

The Arete Newsletter

February 2007

In last month's issue, we talked about starting the year out on a strong note by reviewing strategic plans, cash reserves and management incentive plans. This month, we move from the planning arena to a day to day imperative for all organizations: ensuring that the right team is in place.

Team Focus

Are the right players on board?

Think of it this way: You have spent the time and energy to put together a long term vision and plan for the organization. You have effectively communicated your strategy throughout the enterprise, and you have established management and personnel incentives to motivate your team to engage in the "right behavior". But something is wrong. The company is not hitting its goals and the organization is not moving in the direction that you, as CEO or the board, have set out. What is going wrong? Perhaps you need to examine your executive team and key personnel and ask the question: do you have the right players on board with you and are they in the right position?



Is your team comprised of "A" players?

When it comes to strategy implementation, proper execution is critical, and proper execution requires executives and staff who are capable and have aligned their motivations with those of the organization. Without the right team, your plans will gather dust on the shelf. Jack Welsh, the former long-time CEO of GE, liked to talk about cultivating managers who performed well and who shared his vision. These were his "A" players. His B players also shared his vision, but didn't always hit their numbers. B players could be nurtured and supported for a time to help them become A players. C players hit or exceeded their targets, but didn't share his vision, while D players failed to hit their numbers and also didn't share his vision. For Welsh, the answer for D players was easy: they were shown the door quickly. C players, who deliver the results or exceed their goals, present more of a dilemma for an organization that is focused on growth and hitting projections. Nonetheless, for the long term growth prospects of the company, it is imperative that C players, having failed the chance to "get with the program", exit the organization. Over time, C players can become like a cancer to the organization, disrupting the team efforts by constantly pushing in the opposite direction.

Every organization can apply this methodology, not only for its managers, but the staff as well. (It is not necessary to actually place an "A"- "D" tag on individual team members through personal evaluations. The key is to actively and continuously evaluate the team throughout the year, not just after the year is over.) The company that fails to take swift action with respect to underperformers, malcontents, misplaced staff, or other similar problem executives or staff members, will find itself failing to meet its financial goals or its strategic goals, or both sets of goals.

The start-up team: avoiding a failure to launch

Why are we at Arete Corporate Advisory so concerned about the management team and personnel issues at our clients? Because without the right management team, without quality staff, all those carefully planned corporate transactions are doomed to failure. Let's start with the start-up company. The importance of a superior management team to a start-up cannot be overestimated. At some point in its evolution, the start-up – armed with a fancy business plan – will seek out additional financing, often from a venture capital firm.

Venture firms see hundreds of business plans a week and they select a very small percentage of these offerings to review; fewer yet actually obtain funding. Venture firms are looking for two things: a first class business plan and a first class executive team. If they have to settle at all, they will settle for a company with an “A” executive team and “B” business plan every time over a company with a “B” executive team and “A” business plan.

The acquisition growth phase: getting the deal right—before and after

If your company has successfully navigated the start-up phase and is now looking to accelerate its growth through strategic or targeted acquisitions, once again the quality and nature of the team comes into play. This time however, the CEO or board has to look not only to its own team, but the target’s team as well. Some of your own executives may have been with the company through its growth stages and may have performed perfectly well throughout. But questions have to be asked as you approach an acquisition: do they still share the vision? Can they “scale” with your growing company, assuming a greater responsibility or simply continuing their role with a larger organization under them? Will they be able to work effectively with their target company counterparts and if not, which one should stay? Are they RIP (retired in place) or lacking the energy levels to keep up with a fast growth agenda? Look at the target’s team as well and plan in advance to deal with the inevitable issues of acquisition synergies: who is expendable? If there are critical target company executives or technical staff, will they fit into the culture of your organization? Are their target managers who might be better suited for a greater role in the combined company than certain of your own managers? The acquirer who fails to address adequately these issues in the context of a corporate transaction will often fail to achieve the desired outcomes and expected value of the transaction.

The importance of team quality for your exit strategy

These considerations should be addressed throughout later stages of the organization’s life cycle as well. If you are considering a strategic sale of the company, keep in mind that a private equity acquirer will, in a similar fashion to that of the VC firm, consider the strength of the management team going forward and factor that evaluation in its valuation of the company and acquisition offer. Alternatively, a trade acquirer



will consider your team and personnel strength in the manner that you reviewed the team of target companies when you were in the acquisition mode! We know of several examples where a sale was completed more on the strength of the target’s executive team than on the model and performance of the business itself. The acquirers sought to buy the team and the business was secondary.

Continuously assess your most important assets

Smart companies continuously evaluate their market strategies, their product and service delivery and technology platforms, and their intellectual property and other assets. Successful companies will also apply this same critical and continuing focus to their most important asset: their management team and other key personnel. Maintain the focus, take appropriate and timely action, and materially increase your company’s opportunity for success in its strategic transactions and growth activities.

Arete Corporate Advisory team members have the experience to help you with your strategic and overall planning, your acquisition and disposition activities, and other growth efforts. Call us today and let us delight you with the results.

Email: info@aretecorporate.com

Phone: +1 305 767 4596

Fax: +1 305 402 0524

Web: <http://www.aretecorporate.com>

© Arete Corporate Advisory 2007, all rights reserved. Permission is granted to forward this article, as long as attribution to Arete Corporate Advisory is provided and this notice is retained in the article.