Hard Decisions to Learn From: A Journey

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In 2003, Brad Clancey bought Specialty Materials Technologies[1] (SMT) located in Maine. The company manufactured footwear components, industrial cutting dies, a specialty foam for cosmetic applications and cleaning cards for transactional equipment, (such as POS scanners and optical scanners that validate checks and currency). By early 2008, the cleaning card business, which counted for around 68% of revenues and about the same in operating income, saw sales decline in one of its key segments, the Las Vegas casinos. To Clancey, that signaled things were getting really bad; people were not gambling. He believed that when the gambling industry slowed, it was a leading indicator of an economic headwind. After the Shearson Lehman collapse in September 2008, he decided to cut operating expenses and by the first quarter of 2009 when everyone finally realized how bad things were,

[1] Company names have been changed. Financials reflect name changes but are actual reported figures.

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he had put the company into survival mode to weather one of the worst recessions ever. By 2010, he was looking at selling the company. Clancey reflected:

> There was no more to cut – we had cut down to the bone. It is like the Symphony – you don't need the piccolo player very often, but you still need him. Based on my gut there was something telling me that I should sell the company. Before I could do that I needed to show some value to a buyer. I called all the employees together and asked them to find ways to cut more costs. We could not cut more employees.

Clancey had a background in mergers and acquisitions and he knew that a sale would require finding the right buyer. One option was to sell to two companies that wanted to split the assets; one firm taking the cleaning card business and the other assuming the remaining SMT assets. Another possibility was to sell the company back to the previous owner, who was more likely to keep the company intact. However, later in the year, he was reconsidering any sale at all, since the employees had really stepped up and things seemed to be improving. A lot depended on how Clancey saw the future, and his crystal ball was cloudy.

The Early Years

After earning a Bachelor's degree in Mechanical Engineering at Virginia Tech, Brad Clancey learned the basics of mergers and acquisitions and the value of due diligence working for Hercules Inc., (a major US chemical company) in the 1980's. He left Hercules when a group of investors came in and bought the business that Clancey had turned around.

> I was on a fast track at Hercules to be a Vice President and in the '80's if you were a Vice President of a Fortune 500 company, you were a rock star. Early on, I had been relocated to a plant and business that Hercules was selling. My assignment was to drive the costs down and improve performance to attract a higher selling price. A group of investors came in and bought the company – Extrusion Tech. Here's the interesting part. They offered me a job to go with them and become the COO of that business. I was 30 years old. It was high risk, but the timing was right. It was my opportunity to do something different – run a company. The goal of these investors was to take the business public, but that meant more acquisitions. That was 1986.

Several years and 27 acquisitions later, Clancey had it down to a process. He commented:

> I had become the point man on all acquisitions. I would go in, do due diligence; make the assessment of the business, evaluate the work force, reposition the products, and so on. It was my responsibility to identify, make changes and implement and it was a twelve month process from start to finish. Then I went on to the next acquisition and did around 27 of those. Every one of those was a little different and gave me a wide breadth of experience across all kinds of dimensions – technology, processes, people, finance, etc. Over that period of time I got really good at what I was doing. Extrusion Tech was successful and they took the company public in 1991. A short time after, I left that company along with the CFO and we started our own company.

The CFO still had connections at Hercules Inc. and was aware of a larger division at Hercules that was on the market. In 1991 he and Clancey bought the division, a $150 million company in the film/packaging material business with three locations in Canada and the United Sates. Clancey drove out $15 million of costs while holding revenues constant, a real learning experience. He recommended not shutting down any of the locations, but rather shutting down a significant number of production lines, and shifting that production onto a state of the art line that was only running about 50% of capacity.

> Lots of large companies, but not many small ones, look at profit per product line. Even fewer look at profit per machine, of production lines. I shut every unprofitable line down but one and shifted the production to the most cost effective line and ran that one 24/7 because that was the only profitable operation.

Backed by a successful private equity group, Clancey bought Applied Filaments in 1995. It was a small company in Vermont that produced filaments for brushes. Within nine months, he bought the largest competitive producer of brush filaments in the United State that had a small $1 million manufacturing facility in England. Europe was also the location of the largest European producer of filaments, a $30 million German family-owned business. Clancey recounted:

> It was not worth keeping the $1 million facility, so I focused on buying the family owned operation. I got to know the owner and it took a couple of years for us to gain trust in one another, but we finally did and he agreed to sell in 1997.
> We were now the dominant player supplying filaments in the western world. We supplied brush filaments to just about anything that you can think of, from

> toothbrushes, to brooms, to vacuum cleaners, to paint brushes and on and on. When we bought the company there was $6 million in EBIDTA and we doubled that in 3 years. I figured that the company was now worth over $100 million and we had paid around $50 million for the pieces. I went to the board and said that it was time to sell. This was my first experience as CEO and when I look back I was not forceful enough. If I had to do it over I would put together a compelling presentation. I wasn't seasoned enough to realize the price of ignorance.

The company then had a year of excellent performance and Clancey was spending significant time in Europe running the company in Germany and another company they had purchased in the Czech Republic. Success came with a cost, however, as Clancey realized that he was away from his family too much of the time. "I was on the phone with my daughter when I had my 'cat's in the cradle' [2] moment. I realized that I was away too much."

In 1999, one of the filament salesmen brought in a 3-pack of paint brushes and threw it on Clancey's desk and asked: "How much do you think that cost?" After looking over the package Clancey replied: "Around $12, but between $11 and $14." The salesman replied "$4 – that's what the Chinese are selling it for."

In a period of 24 months, an entire industry consisting of filament suppliers, handle suppliers, steel reinforcement suppliers, and final brush assemblers evaporated. Applied Filament's profit dropped $5 million overnight and even aggressive cost cutting did not work. What had been a

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[2] Harry Chapin wrote the song *Cat's in the Cradle* about a father, who is moving upward in his career, but missing his son's childhood and setting a poor example. The first verse and chorus is:

"My child arrived just the other day
He came to the world in the usual way
But there were planes to catch and bills to pay
He learned to walk while I was away
And he was talkin' 'fore I knew it, and as he grew
He'd say "I'm gonna be like you dad
You know I'm gonna be like you"

And the cat's in the cradle and the silver spoon
Little boy blue and the man on the moon
When you comin' home dad?
I don't know when, but we'll get together then son
You know we'll have a good time then"

billion dollar U.S. market had disappeared. In the past, in order to reach the huge household market, paint brushes had been sold through a fragmented channel of paint and hardware stores, making the barrier to entry high. Now reaching that same market were large retailers including Wal-Mart, K-Mart, Home Depot and others. These large retail chains purchased huge volumes of product at low cost and the Chinese had realized they had the ability to provide a low cost mass market product.

Unhappy with Clancey for not making a stronger case to sell before the subsequent market meltdown, Clancey was fired by Applied Filament's board in December 1999. He reflected:

> Now I only worry about what I don't know and cannot control – not what I do know. We never said to ourselves "What if the Chinese get in here?" We never saw it coming – no one had a clue. The whole industry was taken by surprise and the whole value proposition got changed overnight.
>
> But getting fired was the best thing that happened to me because I had to figure out what I was going to do with my life. And there was also my family. I had been in Germany too much of the time. I drew a 250 mile radius around Massachusetts and decided that my next acquisition would have to fall in that radius.

For the next year Clancey worked on a consulting basis for his old partner who had purchased another division of Hercules. Clancey ended up doing much the same thing as he had before; assessing operations and improving profitability. In 2001 he made his first solo company purchase– Forte Fabricators. The company was in the miscellaneous metals fabrication segment of the construction industry, supplying all the iron work for a building, excluding the actual structure. This includes stairways, cat walks, metal supports, atriums and other specialty iron fabrications. Clancey put $100,000 into the company without private equity investors. It was a $20 million company with experienced managers critical to implementing the strategy. Clancey described Forte:

> The company is in the construction industry and M&A people stay away from construction because of the lien structure that's complicated by the bonding companies – everyone is subordinate to the bonding companies. So this company was one that nobody wanted to buy, but was a great value that I could buy. It had three key ingredients to make it work:
>
> - First, there was a guy {at Forte} who was good at estimating and even more – he knew how to bid and play the bidding game.
> - Second, there was a good engineering person and in this industry, it's more than just engineering – it is understanding the scope of the project and how it fits the talents of the company. Too many firms go under because they think that if they did a $10 million project they can do a $50 million – but the parameters all change.
> - The third key ingredient was that they knew nothing about finance. In this business you get chunks of money – I mean $200,000 to $400,000 at a time – and you have to know how to manage it so that you have cash. In other words, accounts receivables come in waves. Sophisticated financial knowledge was needed, beyond the scope of the existing staff. We needed to add a CFO. So in August of 2003, I hired my former controller of Applied Filaments.

The company had other advantages: it was located in New Jersey, close to New York City. New York's infrastructure was old and there was lots of public work. Clancey estimated the size of the market at $250 to $400 million. The company also had its own fabrication shop, which meant that it did not have to subcontract out like many competitors and allowed it to be flexible and change jobs on short notice. Clancey was also thinking ahead when he purchased this company.

> When you buy you need to know your exit: long term hold, or grow it and sell it. This was one where you needed to hold it a long time and pay off the debt. The key here was the people in the equation. The key people were both around 41 years old when I purchased the company. I gave them each 11% of the company and had them sign a contract that said that they had to give me 3 years notice before leaving and couldn't retire before 60. I also bought generous key man insurance for all of us. It took 9 years to pay off the debt – around $11 million in principle and interest. Last year I distributed some of the profit to the key people. I don't think that there are many places that they can go and be given 11% of a company like this one. I also gave the CFO 6% and the lawyer 7% in lieu of being paid. He's a happy camper now.

In 2003, Clancey was asked by a private equity group to get involved with the purchase of a polystyrene cup manufacturer selling to large grocery chains. After looking at the four production lines and the manufacturing set up, he knew exactly where he could cut costs substantially.

> I looked at the lines and said to myself, we are going to make a pile of money. This was similar to the one I did in 2000 – different product and technology, but the same fundamentals. Everything was going fine. but I saw this one coming. The raw material that had been at $.32 - $.55 per pound for 30 years, then within 18 months had risen to $0.80. Against my advice, the investors put more money in. We were up against some large companies in a very competitive market. There was no way we could drive enough costs out to compete regardless of what we did. Everyone got hurt in the retail space, but the larger companies had most of their business in the institutional space where they had enormous leverage to raise prices.
>
> I had to figure out how to protect the employees, so I put us in to a Zone of Insolvency, a legal term that describes a situation where you are no longer viewed as a “going concern.” In fact, that’s what protects the employees. It is a situation where the employees come first and you don’t worry about the shareholders, the senior debt is only subordinated to the obligations to the employees. You have to make sure that wages, healthcare, pensions, etc. are all fully funded and current when you close the doors. Then you have to figure out when you will be out of money and raw materials and walk away on that day. That’s what we did and the suppliers along with the shareholders, (including me) were the only ones that got the short end and lost all of their money.

The Current Company

Specialty Materials Technologies Company (‘SMT’) was started around 1930 to produce custom molded heel counters for footwear manufacturers around the globe. The molded counters provided stability and strength in the heels of U.S. Military boots and many lines of civilian shoes and boots. Made with customized cutting dies, SMT molded the counters from an array of raw materials in a process that cut, skived and molded the counters into various thicknesses, depending on the end use. In the 1990’s the company had diversified to a point where counters were 50% of the business. In 2003 right before Clancey bought the company; SMT acquired its only North American competitor and was the sole supplier of molded counters to the military. (See Exhibit 1 for a Timeline.)

Leveraging its customization knowledge, SMT also manufactured precision, cost-effective cutting tools and cutting dies for leading consumer products companies and converters. The company utilized the latest technology to custom engineer quality, long lasting tools and cutting dies.

Revolutionizing the use of a cleaning 'card' in high-tech transaction equipment resulting in a patent, SMT had become the market leader in cleaning card manufacturing with over 400 technical cleaning products and 120 customers worldwide. The precision cut card was swiped through the machine to erase accumulated dirt that affected the reading of transaction information for credit card swipes and currency readers. SMT had relationships with scanner OEMs as well as end-user endorsements from some of the largest entities in the industry, including New York City Transit, the United States Postal Service and the Las Vegas casinos. In 2007 SMT bought its only competitor, so it owned 100% of the cleaning card companies.

Clancey discussed the card cleaning business:

> Our competition was Q tips – it was a behavior issue – people would clean the readers by hand. Banks would take a dirty scanner out of commission, replace it with another, and send them out to be cleaned. This required owning an inventory of scanners. They could buy cleaning cards and save hundreds of thousands of dollars. We could be a $100 million company if we could convince the holder of the purse strings, but the selling process was complex. The buying decisions weren't typically made by the person who oversaw the maintenance of the devices.

In a 'perfect storm' of bad news, the fall of 2008 saw casino sales down substantially, Lehman Brothers had closed its doors, and the U.S. and European economies were in real trouble. If it continued, it would affect the debt markets and that would influence how deals were made in mergers and acquisitions. Clancey was concerned:

> I didn't like what I saw so I decided to consolidate. We shut down the plant in San Diego and moved everything to Maine and did a major reorganization in October of 2008. By the end of the year we had absorbed all the costs including

> severance. I took no pay in 2009 and other managers took anywhere from a 10% to 20% cut. We took a few more people out, but could not layoff anymore and keep operating. We needed to be more creative and find better ways to do it. By March of 2009 everybody got it {the need for more productivity, as well as cost cutting}. Everybody worked together. I felt by the mid-2010 that there might be a window to sell the company, but I needed help in creating a story that would put the Company in a favorable light.

Clancey had hired an investment banker and by late 2010, two firms came together looking to buy the company. However, they wanted to split the assets – one would get the cleaning card business and the other would get the rest. Clancey commented:

> They didn't understand that it was very difficult to split them apart. The [SMT] companies were interrelated and everybody had pulled together since the reorganization and layoffs. It was almost impossible to pull them apart – it would not work. Managers were on the shop floor and sales in 2010 were coming back.
>
> I could make a lot of money on this deal, but most of the employees were going to lose their jobs. I decided to call the lead private equity sponsor I had co-invested with and who had been the CEO of the polystyrene cup transaction in 2006. He had lost $3-4 million at that time, but I knew that if he liked the deal, he would keep the Company together.

At the end of 2010 Clancey looked at the performance of SMT and began to question his reasoning to sell. The employees had really stepped up:

> I couldn't believe it. I had almost lost hope in February of 2009 and was sure that the company was going under. By the end of 2009 we had recorded our highest level of profitability in the Company's history and in 2010, profits were 50% higher than 2009. I am not so sure now, but I still have a lot at stake – not the least of which is my house {as part of his net worth}. I have personal guarantees for the senior debt, which was almost $3 million. I need to think of myself. I am now 55 and somehow my gut tells me that the macroeconomic trends and pressures are unlike anything I've seen before. On the other hand if the Company takes off, I could easily make a multiple of the Company's current valuation.
> (See Exhibits 2 and 3 for Financial Statements)

Exhibit 1 Timeline

1979	BSME from – Virginia Tech
1979	Joined Hercules, Inc. in June 1979.
1985	Hired by Extrusion Tech
1993	Executive MBA – Northeastern University
1994	Left Extrusion Tech in 1994 after an IPO in 1991.
1995	Bought Applied Filaments and five more filament companies by 1999
1999	Got fired from Applied Filaments, on December 23rd.
2001	Bought Forte Fabricators
2003	June 2003 - Hired by Private Equity Group to run Polystyrene Cup Company
2003	November 2003 bought Specialty Materials Technologies
2007	August 2007, Specialty Materials Technologies acquired its only competitor
2008	First sign of economic head winds - casino sales plummet
2009	September 2009, decide to cut staffing levels to bare bones after Shearson announcement by then Treasury Secretary Hank Paulson.
2010	May 2010 retains investment banker.
2010	September two strategic buyers interested

Exhibit 2

Specialty Materials Technologies
Consolidated Income Statement

	2007	2008	2009
Net Sales	11,232,198	12,698,308	11,338,190
Cost of Sales	7,283,293	7,843,178	6,868,390
Gross Profit	3,948,905	4,855,130	4,469,800
Administrative expenses	1,620,126	2,347,881	1,697,687
Sales/marketing expenses	1,133,690	1,462,644	1,188,172
Bus development expenses	44,040	253,909	131,686
Operating Income	1,151,049	790,696	1,452,255
Interest expenses	698,391	710,031	648,193
Bond discount expenses	14,220	14,220	10,665
Warrant Accretion Expense			597,280
Interest Income	-	-	
(Gain)/loss on sale	(2,500)	(36,621)	(52,566)
Other (inc)/expenses	(6,500)	10,811	(5,032)
Income before taxes	447,438	92,555	253,715
Income tax expense	277,322	(163,032)	345,254
Net Income	170,116	255,287	(91,539)

Exhibit 3

Specialty Materials Technologies

Consolidated Balance Sheet

	2007	2008	2009
ASSETS			
Current Assets			
Cash & equivalents	335,557	200,729	53,373
Accounts receivable , net	1,442,653	1,565,974	1,371,143
Other receivables	12,446	2,690	9,960
Inventory, Net	1,951,460	1,975,805	1,817,522
Prepaid Expenses	69,282	157,544	74,414
Deferred Tax Asset	142,496	132,912	135,674
Other Current Assets	211,778	290,456	-
Total Current Assets	3,953,894	4,035,654	3,462,086
Property & equipment net goodwill	4,199,604	4,816,921	4,568,168
Goodwill	728,522	728,522	728,522
Intangible assets, net	3,351,948	2,659,608	2,174,193
Other assets	-	250,000	257,087
Total Assets	12,233,968	12,240,705	11,190,056

Current liabilities			
Current portion of long term debt	486,250	150,000	150,000
Current portion of subordinated debt	-	200,000	200,000
Current portion of capital leases	4,783	216,717	224,655
Accounts payable	792,527	566,050	402,480
Income taxes payable	(110,829)	(153,382)	81,721
Accrued Payroll	2,208	102,680	92,237
Accrued Interest	100,984	162,935	289,865
Other current liabilities	119,073	809,727	229,436
Total Current Liabilities	1,394,996	2,054,727	1,670,394
Revolver	1,460,971	1,600,000	1,369,592
Long -term debt, net of current portion	3,703,229	537,500	387,500
Capital lease obligations, net of current portion	-	2,471,149	2,246,495
Subordinated debt, net of bond discount	2,725,115	4,306,002	3,750,000
Deferred tax liabilities	874,334	109,567	86,076
Other liabilities	2,039	593,034	1,142,724
	10,160,684	11,671,979	10,652,781
Warrants	316,609	-	-
Additional Paid in Capital	1,114,703	292,865	292,865
Retained earnings	654,614	525,861	247,551
Other comprehensive income	(12,642)	-	(3,141)
	2,073,284	818,726	537,275
	12,233,968	12,490,705	11,190,056

Hard Decisions to Learn From: A Journey

Discussion Points

Case Synopsis

In 2010, Brad Clancey faced a tough executive decision. His company, Specialty Materials Technologies (SMT) might have to be sold. The downturn of 2008 had led to cost cutting across the board and there seemed little more to cut. On the opportunity side, two prospective buyers have emerged, wanting to divide the assets, which would lead to massive layoffs. For Clancey, what once would have been a straightforward economic decision now had people involved; people who had worked for him diligently and creatively to keep things going. As a corporate leader, a once straightforward strategic divestiture has been impacted by life and career. The case traces the events where Brad Clancey experienced the events and "learned" the impact his strategic thinking and leadership behavior (and effectiveness) have on others. These 'trigger'events fueled his learning as a leader and person, and some of the triggers were imbedded situationally in issues that created tensions between his personal and professional life. Ultimately it is these very personal issues which may well inform his strategic decisions.

Case Use

The case is appropriate for undergraduate, graduate and executive courses in strategy, organizational behavior and leadership.

Research Methods

The case is based on interviews and executive MBA class interactions with Brad Clancey.

Learning Objectives

The case demonstrates the intersection between life strategy and organizational strategy, a topic seldom seen in academic theory, but highly relevant to effective leadership. Brad Clancey's experiences allow students to evaluate the growth of one manager's emotional intelligence and the strategic impact of personal values and aspirations on strategy selection and implementation.

Key Issues: Self-awareness, Strategic Decision-Making, Life Balance, Emotional Intelligence, Empowerment, Leadership Values and Behavior.

Suggested Readings

Christensen, C. M. (2010). 'How Will You Measure Your Life?' *Harvard Business Review*, 88(7/8), 46-51.

Collins, J. (2005) . "**Level 5 Leadership**: The Triumph of Humility and Fierce Resolve." *Harvard Business Review*, 83(7/8), 136-146.

Drucker, P. F. (2005). 'Managing Oneself' *Harvard Business Review*, *83*(1), 100-109.

Eisenstat, R.; Beer, M., Foote, N., Fredberg, T., & Norrgren, F. (2008) "The Uncompromising Leader" *Harvard Business Review*, 86(11) 51-57..

George, B., Sims, P., McLean, A. N., & Mayer, D. (2007). 'Discovering Your Authentic Leadership' *Harvard Business Review*, 85(2), 129-138.

Goleman, D. (2004). 'What Makes a Leader?' *Harvard Business Review*, 82(1), 82-91.

Stoner, C. R., Robin, J., & Lori, R. (2005). 'On the edge: Perceptions and responses to life imbalance.' *Business Horizons*, 48(4), 337-346.

Key Student Takeaways

In teaching this case there are some key takeaways that can be quite powerful. These include:

a) **Self-awareness and understanding one's value system and priorities are critical to executive decision-making, well-being and organizational effectiveness.** The Christiansen, Collins, Eisenstadt et al., Drucker, Goleman and George et al. articles all emphasize understanding oneself, reflection, empathy and self-regulation in the leadership process. Reporting on insights from the 75 members of the Stanford Graduate School of Business Advisory Council, the George et al. article cites self-awareness mentioned as the most important leadership capability needing development. Christiansen, in particular, focuses on creating a value-based life strategy that helps guide decision-making in difficult situation, while Drucker argues that leaders should focus on their strengths, but understand themselves well enough to know their "bad habits" can inhibit effectiveness. In the evolution of Clancey's career, outlined below, we can see the early M&A "skills" quite clearly, but perhaps an executive still developing in terms of self-knowledge. Over time an individual of increasing maturity and personal insight emerges and one whose leadership skills improve markedly. Clancey responds to life events with increased reflection and changing priorities.

b) **Crucible or "trigger" events can set in motion changes in awareness and behavior.** Clancey fails and finds himself thousands of miles away, trying to maintain a relationship with his daughter and family. Although not in the case, Clancey reflected on this:

> The best thing that ever happened to me was getting fired. Because, first of all, you don't realize that you're spent, you don't realize how consumed you can be in a business or your activities until you're physically removed from it. You lose perspective. You just don't realize that you are really not a good father, you are not a good husband, you're really not enjoying life, you know, it sounds simple, but you're not smelling the roses. Because you are really not slowing down enough to appreciate anything you are doing."

George et al. discusses these crucible moments and leaders learning from their life stories, sometimes through reframing events as personal levers to change. Clancey becomes decisive in reframing his life, positioning and balancing his family needs with his executive needs.

c) **Leadership behavior can change and become more effective as a result of increased awareness and changes in priorities.** In this case, we see a "new leadership" style emerge, one far more transparent and empowering of all organizational members, involved in and affected by decision-making. Though Clancey still has a "focused agenda", his day to day behavior is far more transparent, engaging and driven by full participation in the problem solving process. Eisenstadt et al. and George et al. are terrific readings that speak to leaders who engage in full participation through empowerment techniques that lead to higher quality decision-making.
Clancey reflected on this:

> "[With SMT in crisis] I spent more time with lower level employees. I loved going to maintenance and warehouse because I realized that's where the real information is. If you want to know what's going on in a manufacturing facility, you should spend time in these places. These people talked with me and I just learned things. As an executive, you want the truth. Just tell me what's going on. Because we can figure it out, we can improve something if we know what the problem is. But if we don't have the whole story we could come up with a wrong resolution. So by having interactions with these folks, you will be able to get the idea of what's really going on, and you could develop a great personal rapport, and they really like that. So the rest of the management started doing the same thing. They realized that he (Clancey) is doing it, so we'd better do it because he's finding out stuff that we don't know. We have this idea here and a lot of times it is a

> simple and less expensive process. It's pretty easy. … To the employees, if you have a good idea, you don't have to go to the CEO, you can go to anybody in the management and that became the new paradigm. "

This reflects the increased levels of trust and collective leadership discussed in Eisenstadt et al. and what Collins alludes to in discussing how "Level 5" leadership involves the organization becoming more important than the leader in energetically responding to challenge. As we see in this case, the effect is cathartic with the real creativity around, and ownership of, organizational challenges shifting to the lower levels of the organization. Clancey makes these changes in his own behavior and to his surprise (initially), the profit position of SMT improved dramatically.

Teaching Suggestions

This case has been effectively used in the opening sessions of the executive MBA course, where students are just beginning to consider the role of leadership, the impact of executive decision making and work/life balance. The case raises as many questions as it answers, but perhaps that is what makes it fascinating. There are lots of questions that could be asked, but the imbedded issues require reading "between the lines". Instructors may initially want to focus on the basic trajectory of Clancey's career asking **"**Who is Brad Clancey? What makes him tick?" Student responses might be recorded on several boards, roughly grouped around "phases" of his professional personal development. Once the basic phases are apparent, discussion can be broadened to evaluate whether Clancey's motivation changed over the course of his career and how his leadership behavior has changed and how that impacts the current decision.

Discussion Questions

1. **Who is Brad Clancey? What do we know about his career and motivation?**
   Basic case information about Clancey's career can be grouped and framed with the following descriptors:

PHASE 1: Honing His Craft as the Technical Acquisitions Expert. Early in his career Clancey had many opportunities at Hercules and Extrusion Tech to develop and hone his expertise and abilities as an acquisitions analyst. He developed an analytical process that capitalized on his competencies in evaluating product lines right down to the "machine level" to make decisions that had quick financial impact. He was apparently the dreaded "hatchet guy "(interestingly, not his perception) who came in, did the analysis, made the recommendations affecting products and people and then moved on in a relatively short span. He was a COO at 30 – a "rock star". His growing expertise allowed for the further analytic opportunities -"27 acquisitions". One would assume that his M&A expertise resulted in significant financial rewards allowing new paths in his career. This would clearly impact the balance of intrinsic and extrinsic motivation (George *et al.*, 2007), with considerable lowering of the need for monetary/extrinsic motivators.

PHASE 2: The Explorer and Global Entrepreneur. In this stage Clancey had both the opportunity and expertise to leverage his skills. His efforts involved more ownership (Applied Filaments and the German acquisition) and increased strategic responsibility (a young CEO, doing multimillion dollar domestic and international deals). This phase was also characterized by two related **setbacks**: his inability to persuasively capture a "sell" opportunity (despite his status as CEO) and being caught off guard by changes in the competitive environment (i.e., Chinese entry into the filament market), with the result that the Board's held him responsible for not avoiding the company's loss in value. He was fired – a **crucible event** that, coupled with his 'Cat's Cradle' moment with his daughter, opened the door to increased self-awareness (Drucker, 2005; George et al., 2007; Goleman, 2004) and afforded time to reconsider his priorities (Christensen, 2010).

PHASE 3: Taking Stock: Emerging Life Balance, Reflection and Changing Leadership. The result of Clancey's reassessment is greater consideration of what mattered in his life. Job selections depend on proximity to home, not financial or status rewards. While still achievement oriented - Forte Fabricators was still "this company was one that nobody wanted to buy, but was a great value that I could buy", his approach was significantly different than in phase two. Obviously the statement of marking a spot in Massachusetts and drawing a 250 mile circle was both symbolically strong and noteworthy. From here to the end of the case, there is ample evidence of a leader who still values achievement but who now seems more considered in the **personal impact of his decisions** on those around him (and for himself personally). He showed strong insights to his 40-something "key people" at Forte Fabricators, offering increased distribution/sharing of company profits; in the "perfect storm" of bad news and economic challenge he invoked a "Zone of Insolvency" to protect employees. He took no salary when conditions deteriorated for Specialty Materials in 2009, and fully engaged organizational members in creative problem solving and response to crisis. Despite his perception of a window of opportunity to sell the company in mid-2010 for personal gain, he was concerned about the impact on employees in potentially splitting the firm (George *et al*., 2007)

2. **What changes take place during his career in terms of leadership behavior and decision making? Are these significant changes? What seems to explain them?**

In honing his craft, Clancey appears in his comments to have been the classic go-getter, driven by ego and opportunity. He was bright [and knew it], his rock star status based on his growing skill in due diligence, doing profitability and productivity analysis more thoroughly than others. His value was getting the job done. 27 acquisitions even in several years demonstrated at a minimum a high intensity work level. Interestingly enough, there is no hint of **internal personal conflict** caused by the consequences of his analysis and recommendation, **life balance and**

priority issues, competing identities, or mention of **employee involvement** in the role of laid off employees in strategic decisions or the impact on them personally.

As a successful young CEO, in Phase 2, Clancey continued to expand his horizons. The expanding his company domestically and internationally with no apparent change in approach, until he was held responsible for not anticipating the unexpected and fired. Though learning experiences, these would certainly have also involved significant **stresses and strains** and it is about this time when there seems converging forces of **career, family and leadership behavior.** Arguably, getting fired was the lynchpin to Clancey's growth as an individual and leader. While building his career, he has developed many business and strategic skills, but as he observed "I was on the phone with my daughter when I had my 'Cat's in the Cradle' moment. I realized I was away too much". In reality, his firing offers the opportunity to **integrate his life, with stronger emphasis on family and other personal priorities. (Stoner *et al*., 2005).**

The Forte Fabricators investment is thoroughly analyzed – market opportunities, key advantages and skill sets, lack of competing investment and ability to leverage his [and his CFO's] strengths. However, Clancey also invested in the personnel – giving key staff a stake in the future success. The intent was to use the company's cash flow to pay down the debt, with an 8-10 year time horizon; not a quick flip.

The personal and personnel considerations are clearly demonstrated with the polystyrene cup company and the Zone of Insolvency solution. Clearly, Clancey's concern for the employees' welfare was paramount and while the shareholders [including Clancey] took the loss, one suspects he could sleep at night after the operation shut down.

By the time Clancey is involved in SMT, he engages employees at a higher level, seemingly increasing his reliance on them through transparently owned problem-solving techniques and empowered decision-making. Almost to his surprise this leadership approach to problem-solving and decision-making yields committed effort to performance improvement and in fact strong financial results, complicating the current situation.

3. How does Clancey's evolution as a leader impact his current decision?

Clancey's current dilemma reflects the evolution of his career, leaving him between a rock and a hard place. He faces a personal risk based on professional acumen. His executive and analytical skills indicated the economic situation was dire. His assessment in 2009 had been that the company could be 'going under' and his personal investment [net worth including his family's home] made his financial concern highly personal. At age 55, he might not be able to recoup major losses. However, selling the company to ensure his family's financial security could result in job loss and economic disaster for employees. "I could make a lot of money on this deal, but most of the employees were going to lose their jobs." Even selling the company to an owner who was likely to keep the firm together, which might have taken some of the onus off the decision to sell, apparently did not absolve Clancey from all responsibility (evidenced by his indecision to immediately act on the possibility).

There also existed the siren song of success. His employees and managers tightened their belts to survive and had in fact triumphed "By the end of 2009 we had recorded our highest level of profitability in the Company's history and in 2010, profits were 50% higher than 2009. If he decides to hold out and …the Company takes off, I could easily make a multiple of the Company's current valuation."

4. What should he do with Specialty Materials?

The answer to this question is likely to depend on the class level [undergraduate versus executives] and the preceding discussion. It might make a better discussion to evaluate the class' assessment of how Clancey might have made the decision at different points in his career:

Phase 1: The decision is likely to be driven by the economics. The fat has been cut out of SMT, the operation is presumably stream-lined and it no longer appears to be a dying entity. The recently improved financial performance seems likely to increase the salability of the company and perhaps attract additional and/or better buyers.

Instructors may want the class to perform an economic analysis of the SMT proposal, placing a value on the company. Based on the case exhibits, in 2009, SMT had sales of approximately $11.3 million, operating income of $1.4 million and income before taxes of $253,000 [after paying a non-recurring Warrant Accretion Expense of almost $600,000).

Students can generate various scenarios or a range of values of SMT.[3] Based on a 1 to 3 multiple of **revenues,** the company would be worth between $11 and $33 million. Based on a multiple of **earnings** of 5 (yielding a return to the buyer of 20%), the value of the company would be around $1.25 million and with a multiple of 10, around $2.5 million. If the $600,000 expense is added back, then the income before taxes would be approximately $900,000. Using that number and a multiple of 10, the value would be around $9 million, or close to 1x revenue. Given the Inventory, Accounts Receivable and debt on the Balance Sheet, a reasonable range seems to be between $3 and $6 million. The instructor can take a vote asking the class what they would pay or break them into groups and have them justify the number chosen.

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[3] Students can be assigned a reading on valuation, such as Chapter 15 in *New Venture Creation,* 6th Ed, Jeffrey A. Timmons and Stephen Spinelli, McGraw-Hill, 2004.

Phase 2: Possibly consider expanding the business. The Forte Fabricators acquisition clearly demonstrated that Clancey could also invest for the long haul. He evaluated the investment based on the proximity to market (New York with an estimated $250-400 million potential), the competitive advantages of in-house fabrication and key staff expertise as well as the lack of financial sophistication and took a long view. While the current economic outlook was grim, the capabilities and improved performance of SMT might offer the opportunity of select growth through acquisition.

Phase 3: 'First, do no harm'. While the mature Clancey is fully aware of his own and his family's vulnerability in the current situation, his decision will heavily depend on the prevention of collateral damage to others. It's not solely about the numbers anymore.

What Happened?

SMT was sold for approximately $8 million in 2010. Clancey had contacted the prior owner of SMT and negotiated a sale that would keep the company intact.