

The “It” Factor

By

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Introduction

Some of us played tag in early grade school. Being “it” meant you had license to catch someone and transfer the accountability of being the pursuer. Some Darwinian dynamics were inferred which borrow from the animal kingdom, i.e., the faster overtaking the slower. However, we also encountered the parable about the tortoise and the hare to learn that methodical, paced persistence—punctuated by a clever strategy—budgeted energy toward realizing the sustainable winning objective. Consistent with this vibe, a wise friend explained professional maturation in terms of time tipping the scales toward wisdom over technical acumen. The “it” factor algorithm maps to both relative to circumstance.

Mere entrepreneurial mortals may aspire to build one profitably growing company in a lifetime. Then, along comes an iconoclastic figure like Elon Musk—who defies all rules except the first principles of physics—to steward multiple concurrent game changing enterprises. The entrepreneurial “it” factor has many manifestations. My more focused observations on the phenomenon are in the lower middle market private equity ecosystem. I tease many equity sponsor firm-founding friends that they excel in unintentionally training their future competition. Junior members may cultivate confidence that compels them to opt out and exercise their “it” factor. A similar exodus may also occur among their portfolio companies.

*The “it” factor is being
the right kind of leader at
the right moment in time.*

So exactly what is the “it” factor? M3’s definition describes the “it” factor as a differentiated form of leadership in both general and specific contexts. Such leadership self-evidently validated by timing and scenario. This article endeavors to elaborate on both. A word of caution is appropriate. Leadership and management are siblings—not synonyms. Managers may unwisely draw on position power, i.e., directives. Position power can alienate more talent than it develops. The most effective leaders in an

organization may have no direct reports. They influence and/or episodically deftly wield subject matter expertise in atypical scenarios.

Author Anchoring Bias

We are byproducts of our individual experiences. Our values and character are molded by such experiences. Adversity both reveals and builds character. Many leadership profiles are impacted by experiences that colleagues never knew. To substantiate the point, I will be the lab rat. I grew up on a farm. Accountability and teamwork were instilled early. Many of us were operating heavy machinery at ridiculously early ages. Machinery and farm animals can hurt you. Several of us exhausted our guardian angels as we matured. The thought of our children engaging in such high-risk activities at similar ages is patently unsettling.

My collegiate matriculation included working full-time as an emergency medical technician (“EMT”) while pulling a full course load. My training included extrication. The extrication truck had cool tools, e.g., the jaws of life. Perhaps some readers will remember the 70’s hit TV show, *Emergency!*, which brandished similar capabilities within an urban fire department.

I learned triage and technique from some of the best in the business. If you were the ambulance attendant in the first unit on the scene, you led the triage. The only exception was a disaster at which a senior person arrived to take command. Otherwise, you led the single patient scenario until your patient was received at the ER. In all other instances, you followed.

*Our life experiences
can manufacture
latent “it” factor DNA.*

We knew what to do when equipment failed—and this occurred more than I care to remember. Murphy’s Law reminds us that anything that can go wrong eventually will. O’Toole’s Law asserts that Murphy was an optimist. We teammates experienced both the joy of success and the despair of loss. We accelerated at light speed from abject boredom to sheer chaos—and back again—in routine fashion. It was an environment of continuous learning.

That was over 40 years ago. However, the fundamentals have punctuated every phase of my career to the present. This includes comfort in challenging the status quo in devotion to continuous process improvement. Sometimes the “it” factor makes cameo appearances.

The Leadership “It” Factor

The focus here is on entrepreneurial leadership of small businesses and the private equity deal teams which steward investments in such businesses. What characteristics do they have in common? Before jumping to an answer, beware that these characteristics manifest differently as they emanate from different perspectives.

I dug up one of my MBA textbooks (*Essentials of Entrepreneurship and Small Business Management* by Thomas W. Zimmerer and Norman M. Scarborough) for entrepreneurial descriptors:

- Desire for responsibility
- Desire for immediate feedback
- Organizational skills
- Tolerance for ambiguity
- Confidence in the ability to succeed
- Flexibility
- High energy level
- Value of achievement over money
- High degree of commitment

M3’s consulting practice observations of entrepreneurial “it” factor characteristics include the three following additions:

- They perceive an unmet need which they can satiate with a differentiated value proposition.
- They attract talent and motivate them to pursue a shared vision.
- They are both people (i.e., EQ) and enterprise smart.

The take-away is that entrepreneurs are not myopic, but rather multifaceted corporate chameleons. Founding entrepreneurs, of necessity, stretch dollars until they scream. They must. They cannot afford an army—yet. If/when they can hire additional talent, they understand the difference between aerodynamic ballast and lift. Inherently, then, these leaders are multitasking player managers. This phenomenon can and does work. However, their Achilles’ heel is limited bandwidth. Even if the founder has sufficient cognizance of this structural obstacle, procrastination may entrap them. The conundrum is exacerbated by perceived lack of time to do the necessary training and delegation. Therefore, an organizational architecture resource may be the most objective and expeditious path of remediation. The ordinal critical thinking questions are thus posited:

- What are the primary functions which comprise the business model?

- Who is presently responsible for each of those primary functions?
- What types of skillsets are required to manage those functional spans of control if the company is three times its present size?
- Does the present team wield these skillsets?
- Specifically, what do they know which:
 - only they know,
 - only they would know how to perform those tasks, and/or
 - is undocumented?
- Are they coachable on any skillset deficiencies?
- Which deficiencies across these profiled functions are most at risk?

As leaders ponder execution risk, they need to arrive at this “moment of truth question:”
What happens if any one of those persons:

- dies,
- is indisposed for an indeterminable period,
- retires, or
- leaves for another opportunity?

Reality alert: It can and does happen—more often than we may be comfortable admitting.

Concurrent with mitigating growing pain execution risk, we may build empowered, accountable, and scalable teams. Even so, founding entrepreneurs may encounter sporadic “it” factor scenarios. What then? M3’s experiences with these phenomena may best be understood using two Venn Diagram circles. One circle depicts the skillsets required to fulfill the vertical investment thesis. The other circle is a byproduct of diligence on the prospective investment. (See Figure 1 below.) Depending on time criticality in the absence of resident capabilities, fractional or consultative resources may bridge the gap. Otherwise, this is a hiring signal. Many private equity firms have some combination of internal and pre-vetted resources who may immediately deploy on commonly encountered challenges. However, if the communications dynamic between

Leaders may have “it” factors; however, they will encounter scenarios which require the “it” factors of their teams.

the portfolio company leadership team and the deal team is not healthy, remediation of the problem may suffer a delayed start.

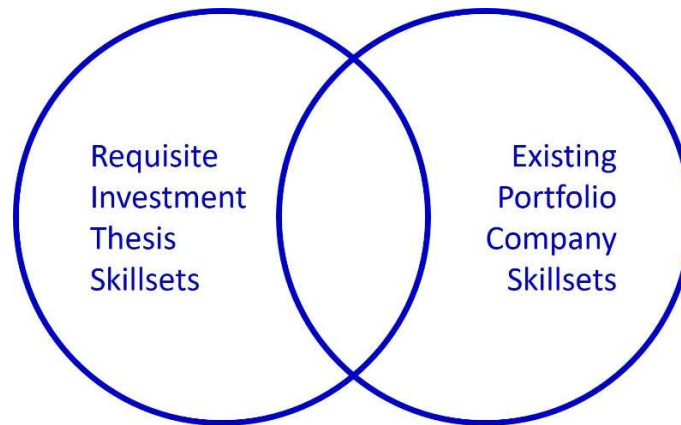


Figure 1: Need vs. have investment thesis skillsets.

The Followership “It” Factor

There is no such thing as leadership without followership. Whereas managers may enjoy some leverage by position authority, the torque is tepid compared to leaders with exceptional EQ who opt for influence. Great leaders attract followers who want to affiliate with an organization which develops talent aligned with career pathing. Effective leaders must first nurture a culture of inspiring those within their charge to seek challenges and volunteer for assignments which develop their skillsets. Leaders who eschew this mantra may be unwittingly sitting on a veritable goldmine of aptitude and ambition conducive to value-creation. There are many ways to identify ringers on the payroll.

Contingency planning may identify requisite “it” factors.

Preparing to Scale

Growth is imperative. The consequences of growth may be challenging. Begin with how the business model works and the skills required to scale without chaos. Most of the seasoned executives M3 supports prefer to grow their own talent. This begs proactive recruitment and vigorous training. These questions should be redressed:

- What talent gaps are we likely to encounter as we grow?
- Are the positions across the value-chain clearly profiled?
- How do the incumbents compare to requisite proficiency skills?

- What training is required to elevate their game?
- How will the training be provided?

Contingency Planning

Contingencies address threats. What scenarios can immediately wreak havoc on the business? Power outages, cyber-attacks, violence, floods, fires, tornadoes, and hurricanes come to mind. The pain may be mollified more quickly if the right people take the reins at the right time. Relative to scenarios, address these questions:

- What scenarios should we anticipate? Hint: Kansans do not fret over hurricanes, but tornadoes seem as common as house pets.
- What type of plan is needed for each?
- What type of leadership is required for each?
- How and by what methodology do we train for this?

Opportunities

What scenarios produce exploitable opportunities where execution speed is imperative? Opportunities come in many forms, including systems conversions, archival competitor vulnerabilities, collaboration on product design and installation, process improvement, acquisition integrations, greenfield expansion, relocation, and certifications. Vetting questions analogous to contingencies apply:

- What skillset requirements are inferred by the opportunity?
- Do we have them available for the assignment?
- What is our backup plan for their inaccessibility?
- Where do we find the skillsets required but missing?

Postscript Thoughts

Most of these scenarios are complex—another way of vindicating the virtues of project management. External subject matter expertise is often the practical choice in the interest of time. Even so, the vendor should commit to knowledge transfer concurrent with client leadership deliberately empowering and holding accountable specific persons on the payroll to become the “it” factor people.

Who are Our Ringers?

Misperceptions and unconscious ignorance may be insidious impediments to “it” factor scenarios. Moreover, anchoring bias is a chronic corporate disease. Once we humans ascribe a profile to what a person is or does, we are inherently unlikely to change our minds.

Employers commonly have people on their payrolls with experiences and skills unknown to the company. Manifestations of oversight may include a long-term employee interviewing with competitors to take a job which is about to emerge in our shop. How is this possible? Among the more common reasons is that the job a person was hired to do did not require discovering any of their latent expertise. Moreover, myopic interview techniques may mask latent candidate potential outside of the scope for the posted position.

Prudent leadership includes knowing reserve capabilities of teammates.

Every organization needs to inventory skillsets, leverageable experiences, and ambitions for each employee in anticipation of contingency planning. For example, who is better than a volunteer firefighter to take point on the company’s fire drill plan and execution? We should pay particular attention to military veterans on these phenomena. Veterans are extremely well trained, come with a variety of practical experiences, and have an acculturated edge on the rest of the population for navigating situational stress.

Tendencies and Proclivities

Behavioral profiling tools help us with temperaments aligned with “it” factor scenarios. DiSC, Myers-Briggs, and Predictive Index may ring familiar. Additionally, Patrick Lencioni’s most recent allegorical success is called *The 6 Types of Working Genius: A Better Way to Understand Your Gifts, Your Frustrations, and Your Team*. Lencioni describes six work profiles that may influence best fits:

- Wonder: conjuring what could be;
- Invention: crafting novel solutions;
- Discernment: rationalizing the best option;
- Galvanizing: motivating followers to invest their personal capital;
- Enablement: providing support to the execution team; and
- Tenacity: assuring meeting the deadline.

According to Lencioni, people tend to excel in two, are good at two others, and prefer to avoid the remaining two. The book explains how and why people may be good multitaskers for execution sprints but suffer burnout in a marathon assignment. The root cause is expending excessive energy to power through on something one prefers to avoid. The same tool helps explain why people are indefatigably energized by best fit challenges. The magic for leaders and their followers is matching inherent team strengths with critical initiative requirements. Neither bosses nor subordinates may be inherently self-aware of how they map to the profiles. Fortunately, Lencioni's organization proctors a profile for a reasonable price.

Behavioral profile insights may optimize "it" factor deployment.

Another Angle on "It"

My eclectic circle of friends keeps me supplied with informative book titles. One of the few books I have felt compelled to read twice is *You're It: Crisis, Change, and How to Lead When It Matters Most*, by Leonard J. Marcus, Eric J. McNulty, Joseph M. Henderson, and Barry C. Dorn. The scope of the book eclipses what I wish to emphasize here. However, its points include "swarm leadership" which resembles Agile project management by these points:

- Teams rally around clear objectives and invest their individual, complementary expertise.
- Individual accountabilities are matched with subject matter expertise.
- Situational, multidirectional leadership supplants hierarchical norms.
- Effective triage sifts material issues from distractions.
- Trust-based "we" execution is more productive.
- Concurrent tasks (not necessarily in the critical path) are reliably executed within milestones.

The book uses familiar case studies to demonstrate the concepts. Stating the obvious, *You're It* is a must read.

Conclusion

Lower middle market businesses frequently have room for improvement in talent development, career pathing, and contingency planning. These unattended issues may adversely impact morale and retention. The cost of turnover is pronounced, but its calculation is eschewed and/or flawed. The opportunity cost includes retrospectively realizing that “it” factor skillsets were under our noses but left to find fulfillment in a competitor’s organization.

“It” factor opportunities may both reveal and develop high-potential gems. The preparatory call to action is simple: Memorialize employee passions and hidden talents. When scenarios occur for which volunteers are requested, compare those who responded with those who should have. We are bound to learn something useful in the process.

One of the best “serial” CEOs I have ever supported earned their first path to the corner office by volunteering to lead an acquisition integration. There was no prior integration experience; however, personal passion and insatiable curiosity were abundant. This person attributes much credit to success by raising a hand for the challenge of being “it.” The “road less taken” (thank you, Robert Frost) engineered the trajectory of their career. Defense rests.

Middle Market Methods™

Our firm offers a value-creation toolbox of growth, productivity, and cultural solutions to portfolio companies of private equity firms. The premise is that best practice adoption correlates with a smoother investment hold period, resulting in higher exit multiples. Consequently, deal team time is liberated from operational surprises to invest in new transactions.