Special Report

The Growth of a Small Business and the Role of Leadership

Phil Faris

Sales Leadership Resources

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By: Phil Faris

The Dilemma Facing Small Businesses

Small businesses are unique from large corporations in many ways. But in one regard they are similar: they grow, plateau or decline over a period of time. Understanding the unique challenges a business faces at various stages of growth helps business owners and managers to more effectively understand current challenges, anticipate future requirements and evaluate business opportunities and threats.

The focus of this special report is on the leaders who run small businesses. The term "leaders" is used as a generic description of the people who are responsible for running the business. This may refer to a single owner, a group of partners, or an executive staff. In any case, these are the people who are ultimately ***responsible*** and ***accountable*** for the well being of the business.

The following pages outline four stages of growth for a business and some of the major issues, problems and decisions that must be made at each. Each stage requires certain leadership tasks which must be accomplished before the next stages can be successfully entered.

The key to success for a growing organization is the ability of its leaders to be effective in an increasing complex environment. There are two key variables that contribute to the increased complexity in which organizations must operate. These variables are time and size.

The longer an organization is in business, the more vested it becomes to its culture and methods of doing business. As a result, the organization becomes more complex and less agile navigating in a changing marketplace.

As a company adds customers, employees, vendors, etc., it must create a more complex infrastructure to support the growth. Therefore as the organization adds to its mass, it must also add to its density. It is this density that eventually slows the velocity of growth and over time begins to sub-optimize the organization.

The Growth of a Business model on the next page provides a summary of the four stages and challenges management faces.

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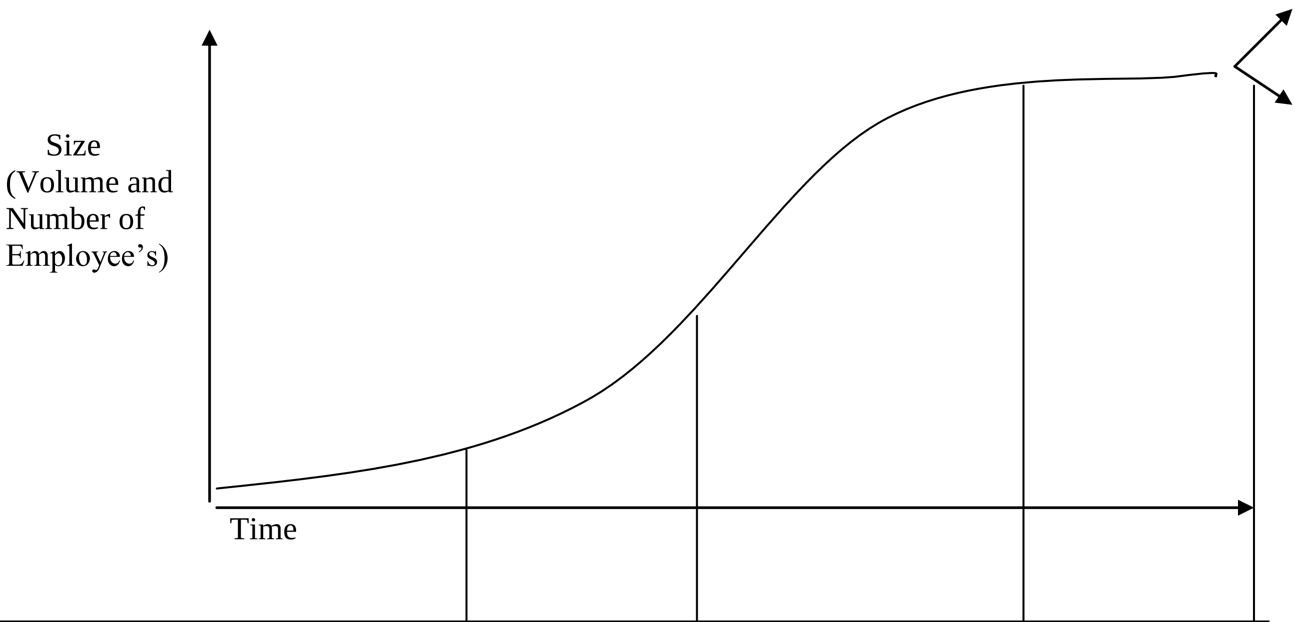
Growth of a Business



The Role of Leadership	Entrepreneur	Director	Delegator	Visionary Leader
Focus	Sales/Survival	Efficiency	Expansion	Integration
Indicators To Watch	Lag Indicators • Sales • Inventory • Costs	• Performance Expectations • Feedback • Rewards • Motivation	• Strategic Direction and • Organizational Expectations • Reinforcement • Advancement/Growth	• Vision and values • Leadership (Planning and control) • Management Systems
Problems That Develop	• Informal com-munications no longer sufficient • Management gets involved in day-to-day activities	• Management is a bottleneck • Unclear priorities • Skill of managers and need for autonomy	• Increased specialization and departmentalization • Conflicts over scarce resources	• Lack of initiative • Impersonal atmosphere
Key To Success	Doing whatever it takes	Adding personnel	Adding systems	Managing systems

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The Four Stages

STAGE 1: Entrepreneur

This is often the "founding" stage of the business. It may start with any number of employees or sales volumes. The period is characterized by the way the business is managed and the style of leaders.

- Leaders are actively involved in non-management functions of the business (i.e., sales, engineering, production, etc.) and spend little time on policies or longer-term planning.
- There is frequent and informal communications with employees about current (perhaps, daily) performance and problems.
- The leaders rely on immediate feedback from the market place (sales, service) to make critical short-term decisions.
- No distinction is made between lead and lag indicators of performance/productivity because survival is the issue and timeframes are so short.

The Key To Success
Success is dependent upon leaders doing whatever it takes to grow the business. Their commitment, work ethic, and passion for the business are what fuels growth.

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Problems That Develop With Success

As the business grows, new employees are added. They are not as motivated as the original group and also require more direction about how the business works. There are also new requirements for financial planning (cash flow, expense and profit controls). All these forces demand that they leaders spend more time managing and less time selling, designing or dealing directly with customers or individual employees.

STAGE II: Director

This stage of business growth results as a response to the problems of successful entrepreneurship. The leaders assume more of a management role, perhaps hiring or promoting people to supervise key areas (sales, engineering, manufacturing, finance, etc.). To maintain control and insure themselves of continued (and increased) performance, the leaders institute more formal ***systems*** than have been used to date:

- More formal systems for forecasting and monitoring sales, production and financial performance. Previously the leaders had done these things themselves, based on first-hand observation. Now they must rely more on the judgment of others who are more directly involved.
- More formal systems for meetings and communications. The new supervisors or managers expect the leaders to communicate with them and reduce direct communications with their people. They leaders give very specific instructions to insure they are passed on correctly.

- More formal systems for incentives, pay, etc. Since they are more removed from direct observation of people's performance, the leaders must rely more on records of performance to determine compensation. Bonuses become less based on loyalty or style, more based on performance. Also, since they may be uncertain of their managers' abilities, they may insist on a "line-by-line" review of their department's performance rather than settling for a "bottom line" review. They will focus on cost controls.

- More formal job descriptions. In order to insure others are effectively doing what they used to do, the leaders evolve a functional job description for each key subordinate. This can result from bonus discussions or mediating conflicts between managers (e.g., sales versus production).

The Key To Success

To meet the demand fueled by the organization's growth, they must add personnel. Adding personnel allows the organization to expand their capacity.

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Problems That Develop With Success

As the business grows, the leaders continue to make the key operational decisions such as inventory levels, staffing levels and major capital expenditures. Now, however, these decisions are based on the recommendations of others rather than their own first hand observation or needs. Disagreements develop between the old-times and the new hires about how to operate. This increases conflict, turnover and the number of times the leaders get involved. The leader's time and ability to make decisions can become a limit or bottleneck in the business. They are the only ones who can set priorities or resolve disputes among departments. At the same time, their managers or supervisors are feeling more confident and would like to make decisions on their own. Frequently, highly qualified managers will leave the business if more authority (and potential for reward) is not delegated to them. Also, the leaders may tire of having to personally provide incentives and motivation to their direct reports.

STAGE III: Delegator

This stage of business growth results from the problems of successful direction (Stage II). For various reasons, the leaders delegate more authority and responsibility to others in the organization. This can be done directly to current department heads and managers or by hiring/promoting someone to take over their own responsibilities. Since the managers in the organization now feel more responsible for results, they often respond (if properly prepared or trained) by increasing the volume and profits of the organization. During this period the leaders:

- Restructure the reporting system to reflect greater emphasis on profit and volume (rather than costs).
- Hold managers responsible for "bottom-line" and gives them more discretion on individual line items in their budgets.
- Use individual bonus or departmental bonus to stimulate motivation.
- Manage by "exception", relying heavily on reports.
- Reduce direct, personal communications with current department heads and begins concentrating on other growth areas.
- Try to start up or expand new activities (new products, acquisitions, joint ventures, etc.) which can fit under the current administrative overhead.

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Key To Success
Success at this stage is fueled by departmental leaders taking personal responsibility for results and implementing systems to insure their department's success.

The Problems That Develop With Success
As the individual departments grow, they become harder to coordinate, and develop separate, sometimes ***competing goals***. The culture is changing either by design or natural momentum. Often there are conflicts over resources (money, space, staff services, etc.). The leaders become concerned that departments are more interested in their own performance than that of the overall business.

STAGE IV: Integrator

This stage of business growth results from the problems of successful delegation. The leaders look for ways to ***integrate*** the work of various departments towards the accomplishment of the organization's vision. (This is different than reverting to control or Stage II Director.) They set up systems, structures and processes, which require more interaction and common planning among departments. They insure there is a longer time horizon in considering the allocation of scarce resources such as money. During this period the leaders:

- Create alignment of the organization's vision and values.
- Initiate reorganizations to achieve greater coordination.
- Establish an integrated planning format and meetings to review plans.
- Emphasize new measures, like return on investment (ROI) in making decisions.
- Add staff people to coordinate or review plans, ideas, etc.
- Place more emphasis on the overall performance in allocating salary, bonuses, benefits, etc.

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The Key To Success
Success during this stage is based on leaders' ability to manage systems to achieve the organization's overall goals.

Problems That Develop With Success
The planning and integration reduce risks, but also slow down the organization's ability to respond quickly and decisively to new opportunities since such a response might not be "in the plan".

The business can also become less personal and more "official" as a place to work. Customers and employees may miss the old "individual" touch and find themselves caught up in rules and regulations.

And Now What?

What happens when a business gets to Stage IV? Eventually, the complexity of the business will cause it to plateau and often times begin to decline. At this point, the business must reinvent itself or perish.

Change is one true constant in the life of a small business. That's why it is imperative for leaders to lead change or give way to those that can.

In a competitive, fast changing marketplace, the phrase "**leadership makes the difference**" is truer than ever.

About the Author:

Phil Faris

Phil Faris is a business development consultant, coach, speaker and author. He is president of Phil Faris Associates a firm that specializes in helping organizations hire, train, develop, lead and retain the sales talent required to succeed in a competitive marketplace. Phil has developed a reputation as a "performance improvement doctor" for his ability to help organizations improve their financial health by diagnosing performance issues and then prescribing strategies that produce measurable results. He has worked in many key industries with a wide range of clients including: Amgen, Brunswick, Clarke, Dartnell, DeVry, Meredith, PIMCO, Shell Energy, TCI, Waste Management, Zimmer and others.

Phil brings a diverse array of hands on experience to every project having held leadership positions in training, human resources, marketing and sales. As a consultant he has worked in more than 20 industries and has designed and delivered over 80 customized sales, management and leadership training programs.

Phil is the author of the following books*: Hiring Winners, Building Customer Partnerships, Training Winners, 50 Activities for Sales Training* and *Upping the Down Side*. He has also written numerous articles on sales, leadership and personal development.

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