



Don't Blame Us if Bears Eat Your Company

The Secrets to Avoiding
Private Equity Takeover

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The rules for avoiding a bear attack are simple, clear and repeatedly reinforced to anyone visiting bear country. Don't leave food around your campsite. Keep a safe distance from any bears you see. If a bear tries to attack you, lie down and play dead. The terrifying reality of a bear attack and the well-known rules for avoiding one should result in very few bear-human interactions. But, with regularity, people ignore those rules and are injured or killed by bears.¹

The rules for your company avoiding a private equity attack are similarly clear and violated even more frequently. Three of our global food industry clients highlighted that to us in separate but nearly identical comments this summer. Each said a variant of, "We're really concerned that 3G will come after our company and aren't sure how to fend them off."

As quick background, 3G Capital is a global investment firm, based in Brazil, and best known for acquisitions of Heinz, Burger King and AB InBev. Technically, they're just another private equity (PE) firm. However, they strike fear into



corporate hearts with their aggressive approach to combining and managing their acquired companies, which features a strong emphasis on reducing costs.

When our clients expressed concern about 3G, what we heard was, "We're in the wilderness and we know there are hungry PE bears around! But we have no idea how to avoid a PE bear attack!" That struck us as odd because, just like in actual bear country, the rules for your company avoiding a PE bear attack are simple and, in this case, the proverbial bear is happy to tell you exactly how.

3G fervently believes in the power of great talent and their leaders speak openly and specifically about how they believe talent should be managed.² That [Talent Philosophy](#) makes explicit how they would manage your company if they ate you. So if you make their Talent Philosophy your Talent Philosophy, you'll be a far less enticing meal for them (or any other PE bear).

Using the culture of 3G-owned AB InBev as an example, here's what 3G believes in and how you



should adapt your talent approach to fend off the PE bears.³

MERITOCRACY

“Yes, there will be people at the bottom. And that’s the idea; that people at the bottom feel bad, and they want to go to the top.”

- Carlos Brito, CEO of Anheuser-Busch InBev⁴

That quote likely elicits very positive or very negative emotions from you, but it’s a crisp statement about meritocracy and how people will be managed. AB InBev evaluates meritocracy by Making the Numbers, Teamwork and Culture Fit. What they do in each area is unremarkable but the more of each your company does, the less attractive target your company will be.

- **Making the Numbers** includes having clear goals and ensuring that every employee delivers on their promises. Goals are weighted and ~30% of employees are forced into the lowest performance category. Those low performing employees receive no bonus while the upper ~15% of employees receive a bonus equal to three times their salary.
- **Teamwork** is measured by an annual 360-degree review and those who make their numbers but display teamwork issues have a limited period of time to correct those issues.
- **Culture Fit** includes integrity, ownership mindset and other factors considered to be non-negotiable.

Bear-proof your Company on Meritocracy

Meritocracy simply means that you believe employees should be managed based on their results, not factors like their tenure, friendships with senior leaders, etc. That should make it easy to fend off the PE bears through actions like:

- **Crisp, focused performance goals:** Every manager should have a few very clear performance goals. As simple as that sounds, our experience is that most managers have 5 – 7 imprecise objectives that often overlap with their job description. Read [The Secret to Setting Great Goals](#) for exact instructions on how to do this well.
- **Forced, highly differentiated compensation:** Managers’ performance should be rated and the compensation link should be direct. Top performers should receive a much larger bonus than average performers. Low performers should receive no bonus. PE bears laugh at the thought of a ratingless approach. Get help with this in [We Love Ratings](#).
- **Measure behaviors precisely:** Generate specific data about managers’ teamwork behaviors and give them a time-bound opportunity to correct deficiencies before they must exit the company.

INFORMALITY

“Offices are for mediocre people who like to hide behind their doors and play games”

- Carlos Brito⁵

Big corner offices are the unlocked garbage dumpster for PE bears – highly attractive and guaranteed to be ransacked. AB InBev eschews anything that suggests status and their open floor plans reinforce that value with corporate executives sitting next to each other and their workers.

Their casual dress code supports informality by eliminating the false hierarchy a sharper suit may subtly suggest. Jeans and AB InBev logo shirts are the preferred outfit for company executives.

3G's AB InBev believes that flat organizational structures encourage greater input and they expect employees to present fact-based opinions to any decision with which they disagree. They enable that participation by encouraging an owner mindset and speaking about the company's business in straightforward language.

Bear-proof your Company on Informality

It's difficult to remove the visible markers of

hierarchy and success because those who benefit most from them need to make that decision. A few straightforward ways to reinforce both meritocracy and informality are:

- **Eliminate policy symbols of hierarchy:** Do EVPs fly first class, VPs business class and all others in coach? Are there other differences in the employee experience that exist purely because of status? Level those policies so they apply to the situation not the title. For example, anyone flying overnight internationally likely needs business class to get some sleep, not just your VPs.
- **Justify individual office space larger than 100 sq. feet/9.3 sq. meters:** If your company is located in any major city, the cost implications of large offices should have already driven you to this outcome. If not, do a quick audit to find every individual office space that's larger than 10' by 10'. A PE bear will quickly claw down those generous offices, so it's best to do this before they start to sniff around.
- **Dress to perform:** When an entire industry comes to work in jeans and t-shirts, it's nearly impossible for others to justify more formality than that. If your employees aren't visiting a client who insists that they wear business





formal attire, what reason exists for anything more than the preferred outfit of Silicon Valley?

CANDOR

“Transparency and free information flow ease decision-making and minimize conflicts”

– Garantia’s 18 Commandments⁶

Iconic studies like McKinsey’s War for Talent have identified candor as a differentiator of successful companies, but the topic remains hotly debated in many organizations.⁷ Candor is the third pillar of culture at 3G’s AB InBev and it shows up in two primary forms:

- **The obligation to disagree:** The phrase “obligation to dissent” has strong roots, if not its genesis, at McKinsey but it’s rarely applied in a corporate setting. At AB InBev, if a worker doesn’t agree with a proposed strategy or thinks there are incorrect facts being applied to a decision they are obliged to speak up, independent of their level.
- **People transparency:** AB InBev workers have transparency about both their performance and potential to advance. CEO Brito says that “great people like to know where they stand.”

Candor is certainly more difficult than lying, but also a far more ethical way to manage a business. As we wrote in our article [Calculating the Optimal Length of Time to Lie to Your Employees](#),

companies offer many excuses for not being candid with their workers. None of those excuses helps to improve their performance.

Bear-proof your Company on Candor

3G and its companies recognize that high performance, a strong culture and transparency are wonderfully intertwined. The path to candor is 100% controllable by you and can be implemented tomorrow at your company, if you care enough about driving performance.

One fact is certain – the PE bear will implement transparency immediately when they eat you and many employees will hear things they should have heard years ago. How will your former employees remember you and your management team after that?

A few fast bear-proofing actions on Candor are:

- **Full transparency on upward potential for every employee:** It’s actually quite easy to say, “As of today, here’s where we see you going in our company and for these reasons. If you don’t like that trajectory, let’s talk about what needs to happen to change it.” Will some people be unhappy? Yes. If that scares you, figure out the appropriate length of time to lie to them instead.
- **Obligation to disagree:** This is an incredibly threatening concept to weak managers whose sole source of power is controlling their group’s dialogue and information flow.

Success in this area requires specifically and repeatedly stating that this is a core belief of your organization. More challenging, it requires that you call out for praise employees who do this well and critique employees who do not. It may take years to convince employees that you're serious about this, so it's best to start that journey today.

AND, OF COURSE, COSTS

***"Costs are like fingernails.
You must cut them constantly."***

– Attributed to Carlos Sicupira, 3G

A recent magazine article described the 3G approach to cost management: "(3G) axed the traditional free Timbits at Tim Hortons annual general meetings, the free cheese sticks for Kraft employees and free beer at AB InBev-owned Budweiser — not to mention a whole lot of jobs. At Heinz, employees were capped at spending US\$15 in office supplies and laser-printing 200 pages a month."⁸

Yes, the corporate largess that many of us enjoy is not present in 3G-owned companies. The PE bears will quickly eat anything that raises costs but doesn't deliver value. Were some of those things powerful markers of your culture and made it special to work there? Yup, in the old environment. But you're in bear country now.

Living Peacefully with our Bear Friends

PE bears are majestic, powerful creatures that mean you no harm. If you follow the clear rules for not attracting them, you can safely observe them from a distance in their natural habitat.

But, if you sluggishly wander into their territory coated in fatty goodness, don't blame us if a PE bear eats your company.⁹

FOOTNOTES

- 1 List of Fatal Bear attacks in North America, Wikipedia, retrieved from https://en.wikipedia.org/wiki/List_of_fatal_bear_attacks_in_North_America on 9/18/2016
- 2 Snyder, Bill, "Carlos Brito: You have to treat people in different ways", Insights by Stanford Business, July 24, 2014, Retrieved from <https://www.gsb.stanford.edu/insights/carlos-brito-you-have-treat-people-different-ways> on 9/18/2016.
- 3 Many of the facts cited below are from The 3G Way by Francisco Souza Homem de Mello which we encourage you to buy the book at <http://amzn.to/2cVGVP8> for a full explanation of the 3G approach.
- 4 de Mello, Francisco S. Homem. The 3G Way: An introduction to the management style of the trio who's taken over some of the most important icons of American capitalism. Ajax Books, 2014.
- 5 Ibid.
- 6 Garantia was one of the first acquisitions of 3G Capital and bears the imprint of the 3G Talent Philosophy.
- 7 Michaels, Ed, Helen Handfield-Jones, and Beth Axelrod. The war for talent. Harvard Business Press, 2001.
- 8 Claire Brownell, "Brazil's beer baron: The billionaire behind the AB InBev-SABMiller mega-deal," Financial Post, October 13, 2015, retrieved 9/17/16 at http://business.financialpost.com/executive/leadership/brazils-beer-baron-the-billionaire-behind-the-ab-inbev-sabmiller-mega-deal?_lsa=8ff0-7a79
- 9 So, bears actually don't eat people or companies. Bear-human interactions are typically the result of bears searching for food or humans surprising bears in the bears' habitat.

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