaluate the two recommendations. Whether by luck or good planning, the non-surgical approach worked great, and I have had no limitations from the injury.

A couple of lessons can be drawn from this experience. First, just because someone has performed a lot of surgery (or whatever other technical skill is in question), it doesn't mean they are skilled at determining if the best course of action in this specific situation requires their area of expertise.

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Second, having skill in a particular course of action doesn't mean the expert is agnostic to what course is in their own best interest.

If surgery is one possible course of action and it helps the doctor make a boat payment, there could be a bias to advocating for surgery. Third, be wary of recommendations of experts made by non-experts. A layman's single, anecdotal experience with an expert doesn't necessarily mean a quality service was performed.

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Turning back to my medical situation, I found it very helpful to have an advisor knowledgeable in medicine who could be an interpreter for me; he steered me to the second doctor because of his first-hand experience and his high regard for this doctor's intellectual integrity and diagnostic skills in addition to being a great surgeon.

Choosing an investment banker differs from choosing a doctor to address a critical medical condition; no one is at risk of dying from a bad investment banking decision. At the same time, there could be negative economic consequences because of executing the wrong transaction, choosing the wrong time to execute a transaction, or choosing a suboptimal course to achieve the desired objective.

Over a long career, I have been struck by the fact that many of our clients and prospective clients had no discernable knowledge or ability to choose their investment banker. Good looks, a nice personality, or a referral from a friend often made the difference. Being strong in two of those three attributes has historically served us well in head-to-head competition, despite our wish that it was our diagnostic and execution skills that would win the day. Ultimately, people gauge what they can, and don't gauge what they lack the experience or knowledge to effectively evaluate.

Taking from my medical experience, here are some suggestions for how to choose the right banker for a specific situation.

- Be clear about the objectives and the reason for them, as they may be in conflict (e.g., monetize the value of the equity I/we have created at a time and manner that allows continued achievement of the strategic course of the business, versus getting the most value possible now, as timing is critical).
- Select a set of investment bankers to interview; take advantage of suggestions by serial users of investment banking services (e.g., M&A attorneys, private equity investors) who have knowledge of work styles, range of services, and degree of creativity in deal situations, none of which are discernible from a list of tombstones.
- Interview investment bankers and ask them their recommendations for "when" and "how" and be prepared to ask "why". Use this process to help decide the appropriate course and timing of action.
- If one banker is preferred from an execution standpoint but another from an advisory perspective (they are not necessarily the same), consider hiring both. It is likely the two bankers will be willing to split fees if roles can be clearly defined.

If you choose a banker, find one who has good diagnostic skills and a big tool bag. If not both, then cross your fingers and hope your situation needs the specific hammer they carry.

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