An entrepreneurship to a professionally managed firm

Understanding the framework

By Doug Brown

Editor's Note: *This is the first installment of an ongoing series surrounding what it takes to move from a relatively small, micro-business to a more robust, larger organization. Each article will explore a different aspect of this journey.*

Starting with the most basic premise, entrepreneurs can face either the initial challenges surrounding creating a new venture from scratch, or building up a recent acquisition. In either case, their ability to recognize and act on the needs of the marketplace will help determine growth rates at every step of the business's lifespan.

When they are successful in the above dance of meeting and matching the needs of the market and customer base, the business begins its positive movement along the growth curve. What makes this so interesting is that almost every step up the revenue ladder brings additional challenges with it. You can hear the questions that people are asking themselves: "Do we have enough people, space, equipment and working capital to get through this period while we are stretched so thin? Am I calling it too close? What should I do first? What can we do to get the production and productivity levels up to meet the needs of the business." The feeling in the business can be described as hectic under most days and frenetic more times than someone cares to admit.

What are the common symptoms that accompany this phase of growth? There is precious little time spent on thinking and very little planning usually takes place. Despite this, it is not all that unusual that a feeling resembling the rush that accompanies adrenaline or euphoria will be experienced in the short term.

What has been been described by Eric Flamholtz, Ph.D., a UCLA professor, as "organizational growing pains" can be articulated as follows:

• People feel there are not enough hours in the day;

• People spend too much time "putting out fires";

• Many people aren't aware of what others are doing;

• People lack an understanding of the firm's ultimate goals;

• There are not enough good managers;

• People feel that "I have to do it myself if I want it done correctly";

• Most people feel that the firm's meetings are a waste of time;

• Plans seldom are made and even more seldom followed up, so things often don't get done;

• Some people feel insecure about their place in the firm; and

• The firm has continued to grow in sales but not to the same extent in profits.

It strongly is recommended that the chief executive officer or founder recognize that these symptoms are indicators of underlying problems which will only get worse unless they are dealt with head-on. This is the time, described as transformation or metamorphosis, the agency must move from its traditional free-wheeling, anything goes, spontaneous behavior patterns that scream "we'll figure it out as we go along" to a more organized, disciplined and thoughtful approach. The movement from being reactionary to proactive must take place.

This will require that position descriptions and job responsibilities be carefully defined. It also will require that job overlap be minimized in order to increase accountability for results in the areas of goals, measures and standards of performance. It may require making the investment in both time and money to go from only on-the-job training to a more formalized approach to people development. This is a precursor to the installation of rewards and recognition programs, performance appraisals and more formal staff and management development processes. Looking at the business from a dollars and cents point of view, it will require the creation, adoption and management of a budget to ensure the right things get funded properly, the wrong things get weeded out and that there are reports available to show progress or lack thereof. Annual profitability measures become a target to be achieved rather than just a by-product of "I guess we guessed right, and this is what is left over."

This also can be a particularly trying time for the entrepreneur. Some of the very traits that helped spur the organization along in its early days can lead to its faltering or even its demise. Looking at some typical characteristics, most entrepreneurs:

• will have either a sales or technical background;

• know the industry well;

• want to have things done their way;

• may be more intelligent than a lot of the staff they tend to hire;

• may be more likely to trust their own instincts versus taking the time to seek out the research or the numbers;

• attract subordinates who begin to rely on their bosses bravado and confidence that they are all-knowing;

• are likely to be "do-ers" rather than managers; and

• are likely to be self-taught readers versus undergoing a lot of formalized ongoing training.

The next big challenge for entrepreneurs

Many entrepreneurs are likely to abhor any trappings of what they view as restrictive corporate behavior, therefore they don't like to schedule staff meetings, be accountable for their own time organization or have to operate within a budget. It is easy for them to fall into the trap of thinking, "We have gotten along just fine without these things so far."

At this stage of the firm's growth and development the very nature of the firm itself probably has changed. Over time, it has begun its transition into this larger enterprise and now the management team has to change along with it. Fortunately for those reading this article, pathways already have been selected and tried by other leaders and owners inside and outside the insurance arena—they have taken one of the following actions:

1. Doing nothing and hoping for the best.

2. Undergoing personal and professional growth. Taking it on as a personal challenge to develop the attitudes, skills, knowledge and positive behavioral changes needed to continue to lead the organization effectively.

3. Resigning and bringing in a professional manager to run the organization.

4. Moving up to the role of chairman, as Steven Jobs did at Apple™ and Bill Gates did at Microsoft™ and allowing the professional managers to run the day-to-day while staying somewhat involved.

5. Selling out and starting another firm back at the entrepreneurial level.

6. Merging or being acquired by another firm that has additional infrastructure in place.

It goes without saying that many founders/entrepreneurs have an extraordinarily difficult time in giving up control of their business. In many cases they have poured their life's work into the building of that business and it is as much a part of them as is their own right arm and hand.

For many, it certainly is a challenge to even begin to consider that someone else may be able to run their organization as well as they can or take it to another level of performance. As a result, they hold on with all the strength they can muster and their organization ultimately becomes a victim of "potted-plant syndrome." That is where the size of the pot determines how far the organization can grow before it becomes root-bound and stunted. In the worst cases in nature, the plant actually seems to strangle itself and dies prematurely. For example, in the business world, I have observed that the leaders' self imagery and self concept will only let the firm grow so big or grow so fast. They are so afraid of losing what they perceive to be control that they fail to act on the opportunities of a lifetime, or fail to pull the trigger in a timely manner so that their firm is almost guaranteed to not be awarded or accepted for the contract or policy. This fear of success, as it is sometimes called, plays out in leaders' minds as, "We are not worthy to be receiving this level of recognition or success on such a large scale, and therefore we will blow this opportunity as a way of proving to others that we aren't really that good." If you have ever heard of someone who normally is very reliable missing a deadline on a big opportunity, keep this lesson in mind.

Others attempt to undergo this transformation by acquiring the appropriate skills and attitudes—but, for any number of reasons never really get it.

Some owners will go through the motion of bringing in managers and leaders from the outside and then stand around and watch as they suffer and fail miserably. My observations have seen

several common tactics exhibited by the leaders themselves. Because they truly don't want to be "shown up" by the others that they have brought in (for that might make them seem to have been wrong or less effective in the past) they behave in specific ways. For example, they conveniently forget to tell the new manager about a critical deadline or special way of handling a long-term customer's critical requests so that they end up getting chastised and embarrassed. They undermine their new manager's authority when dealing with some of the long-term employees even though they had told the new manager they wanted something taken care of or fixed. They don't give them all the information needed to do the whole job up front. This ensures that the new manager cannot finish the task without coming back to ask the owner for their help and making them appear less effective or competent.
It was once described by others as creating managerial eunuchs. Eventually, they tell their staff: "However reluctant I am to get involved here again, I better do it because I really want to save you guys." It is a form of the "Messiah complex" being played out live and in living color.

Whatever the form of transition to be undertaken, it is paramount that all recognize that the organization has changed since the early days and can't go backwards without severe consequences.

In the installments that follow, we will explore the predictable stages of organizational growth and the developmental items and tactics that must be addressed in each phase. For example, different articles will cover the six critical tasks of organizational development, the four different stages of organizational growth, determining and assessing the organizational growing pains, and planning the transitions that must be executed successfully. Watch for the next installment.

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