Venturing Your Concept

Growing a business for expansion or spin-off 12

If you want to grow your venture to maturity, challenges remain. In the early stages, growing is not much different from venturing. (Columns 5 - 11 are particularly relevant.) There are some differences. Ideally, in growth mode, you now have:

- a manufacturing process that has stabilized;
- a credit rating;
- ability to forecast with improved accuracy and precision;
- a governance and an organizational structure;
- time for process and product improvement;
- a small but significant share of the market;
- some operating profits to report, and
- relationships with lenders, customers, and suppliers.

What likely is not there is stability in all the above. Debt is still piling up and you may not yet qualified at all potential customers. And you might see a price war brewing that will extend your creativity for cost savings.

You have hope because critical mass is just around the corner. Critical mass exists when a start-up is able to make and sustain waves in the industry and put steady pressure on the largest competitor. Achieving critical mass is a considerable success, one that brings a sense of arrival.

But arrival can bring problems if you are not alert and diligent. Founders may begin feeling their oats. Perhaps the honeymoon is over. Conflicts may arise, making decisions difficult. Employees may react in these ways as well, and they may even choose sides with founders in conflict. These and other things can threaten a new venture’s direction and purpose.

A change in ownership or equity balance can save the day, just as it can destroy it. Imagine the consequences if you discover an equal partner is inept at business or cannot, or will not, pull his/her own weight. What can be done? That ultimately depends on the stockholders, board of directors, or partners who can relieve anyone of his/her duties.

If a stock purchase agreement (also known as a Buy / Sell Agreement) is in place, it may be possible to buy out the person relieved of his/her duties. Competent legal counsel is needed to ensure that a buy-out attempt does not backfire for any number of reasons, including improper valuation of the shares. Whatever the situation, it pays to use dialogue in working through any severe crisis. Open dialogue is a most effective tool in dealing with sources of interpersonal strain—which should be a subject for continuing dialogue and built into your growth strategy.

Other symptoms of growth require attention as well. As the march toward maturity progresses, many-hats-on-each-head gives way to many-hats-on-many-heads. Pitfalls might include people on staff who:

- find it difficult to give up responsibility;
- become bored as their jobs become progressively routine or simple;
- feel less important;
- do not work as effectively in large groups as in small ones;
- become complacent and lose motivation;
- are marginal mentors, find it difficult to train others;
- resent necessary organizational changes;
- resent even minimal bureaucratic intrusions, and/or
- become power-oriented.

Employees and founders alike can feel stress when the rules change. I once observed a start-up by two founders who each owned the same number of shares. Each had a strong personality. The early period went smoothly enough. As the company approached maturity, however, tensions rose. Each wanted to be the commandant, and wanted the organization to be a monument to himself. Each increasingly resented the other. The contest shifted from one between the start-up and the competition to one between the co-founders. Debate sank into argument with each blaming the other for the hard times they came upon. Employees became involved, production lagged while quality degraded—for lack of communication on the floor. The start-up eventually dissolved with one partner leaving a mass of debt for the other to clear up—which took him over a decade. This was an extreme case; the governance and continuity issues had not been settled up front.

Another inherent symptom of growth is change in and of itself. Start-ups rarely have much structure at the beginning—power is usually concentrated in the hands of those actually getting the work done. It may be distributed with little need for hierarchy—one or two layers perhaps. The organization adds employees, creating quite different requirements—government regulations must be met that are not there for single-person proprietorships or very small businesses.

As job contents specialize, similar jobs collect together and departmentalize. The personality best suited for sales is not well-suited for accounting and both differ from manufacturing and research, for example. Specialists are now as valuable as generalists.

This requires interview questions to narrow for more specific jobs descriptions than previously. Still, it is good practice to look for personality balance, motivation, skills, and character along with ability to learn new things.

Most changes related to growth bring structure and bureaucracy, which can make life difficult. Continuing dialogue on the part of all helps maintain morale, job interest, and focus in the face of change. A growing start-up is an exercise in continuous change. For a learned discussion on dealing with change in an enterprise, I refer you to *Leading Change*, Jossey - Bass, 1995, ISBN 1-55542-608-5 by James O'Toole.

As a venture grows, promoting employees becomes more and more important. As with hiring, promoting must be done with care as mistakes may be difficult to correct and expensive, and you must be fair and equitable when promoting. To keep people long enough to promote, we must:

- pay competitive wages or risk having the employee feel pressured on the homefront in a job s/he is otherwise satisfied with;
- provide equal opportunities and environments, and
- give every employee assignments where they can show their promotion-worthiness.

Early in my managerial career, I promoted a highly skilled and proficient lab technician to an entry level engineering function. Not long after, he came to me and said he did not want the added responsibility, and to please return him to his former job. I got off lucky; it does not often happen that way. I had simply not evaluated the situation well enough.

Another problem arises if you strive to hire the best and always assess management ability—as I do. Capable people come to work with an expectation of career growth. I handle this one during my interview—*ahead of time*. I say something like:

> *"We have many talented people here. Some will be promoted from time to time. I hope you can be one of them, but I cannot promise that. What I can promise is that you will have an interesting and challenging job and you get an education here, the kind you can use anywhere you go. We are committed to individual development, even if that makes you more mobile in your career. If at any point you want a faster track than we can provide, we will wish you well and provide a reference."*

Feedback from this procedure has been positive. Most promotions worked out well. How to handle a disgruntled employee who was not promoted requires a different approach.

Another feature of growth is that planning becomes more and more important as a start-up grows. Competition gets keener, mistakes more costly. And there is more to lose. Plans also take on more importance. This happens because:

- lenders and stockholders require financial targets to be met;
- ability to forecast improves;
- the business becomes more stable;
- all three forms of enterprise-capital strengthen;
- relationships with business partners deepen, and
- there is more inertia in all sectors of the business system.

An active planning activity can quickly produce a plan for whatever might be required: Product or quality improvement, market or facilities expansion, growth strategy, achieving ISO 9000 certification, recovering from a failed product return, and/or preparing for an acquisition or an initial public offering.

Complacency and smugness are mortal enemies to planning operations—not to mention the health of the enterprise. We simply must keep our perspective of the business and of ourselves current. Free dialogue is the best antidote, and it is helpful to consider worst case scenarios.

Legal issues often plague companies in growth mode. A neighbor may sue over his/her perception of increased noise in the neighborhood. A company truck is involved in a serious accident. Systematic pilfering is occurring in the warehouse. An employee is in a performance tailspin. A female employee complains of harassment. A competitor claims patent infringement.

Accounting rules have certain standards. So I was amazed one time when a partner of a national auditing firm said, "Just tell me how you want your profit-and-loss statement to look and I will fix it." That was my introduction to the flexibility in the term "accepted accounting rules." I mention this because almost daily I read in the paper where this or that company suddenly enters bankruptcy, or this or that executive is investigated for cooking the books. Such tricks only alienate lenders, stockholders and other stakeholders in the venture. Accounting liberties should never be taken beyond reasonable or legal limits. You cannot know too much about the legal boundaries, and retaining competent financial and legal counsel is money well spent.

The titanium industry was accused of price-fixing back in the '70s. How it affected me was that I had to have special training, literally, to learn about anti-trust law. I resented the time spent learning about something I had nothing to do with. But after becoming an entrepreneur, I was able to recognize that kind of trouble and head it off before it became trouble. Learning is rarely not useful or wasted.

This is the last issue of my on-line commentary. Although I have used bullets liberally, I hope that they will be employed more for *inspiration* than for a "cook book" solution. Every situation is different; every problem has its own solution. Technology, acceptable business practices, and social mores depend on geography, culture, and time. *Look not for a final answer but for inspiration and ethos*. If you find yourself in an irresolvable position where this, or any other book, seems not to help, you need an outside expert to advise you.

I hope you enjoyed this snapshot adventure as much as I enjoyed bringing it to you. These 12 chapters are the core of a larger book I am writing. The expansion will include materials and experiences these pages had no room for. If you would like an advanced copy, just let me know. rosenhw@amargosa.net

If you are really into and new at the venture game, you will need some boiler plate; one recent source is Sherman, Andrew J., *Running and Growing Your Business*, Times Business (Random House), 1997, ISBN 0-8129-2860-1.

Thanks for your time, attention, and comments.