



Post Acquisition Success 2 of 2: How an Effective Management System Helps Maximize Financial Gains

Establishing a more effective management system is the third pillar of an effective portfolio company improvement plan. Simply put, it's how a manufacturing business unit or plant gets things done.

What Does a Highly Effective Management System Look Like?

In my most recent post I wrote about a [three-pronged approach to rapid value creation for private equity portfolio companies](#): large one-time gains, longer-term benefits that accrue over time, and the disciplined management system that sustains changes and eliminates productivity leaks. What does an effective management system look like? How is it implemented and maintained? And, why am I even writing about it?

It's always a challenge to talk or write about effective management systems. It's challenging because, particularly from an investment and private equity perspective, it doesn't seem like the effort would deliver the level of value and returns expected by investors. It's not artificial intelligence, big data and analytics, additive manufacturing, or any of the other new technologies that are promising to transform manufacturing and markets.

An Effective Management System is a Must

I am convinced however, from the results of our work with clients, that this is a huge, largely-untapped opportunity. When private equity firms are **sitting on record levels of dry powder** and multiples are rising, maximizing returns from an active-ownership approach must include establishing a more effective management system in your portfolio companies. Let me explain why.

Putting the “Active” in Active Ownership

An effective management system – good or bad, whether it's recognized as such by company leaders or not – is how a manufacturing business unit or plant gets things done. It's how value is created and how shipments get pushed out the door every day. The management system at most manufacturing facilities is a combination of good intentions and daily crises. Guess which usually takes precedence.

People often think of the management system as “good leadership”. Good leaders set clear expectations and demonstrate behaviors that others follow and which generate results. While this is very true, there are differences between good leadership and an effective management system. **A good management system aligns and systematises effective management practices. It institutionalises these practices, making them more consistent and less dependent on the innate capabilities or experience of individual managers. In effect, it creates good leaders.**

How does an effective management system compare to how most manufacturing companies get things done?

An effective management system is an integrated set of management processes and tools that help align the company strategy and annual objectives with daily actions,

performance monitoring and corrective actions. Having a structured management system reduces daily firefighting and provides a foundation for managers and employees to make process improvements every day and sustain forward progress.

That's a high-level definition and the benefits. In practice an effective management system starts with identifying the most relevant KPIs and cascading them down to hourly and daily targets at the points of impact. Leader standard work is a time management practice that improves consistency, ensures follow through and reinforces accountability. Formal problem-solving methods mix short-term corrective actions and long-term, root cause analysis to address issues and eliminate recurrence. All of these elements plug the "leaks" that undermine management effectiveness and drain productivity. (See this new TBM Management Briefing for more details on [how a management system can maximize value creation.](#))

Become an Employer of Choice

A major benefit of a structured, well-run management system is that it expands the capability and capacity to manage the business. As I already wrote, it creates leaders. Instead of there being a select few decision makers and problem solvers, a management system enables everyone in the facility to make contributions that drive better performance. This creates add-on benefits for succession planning and people development.

As operating partners can appreciate, superior management talent is essential for superior performance. An effective management system is like a good business leader who attracts talented people.

With time and experience, an effective management system will create a culture of execution excellence. Such a culture engages more people in making a business run better and improving the ability to meet customer needs. That drives superior growth. Combined with market success, such a culture creates a more attractive place for people to work and it lowers turnover.

Companies considered to be "employers of choice" in a given industry or region tend to boast high levels of employee engagement, as well as a steady record of

performance improvement. Compensation and benefits alone are **lower level motivators** that act more like Novocain to help people tolerate a poor culture and work situation.

Sounds Great. What's the Catch?

If an effective management system is so critical to driving manufacturing company performance, why aren't your portfolio companies already using such a system? In addition to the dominance of traditional management practices, some of the barriers to adopting a different management system include:

1. **Lack of vision.** Management is not aware of the scope of the issues or need for change. For example, repeated process failures and work stoppages are often overlooked because of new equipment investments, customer complaints, supplier failures, and other issues.
2. **Lack of awareness.** Managers don't understand what an effective management system looks like, what the benefits are, or how to implement one.
3. **Addiction to fire fighting.** Managers and supervisors like fire-fighting. They like swooping in to solve problems. It makes them feel effective even though they're addressing symptoms and not the root causes of problems.
4. **Poor understanding of leadership.** Managers cannot develop or build people's capabilities when they are focused on being the chief problem solver.
5. **Inexperience.** Daily performance reviews require a level of discipline that many managers aren't prepared for or accustomed to. It takes time for such practices to become part of how they work every day.

To maximize investor returns using an active-ownership approach requires a three-pronged attack:

1. Large one-time gains
2. Benefits that accrue over time
3. A much more disciplined management system

I hope this deepens your understanding and importance of this third opportunity. If you need specific examples or more advice on implementing a more effective management system in your portfolio companies, don't hesitate to reach out to me.



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Bill Remy is the former CEO of TBM Consulting Group and currently serves on the TBM Board of Directors. His career expertise includes deep knowledge of operational performance improvement, site transitions, acquisition integration, new product development and supply chain management.