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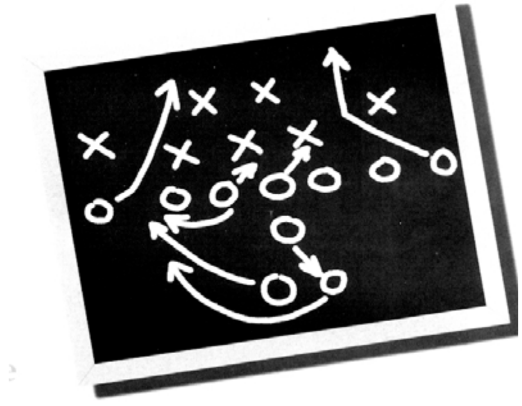
Failure of the CEO to change from Star to Coach can Impair Performance



It is my premises that companies go through economic life cycles and require different management skills through the continuum of that life cycle. Companies and the entrepreneurs must change how they manage in order for the business to survive. At some stage entrepreneurship is not sufficient and the nature of the organization must change, together with the people who run it. On one level the skills are correct but on another level they are not correct. There is a pattern to the problems and the issues faced. At some point in the business life cycle the entrepreneur needs to establish good management practices and a game plan for developing the business, rather than being preoccupied with the day-to-day operations. When the entrepreneur can think conceptually and strategically about the company, rather than merely in terms of day-to-day operations, they will provide the company with an opportunity for long-term success. The role of the entrepreneur must change from that of a star to a coach leading the employees and the company in executing its game plan.

The entrepreneur has developed a successful product, understands his current customers, their needs, how they buy, and what they perceive to be value in the product. The operation will have the resources to produce the product. In an older enterprise the resources may need updating and the new venture may require additional capacity and or other efficiencies to succeed in today's competitive environment. The company may have a number of operations in place such as accounting, billing, collections, advertising, personnel, training, sales, production, delivery, and related systems. There was a time when basic systems such as these allowed a company to grow and survive. In today's rapidly changing customer driven markets failure to continually stay ahead of your competition will lead to a company with a great history and no future.

How does your company stack up to the following questions?

- Do your company's systems provide information to all your managers to empower them to succeed?
- Customers, competition and change require executives today to be flexible. How flexible is your staff?
- Customers and consumers demand products that meet their unique needs - not your standard product. Is your company customer focused?
- Today's customers are more informed; today's information - rich world creates a very demanding customer that is very difficult to replace. Is your company meeting its customers' needs?

Is it ever too early in a company's life cycle to create a culture that empowers its employees to focus on these issues? Does it matter if the company has ten, a hundred, or a thousand employees? Does it not make more sense to empower the companies employees from the beginning?

NEW TECHNOLOGY OR FAILURE

Companies need to stay on or near the leading edge of technology to remain competitive in this rapidly changing economic environment. With increased efficiency and productivity comes increased pricing pressures and shrinking margins. Failure to continue the metamorphosis to today's technology and systems will result in a company with a great history and no future. Companies must move fast to keep up with shorter life cycles, shorter product development, and introduction times. Failure to stay in front will result in rapid deterioration and ultimate failure. Increased sales will not replenish the lost margins. The lower margins will most likely decrease profits and if not rectified lead to a slow and steady slide that can lead to the company's demise. To paraphrase the speaker at a recent seminar, the CEO will have to go find a real job.

This reminds me of a client who watched his margins slip from 35 - 40% to 16 - 20% gross profit margins. Focusing on sales not profits caused the margin slippage. The company's customer base had shifted from the smaller specialty store to the large discount retailers. The new customers provided substantial volume but demanded substantially lower price points. More sales and less profits is a road to disaster. This client had increased its production head count several fold in order to keep up with demand. Installing new technology in the plant allowed the company to reduce labor costs in one department by 70% and in another by 15%. The best part was that the cost of the new equipment was recouped over six - nine months. Intelligently adding new technology can and will increase your profit margins.

The above is also a good example of a company trying to make the transition from entrepreneurship to professional management. Prior to Capital Restoration, LLC being engaged, operations had not been held responsible. The planning systems were modest and the company was not profit focused. This was a company waiting for the "Boss" to make the decision, but in this case the "Boss" was waiting for management to take action. We instituted benchmarking and several other monitoring systems to help focus management on the changes required. The board and senior management will be making the changes necessary to move to professional management.

Producing or distributing a superior product made you successful yesterday. Today's successful companies don't just produce superior products, they create them. Is your company's culture such that your team creates tomorrow's products and markets? New products can differentiate your company in the market place. New products offer an opportunity to create market niches with higher profit margins. I personally like Gillette's model of planning several product introductions so that when the competition copies your product A you introduce product B and so forth. At some point the competition can be left as also-rans leaving you with a larger market share at higher margins. This is one formula for success. When you bring a new product to market it creates a unique opportunity to look at your manufacturing processes and the geographical location of your manufacturing facility. This is a time to automate the entire process allowing your company to become the cost leader. It is also a great time to review plant location and determine if it is time to look south or north of the boarder. Between 1994 and 1998 some sixteen companies in New England moved their manufacturing operations or increased imports to or from Mexico, based upon recent statistics in the Boston Globe.

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How does your company answer these critical questions?

- Where should your company be manufacturing it's products?
- How much of your operating budget is allocated to research and development?
- Is your company positioned to be the cost leader?

- Is your company profit focused?

The earlier in the process the entrepreneur changes from Star to Coach the better. My life experiences have shown that many people start to run into trouble when the business exceeds $10 Million in revenue. Is it ever too early in the process to institute good management practices that build a good team? Michael Jordan is considered by many to be the best basketball player of all time. Could Michael win a championship without a strong support cast? Is not Michael the leader of the team? Chicago's problem is that the product's life cycle is over, and they have not executed a plan to bring the next Michael to market.

Processes

More and more companies are not hard asset rich. It is people; making, selling and servicing that comprises today's company. Successful companies just don't fix the pieces of a process; they look at the entire process. As a company grows and evolves processes are deployed and people are employed to solve the then current problems. Later in the company's life cycle this hodgepodge of processes is a hindrance. My life experience has shown that if these processes are left intact the company is drained of critical resources and information. Fixing little pieces of the process may give marginal success in the short term but does not guarantee continued improvement. Using Business Process Reengineering techniques (BPR) to revamp a process focusing on the global issues and asking the question not just how we can do a process better but why do we do the process at all? What value add does a process provide the business?

BPR does not jury-rig existing systems but means abandoning long-established procedures and looking anew at the work required to create a company's product or services and deliver value to the customer. The company needs to ask itself, if we were going to start the company today - how would we structure the company?

How would the CEO answer these questions?

- Is the entrepreneur a "Boss" or a coach?
- Will he or she let go?
- Are they willing to let others make decisions?
- Are they willing to manage through goals and objectives?

How many times have we seen the founder controlling all of company's functions directly? The process employed early on allowed the "BOSS" to be in control. Yes, they can control them successfully in a $5 - 20 million business, but more formal controls are needed as the company grows. Can a founder / entrepreneur expect the next CEO to understand all these functions? Has the next CEO worked in all these functions? Probably not. The willingness of the "Boss" to let go and become a coach and revamp their business process is the paradigm to today's successful company.

Before looking at what a professionally managed business is: you need to determine if the entrepreneur is capable of being a CEO of a professionally managed firm. Can the entrepreneur live and function under the following?

- Profit is an explicit goal – Does the CEO focus on revenue or profits?
- Planning is a formal written business plan encompassing strategic, operational, and contingency planning. (using activity based simulation models allows management to better determine which activities are consuming resources and those that are generating resources) – Does the CEO plan or shoot from the hip?
- Employees have clearly stated responsibilities and roles – Does the CEO empower his employees and monitor them with goals and objectives?
- Controls are in place using goals and objectives, targets, measures, evaluation and rewards. Does the CEO use goals and objectives to monitor the employees?
- Development of management is planned – Does the CEO develop and offer the employees an opportunity to constantly grow?

- Leadership tends to use a more participative / consultative style vs. the traditional entrepreneur / founder more directive / Laissez-faire style of leadership. Can the CEO direct or use a participatory / consultative style?

If the CEO is unwilling or unable to make the change from a "Star" to a coach then the company needs to start to seek other alternatives and strategies. It is this failure that prompts many companies to enter a period of decline. Failure of the "BOSS" to make the necessary changes most often results in shrinking margins and lost revenue creating a need to borrow additional capital at higher costs. The inefficiencies require additional staffing adding additional overhead putting further pressure on profits and a thin management team. Stop and think about it. Additional staff and interest consumes precious resources needed to build market presence, additional technology, capacity, and or additional returns to the shareholders. The company's board and advisors need to step in and convince the company to engage appropriate professionals. By appropriate professionals I mean someone who can stabilize the business and put into place the core components of a professionally managed business including:

- Planning
- Operating Plans for each unit or activity
- Goals and objectives for each unit or activity
- Action plan to attain the goals
- Financial projections for each unit or activity including operations, cash flow, capital requirements, and what if contingency analysis and planning
- Organization Controls
- Organizational leadership

The CEO leadership skills can be learned. Some learn these skills by joining associations like TEC or hiring a professional to interact with the entrepreneur. The entrepreneur is more likely to joining a group like TEC than hiring a professional a. who is expensive and b. who will challenge their decisions. Often it takes a period of no profits and a hard push by their advisors or lender before corrective action is taken. The change is neither easy nor painless. Many of the processes put in place over the years will need updating. Some of the staff will need to be reassigned or put out to pasture. Failure to make the change will be more painful, for it will / may become a company with a great history and no future.

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