Transitioning from an Owner-Founder to a Sustainable Growth Business

A 10-Point Roadmap

by Ray Schneider

The challenge is to confront reality and dispassionately assess what changes need to be made. How does the business need to be structured, managed and operated to ease the path to more sustainable growth?

Will Your Business Survive?

Owning and operating a small business is a dream come true for thousands of Americans every year. In 2009, over 550,000 new businesses were started according to the U.S. Small Business Administration. And this number does not include the thousands of Americans who are self-employed as a result of the economic downturn but who have not officially declared themselves owner-founders.

While it is a dream come true, owning and operating a small business is not for the faint of heart. U.S. census data from the 1990s suggests while 70% of new small businesses survive their first 2 years, only 50% reach the 5-year mark and less than 30% the 10 - year mark. In addition, in the aggregate, 20% more small businesses close their doors every year than are formed (U.S. Department of Commerce, 2009). On one hand, these statistics are very encouraging considering the daunting hurdles a small business owner faces. On the other hand, the statistics suggest after working their hearts out, only 3 out of 10 owner-founders will still be in business after 10 years. How can you be one of the survivors, still growing and thriving in year 15 and beyond?

Research suggests there are three major factors determining the long-term survival of a new small business:

1) The individual characteristics of the founder
2) The attributes, structural characteristics and strategies of the business itself
3) The conditions characterizing the business environment

(*Survival Chances of Newly Founded Business Organizations*, Josef Bruderl et. al., **American Sociological Review**, 1992)

Let's explore all three factors.

A Tale of Two Cultures

First, let's define what is meant by an "owner-founder" versus "sustainable-growth" business. Owner-founder cultures are ones often characterized by some or all of the following:

- Decision making is tightly controlled by one or two individuals
- Organizational "brand" is inseparable from the owner-founder herself

- Emotional business decisions are made that further the self-interest of the owner-founder sometimes at the expense of the long-term health of the business
- Unhealthy coalitions form for political reasons to maximize influence of and access to the owner-founder
- Owner-founder behavior projects an attitude of "smartest person in the room"
- Business processes are undocumented and performance is inconsistent
- Management roles and responsibilities are unclear and often overlapping
- Career advancement processes are ambiguous and inconsistently applied
- Product and service quality criteria are undefined
- Business strategy and plans are undocumented and inconsistently understood

None of these characteristics are inherently negative and are not necessarily a personal reflection on the owner-founder himself. Rather, these characteristics are predictable indicators of a large proportion of owner-founder businesses in general. Businesses run by entrepreneurs who have the moxie to start a business, the fortitude to stay the course, the courage to develop new service models and products, and the ability to make quick decisions in a competitive market tend to have these characteristics.

It is important to note that owner-founder businesses can be led by individuals who are not the original owners or founders but who, nevertheless, have maintained an owner-founder business culture.

In contrast, a "sustainable-growth" business culture typically includes some or all of the following characteristics:

- Decision making processes are inclusive
- Organizational "brand" is associated with product or service quality, not only the owner-founder
- Rational business decisions are made that support the long-term health and growth of the business
- Organizational culture emphasizes fairness, contribution and development of human capital
- Teams form around business goals
- Business processes are documented, understood and consistently implemented
- Quality criteria are well defined for products and services
- Organizational roles and responsibilities are documented and commonly understood
- Career advancement is well defined and communicated
- Strategic planning is inclusive

At first blush, it may seem business leaders should always strive to develop a sustainable growth culture. However, owner-founders may choose, for personal, financial or other reasons, to keep the business closely held and still be very successful. There is no natural time limit to how long an organization can operate under an owner-founder business culture.

But more likely than not, the owner-founder organization will be limited in its scale and complexity and a time will come when a lack of good process for shared decision making, internal conflict over emotional versus rational business decisions, and lack of emphasis on development of human capital create insurmountable barriers to sustainable growth. Decisions begin to take longer as the time and attention of the owner-founder stretches to the breaking point; coalitions form that foster political goals not business goals;

…a time will come when lack of good process…will create insurmountable barriers to sustainable growth.

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and innovation is stifled as employees feel more and more removed from feeling their efforts can contribute to the success of the business. And maybe most importantly, as a result of ineffectiveness, there is a slowing down of responsiveness to external environmental change and service model issues.

"The hard truth is that many organizations grow beyond the current capabilities of their founders and need more and different types of leadership, skills, and broader mission ownership to succeed," says Mario Marino, Chairman of Venture Philanthropy Partners.

What's a leader to do?

Most organizations will recognize themselves in the characteristics of both the owner-founder and sustainable growth business cultures. The challenge is to confront reality, dispassionately assess where you are ahead and where you need to catch up, and to determine what changes need to be made in how the business is structured, managed and operated to ease the path to sustainable growth.

The following 10-point roadmap can help a leader put some structure around a game plan for change and will apply to varying degrees depending on the specifics of your operation, business culture and environment.

1. Clarify your goals for the business

Energy and passion can help keep a business going but may not be enough to set it on a course for sustainable growth. And it is likely that the goals you initially set for your business are different than the goals you now have, years later. Clearly state your current goals for the business. Write them down, bouncing ideas off of colleagues (and family members)

along the way. This is an invaluable step in confronting reality and preparing yourself for the challenges ahead.

2. Establish and trust your leadership team

One of the most important keys to putting your organization on an upward path is creating a strong

leadership team in which you can place your trust. As you have probably already come to realize, you can't do it all. Describe your expectations clearly, help your team gain the experience or skills, let them go, and be a coach when they need your support (and when you think they need your support).

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3. Clarify management roles and responsibilities

It is a frequent refrain among the staff of small to mid-sized organizations that job descriptions

either don't exist or are too vague. And as the old business saying goes, when everyone is responsible, no one is responsible. So take the steps necessary to document important management and staff roles and responsibilities.

4. Institute an inclusive strategic planning process

You're the boss and you can make the final decisions. But if you want the organization to not just follow, you must find a balance between your need for control and the need to develop and share it with others. Consider making the strategic planning process more formalized – even conducting the planning meeting at a special location to underscore the significance of the process.

5. Foster creativity, innovation and inclusive decision-making

As mentioned earlier, it is characteristic of small and medium-sized organizations to control decision making very tightly. This in turn stifles creativity, innovation and continuous improvement. The staff in these traditional, controlling and centralized organizations "learns" from experience that innovation is underappreciated. Continuous improvement of work processes, innovative customer service practices, and experimentation with new technologies all require a leadership model that is empowering, inclusive and collaborative. Such a model demands leaders transform from a technical-based leadership model to a coaching, facilitation, critical inquiry, and trust-based model.

6. Continually increase the human capital of your organization

Higher human capital (e.g. education, skills, experience, etc.) associated with the owner-founder tends to increase the potential for a small business to succeed. (*Survival Chances of Newly Founded Business Organizations*, Josef Bruderl et. al., **American Sociological Review**, 1992) The logical corollary to these findings is that the higher the collective human capital of the organization, the more likely it is to survive over the long term. Employees in companies that "invest" in them, on average, return the commitment in spades. Unfortunately, smaller businesses tend not to "invest" in their employees to the same extent as larger ones. This is typically so because it can be expensive and because the owner-founder feels that once they complete the training the employee will leave the company. The first reason requires that the type of training be carefully screened for cost benefit and other realities. The second reason applies to all organizations, large and small. It is quite difficult to determine the return on your investment in advance so make your decisions wisely. Just know that increasing the human capital of your organization is fundamentally the right thing to do.

7. Design a personal and professional development plan

Now is the time to be brutally honest with yourself. Your business has survived and thrived with you at the helm. You have made tough decisions, taken risks, made some mistakes and learned

a lot along the way. As you reflect on the new goals you have set for the business, do you personally have the skills, experience and temperament to take the business to the next level of performance alone? Take people you trust into your confidence and gain clarity on the changes you need to make both in your leadership approach and the technical skills needed by your business.

8. Transition to a more process-driven operation

All businesses, large and small, can fall victim to a belief that formalizing work processes is a waste of time, a purely bureaucratic exercise that does not add value. Don't let your organization be one of the lemmings, marching toward the cliff. Well-characterized processes

leverage the intentions of individuals and enable groups to accomplish what individuals alone cannot. And as Michael Hammer, author of *Reengineering the Organization*, once said, "no matter how hard individuals work, they cannot overcome a flawed process design, much less the burden of no design at all."

All business processes will benefit from formalization and documentation that is appropriate to the scale and complexity of the process itself. As the process becomes more complex and more people are involved, there will be a natural need for additional process definition and clarification. The act of formalization will uncover opportunities for innovation, streamlining, improved customer service, profitability and continuous improvement.

Ensure that your organization's espoused quality philosophy is aligned with its quality practices…

9. Establish and empower teams based on business needs

By virtue of the fact that organizations are operated by groups of people, they are "political" entities (*Ambiguity and Choice in Organizations*, March, James G. and Johan P. Olsen, 1976, Bergen: Universitetsforlaget). In other words people, by their nature form alliances, coalitions, cliques and teams. These organizational

structures drive the quality and form of communications and decision-making in the organization. Importantly, these structures significantly contribute to people's sense of identity and value within the organization. Some of these political structures arise naturally (informal work groups) and some are formed as a consequence of a conscious desire to create particular channels of communication and interdependence within the organization (formally chartered teams). Take the time to strategize where and when you need to charter and empower teams of employees to focus on issues critical to business success. These teams should clearly understand their mission, have measurable goals (whenever possible) and be accountable for results.

10. Define quality and service

It is a truism that people in organizations want to do quality work. Very few people go to work with a premeditated plan to generate problems, defects, bad product or service. "We're an organization that values its customers and takes extensive measures to ensure the quality of our products and services," is a comment often heard from leaders. Yet in many organizations in every industry every day, errors are made, defective services are delivered, critical communications are flawed, and customers are left wondering if anyone really cares. An independent evaluation of these organizations would reveal that "in practice" they do not value quality as much as they say they do since they have not defined what quality means – in practice.

Ensure that your organization's espoused quality philosophy is aligned with its quality practices by defining what quality looks like, through the experiences of both employees and customers.

A New Beginning

As businesses evolve they inevitably arrive at critical points in their growth trajectory that require action and change. Although there is no one right answer to the question "what should I do now", the 10 points described here will give any leader a starting point to construct an action plan that is uniquely suited to their business. Good luck moving forward.

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