Seeing Around Corners

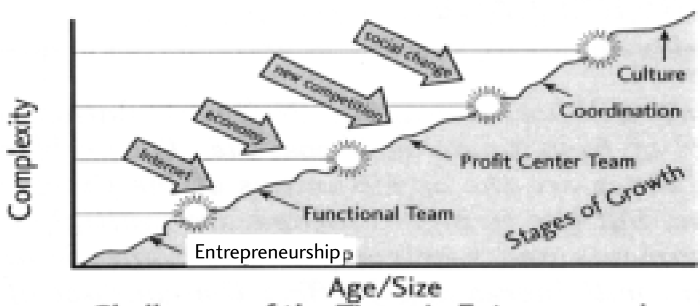
THE TENTH COMMANDMENT

ANTICIPATE INCESSANT CHANGE BY PERIODICALLY TESTING ADOPTED BUSINESS PLANS FOR THEIR CONSISTENCY WITH THE REALITIES OF THE WORLD MARKETPLACE.

The past will not come again. Neither isolation nor insulation from tomorrow is possible. The problems of the times are the opportunities of the times, as always, but the strings attached are multiplying. Governments and new competitors, domestic and foreign, will increasingly affect the conduct of a business. So will social evolution. Despair has little value. Vigilance is required.

There's no room for entrepreneuring in a static society. So Commandment Ten carries good news. We are in the midst of a lot of change; the year 2020 is almost closer to us than 1990; the world has shrunk and is increasingly wired together; and today is the first day of the rest of your life. The cliches abound. But the average person is swept along by events, turning his or her head from side to side occasionally as birthdays flash by. Then the day arrives when the energy required to deviate from the worn path exceeds the energy remaining in the reservoir, and what might have been will never be. Commandment Ten is an admonishment: Take advantage of the turbulence to build something new. Commandment Ten is a warning: Systematically tune what you are building to the times.

Graphically, the challenges of the times can be depicted this way using the same Stages of Growth model used in Commandment Nine.



Challanges of the Times in Entrepreneuring

Entrepreneur/managers of growth companies must contend with two kinds of pressures, those from within and those from without. From within, both increasing size and complexity generate various problems and crises. They were outlined in Commandment Nine. From without, as depicted by the fat arrows, an increasing number of pressures affect a growing company as it becomes more and more viable and visible. The overriding question for the leaders of a dynamic enterprise is quite simple: What do we do to keep on succeeding? The name of the game keeps changing! There are six specific actions implicit in the dictates of the Tenth Commandment:

- Recognize and deal with reality.
- Adjust your managing style to fit the changing needs of the enterprise.
- Treat organizational structure as a variable.
- Nurture a *process* of managing within the company.
- Verbalize information and expectations.
- Remain doggedly customer centered.

These are the actions required to anticipate incessant change in order to amend your plans for the business accordingly.

Recognize and deal with reality. Floating interest and exchange rates are a reality. Diversity in the work force at all levels of responsibility is a reality. The merging of the Internet and computing and is a reality. Fresh competition (new entrants) in every kind of growth industry is a reality. Privatization in many countries around the world is a reality. Regional conflicts are a reality. The list goes on. Some of these factors may be pivotal to your company. You must determine which ones they are and weave them into your thinking.

CASE V. During the mid-1990s one of the major, worldwide consulting firms had a large-scale planning meeting every year at a fine resort. The forty-to-sixty senior people in the firm attended. Early in each meeting the managing partner

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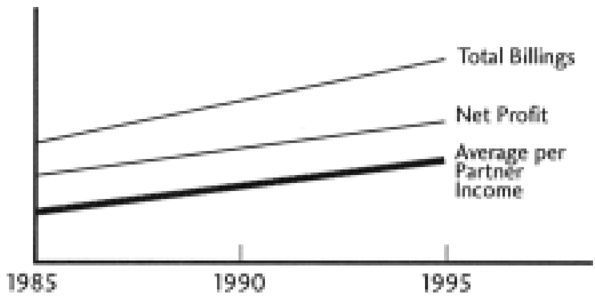
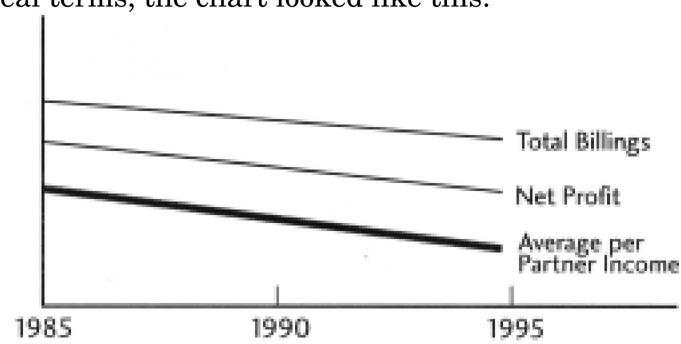
would recount progress since the last meeting. The lines on all her multicolored charts swept gracefully upwards and to the right as the decade moved along. The firm was getting progressively larger in terms of total billings; profitability was keeping pace with billings; and per-partner income stair stepped up quite nicely, year to year. There was some concern that the number of clients in the client base was shrinking slightly over time, but little urgency was attached to the matter in light of all the good news.



In 1997, the managing partner of the firm and her two key associates took a closer look at the past decade of the firm in constant dollars, that is, with figures adjusted for inflation. Had the entire management team been present, the findings might have caused a huge uproar. As it was, the executive trio experienced a profound sense of shock. Instead of growing, the firm had actually been shrinking over the previous ten years. In real terms, the chart looked like this:



When the drop in total fees, profits, and per-partner income was added to the shrinking client base, it was clear that the firm, in total, had stopped succeeding. The reality was that the firm was starting to fail.

Most competent management teams can respond to reality if they know what it is, but in the rush of day-to-day events, it's easy to see and hear only what's comfortable. And subordinates, as a rule, shy away from being harbingers of potentially noxious tidings. One of the most practical safeguards a team of entrepreneurs can have is a board of directors or advisors that is qualified and doesn't hesitate to inject hard questions and objectivity into the enterprise. Two other safeguards are a proper managing process that forces news, good and bad, to the surface, and another process that forces regular senior-level contacts with customers.

Adjust your managing style to fit the changing needs of the enterprise. Any entrepreneur with industrial experience is familiar with the pluses of the "-tions" in a business: communication, instruction, delegation, motivation, and recognition. These -tions don't just happen. A senior person causes them to happen, usually both by example and by direction. The ideal case is when these -tion elements of achieving results through others are an acquired taste bred into the fabric of the enterprise from the start. Then there is an ever-growing core of talent available to respond to the times. The alternative to breeding is on-the-job training or, sometimes, a crash program of management development, often triggered by some emergency.

CASE W. The management of a relatively young, medium-size bank holding company with an excellent record of growth and performance found itself between a rock and a hard place in the mid-1990s. The reality of banking was one of deregulation, consolidation in the industry, massive

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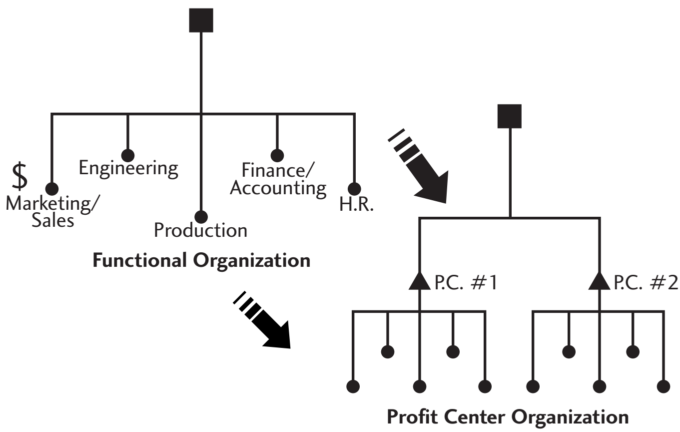
new competition, and tidelike costs of money, the bank's primary product. There seemed to be three ways to survive the onslaught of change. One was to expand via acquisition, that is, to buy up smaller banks in the state in order to move above the medium-size range and become less vulnerable to takeover. A second course of action was to diversify into more nonbanking activities where there appeared to be firmer ground. The third course was to tighten down on expenses and drive short-term performance upward as a prelude to selling the entire holding company to one of several suitors who had made overtures.

The third alternative was thought by management to be the least desirable. Upon analysis, however, it was the only viable one simply because the company did not have the necessary talent and systems to manage either a lot more banks or nonbanking activities. "The well is near dry," is the way the CEO put the situation. There was sadness in his voice.

Any individual's managing style is composed of numerous components, and it is clear that not every one of them has to be adjusted continuously. For entrepreneurs, the biggest single challenge is usually to let go of responsibility *and* authority as the venture ripens into an ongoing business. Delegating is the operational word. Delegating is not a skill as much as it is an attitude. When you push responsibility outwards and downwards, you do give up something . . . particularly some chances to be *a* or *the* star. But you and the enterprise also gain eyes, ears, arms, legs, and minds that will grow stronger and sharper, with encouragement, over time. A growth business is a team effort—more analogous to professional football or basketball than to golf. Effective teams have good coaches or player/coaches who can change roles with alacrity.

Treat organization structure as a variable. The typical progression in most companies is to move, over time, from a functional organization structure to a profit center structure, as outlined in Commandment Nine.



This general progression tends to make sense as the use of profit centers breaks the enterprise up into smaller pieces, develops more general managers, etc. It is important to recognize that there are countless variations and permutations along the way having to do with position titles, reporting relationships, salary brackets, and all the administrative paraphernalia that goes with facilitating a group of humans working together. Ideally, the culture of the company will highly value flexibility, cooperation, and appropriate competitiveness. At a minimum, entrepreneurs will do well to downplay from the start, the significance of the classic status symbols of corporate life. They can make for premature hardening of the business arteries, i.e. structural rigidity in the face of internal and external change.

CASE X. From day one, the four co-founders of a biomed company decided that they would share the decisions and power in the company. This philosophy has permeated the organization which today employs more than 100 people, many of them skilled technologists and scientists. Ramifications of the philosophy include a total absence of private offices and private secretaries, no titles on business cards, group reviews of peer performance, rotating committee chairpersonships, and only a few broad job classifications for salary administration purposes. To date, after fifteen months, the company has met or exceeded all its milestones and projections.

Whether the management of Case X can make its philosophy work when it has 500 employees is still an open question. But there is evidence, so far, that little energy is being burned with internecine struggles for attention and recognition. And the company is proving to be very adaptable to the unfolding mix of customer and distribution-system requirements being placed on it. This is an extreme case, but structure in its broadest sense has truly been treated as a variable during company X's formative period.

Nurture a process of managing within the company. The key word is *process*. It implies a continuing, consistent, if not repetitive, sequence of events over time during which the participants can get to know one another, come to share a common vision and vocabulary, and establish a sense of order in the life of the enterprise. There are enough surprises in the day-to-day existence of a young company. Irregularities and spontaneity in the way managers conduct themselves are superfluous, if not downright destructive.

CASE Y. A high-flying electronic game company went bankrupt after the heart of its programming and engineering staff walked out and set up shop down the street. Among the deficiencies articulated by the departees were the following:

- Ad hoc salary adjustments (increases)...usually only when a person threatened to leave.
- No information on company plans (and doubts as to whether any plans actually existed).
- No feedback on either company or personal performance.
- Lack of confidence in the competence of two of the three top executives. ("They didn't seem to know what they were doing.")
- Continuous fire drills in terms of who was to do what, by when ("Perpetual panic").

In sum, the management function (as contrasted to the programming and engineering functions) of the company was amateurish in comparison to the very large market opportunity confronting the enterprise. What started out as a venture turned into an *ad*venture rather than a business. The entrepreneurs lost their prize.

Where does a process originate? As a practical matter, the business plan can usefully serve as the centerpiece around which a discrete managing process is formulated. An updated business plan is generally needed for each coming year. Picture a management team that meets a half-day per month solely to review progress and to think ahead. Here are the kinds of subjects that could form the skeleton of an annual process:

January	Review actual results against previous year's plan. Agree on strong and weak points. Critique previous year's planning process; consider improvements.
February	Review performance of key individuals in company. Consider all compensation matters.

March	Identify major market trends and discuss implications. Analyze relations with key customers; confirm high-level contacts.
April	Agree upon an economic forecast for the coming twelve months and its probable impact on operations. Crystallize any required action. Write down assumptions.
May	Establish a detailed, planning timetable and methodology for the coming year's business plan. Evaluate what's new in planning techniques.
June	Discuss trends in technology that can affect any phase of the business. Assign watchers or resource people to keep current on specific subjects of interest.
July	Review six-month results against annual plan. Note any weaknesses in economic assumptions (made in April). Make necessary revisions for second half.
August	Set corporate and planning unit objectives for coming year.
September	Listen to and discuss plans proposed by planning unit leaders. (Planning unit leaders may be profit-center managers, functional vice-presidents, product managers, etc.)
October	Same as September. Consolidate plans.
November	Review financial and human resource implications and requirements of the consolidated plan for the company. Present plan to board for comments.
December	Adopt business plan (including budgets) for coming year.

This list of subjects is not meant to be exhaustive, merely representative. And a management team that develops and sticks to such a calendar, tailored to its own enterprise and people, will have gone a long way toward establishing a process that can bring stability, insight, internal consistency, and smarter decisions to the challenges of the times. Of course the above calendar does not preclude the other meetings—planned and ad hoc–that will go on out of necessity. In fact, the existence of a senior calendar can make the interim meetings on operational matters more efficient because the tendency to jumble short- and longer-range issues together may well be reduced.

Verbalize information and expectations. Everybody is in favor of better communication, but what does it mean? Open offices or an open-door policy? Company newsletters? Friday night beer parties for the staff? Casual, mixed-level lunches? A formal mentor system? These are all candidates for inclusion, but the heart of communicating has to do with transmitting and sharing ideas, opinions, and critiques on the work being done—the heartbeat of the company. The rest, from newsletters to parties, is just icing on the cake for a company on the move. In the final analysis, productive communicating boils down to regular boss-subordinate interchanges about the tasks at hand and those upcoming. And the value of the interchange is amplified if both parties have at least a rough understanding of what the company is all about—the vision, mission, and objectives.

Participation is an overused word with many connotations. But actual day-to-day participation in mainstream events is one of the attractions smaller companies offer to people. Yet it is often hard to retain that hands-on flavor as a company grows. It is hard to retain because the distance expands between the decision-makers (customers, founders, officers) and the average employee. It is also hard to retain because a lot of nonjobs get created and perpetuated. The epidemic of downsizing in established companies has been an attempt, in part, to solve the nonjob problem. But the former problem, distance, lingers on. There is no real solution to it other than for managers to be aggressive in helping their people succeed in their vocations. As spelled out in Commandment Six, people do indeed respond to structured expectations. And no matter how the fact may be smothered in analysis and theory, a person's boss is his or her primary reference point in the world of work. If that primary point is weak or vacillating, the message is heard. If that point of reference is ignorant of and noncommunicative on the health and outlook for the enterprise, how is the average employee to be adaptive, enthusiastic, and innovative?

CASE Z. AH&B, an engineering firm, grew rapidly in billings to over $6 million per year. The three founders were able to attract a lot of new talent into the company and, thereby, free-up their own time for sales work–the pursuit of new contracts. A giant opportunity in Saudi Arabia captured their imagination. It was an opportunity to design a complete new city from scratch. The three became enraptured with the project and poured many man-months and dollars into the preparation of an extensive proposal. They flew back and forth to the Mid-east, waltzed the Saudi diplomats in Washington, D.C., and generally ignored the rest of the activities in their firm. They were oblivious to the resentment that slowly built up among many of the newer recruits who had been charmed aboard personally by one or more of the founders.The proposal was duly submitted in Saudi Arabia with appropriate fanfare. The date for a decision on the successful bidder came and went. Everybody waited. Then they waited some more. Months passed. The momentum of the firm slowed as first one and then other talented people left, often taking existing clients with them in the process. The AH&B founders woke up one morning to find they had lost the Saudi bid, that they had only a shell of a firm left in terms of talent still aboard, and that their two largest domestic clients of long standing had switched . . . to former employees of AH&B.

Good people don't need to stay on in the dark, and entrepreneuring can be contagious.

Remain doggedly customer-centered. Amid all the external pressures, the ones most important to respond to are those that have an impact on your customers. More than one group of entrepreneurs have been surprised to find that interest rates or foreign competition or a new technological development has suddenly put a big dent in their growth plans. Often the surprise would have been avoided if one or more of the top people had not pushed eyeball-to-eyeball customer contact down low on his or her list of things to do. For example, a year after the Saudi Arabia debacle in Case Z above, AH&B management received another blow. High interest rates drove AH&B's remaining largest client, a highly leveraged, second-home developer, into bankruptcy. This demise could have been foreseen by an alert observer of the client and the times, and someone at AH&B should have been that alert observer.

How does a new venture get and stay customer oriented? The signals have to come firmly and regularly from the top. The burden is on the entrepreneur.

Commandment Ten calls on the entrepreneur to keep on entrepreneuring in the sense of monitoring and responding accurately to ever-changing reality. Doing this is central to serving society in some useful way on a continuing basis...central to keeping on succeeding. In recent years, a good number of famous companies, business icons, have fallen from grace. Some years ago *Business Week* published a study by writer/consultant, Tom Peters, of thirty-seven Fortune 500 companies whose managements were generally considered to have been effective in extending the youthful spirit of their enterprises over many, many years, through good times and bad. The study indicated that the managements of these companies shared eight attributes:

A bias toward action
Simple form and lean staff
Continued contact with customers
Productivity improvement via people
Operational autonomy
Stress on one key business value
Emphasis on doing what they know best
Simultaneous loose/tight controls

These attributes have their roots in entrepreneuring. They highlight the central tenet of this book, namely, that entrepreneuring is the Olympics of capitalism. The hard work and sacrifices may be great, but the satisfactions are great, too, for those who choose to participate.

Steve Brandt