Becoming an Entrepreneurial Organization

by Michael Canic, PhD

A dangerous consequence of the common reference to "small and medium-sized enterprises" (SME) is it implies that, when it comes to business, "small" and "medium" are more-or-less the same. They aren't. A critical question in the life of any thriving small company is: can it successfully make the transition from an entrepreneurial business to an *entrepreneurial organization*? An organization with the processes, structure and infrastructure to continue to grow and prosper.

Entrepreneurial businesses often start with the vision and passion of a founder who comes up with a better product, service, business-model … in short, a better idea. The business gets off the ground and starts to take off. The founder's passion and the initial success help to attract and impassion new employees. The company grows. The market responds to the "new and exciting." The company continues to grow – the entrepreneurial business in its glory!

But over time things start to change. The market buzz starts to fade. What was unique and exciting is no longer so unique or so exciting. Growth slows. The dynamic inside the company changes. Everyone used to know everyone; everyone used to feel connected to the business as a whole. Not any more. This is the critical junction point. The entrepreneurial business is at risk of slipping into mediocrity … or worse.

Here's what you can do to make sure this doesn't happen to your business.

1. Operations: From heroic efforts to *heroic processes*

Small enterprises often rely on passionate and committed people who will turn heaven-and-earth to get things done. Those heroic efforts are recognized and reinforced. And the stories become part of the company lore.

Yet depending on heroic efforts poses two problems: they aren't efficient and they aren't scalable. The ongoing need for heroic efforts indicates a lack of well-thought-out, documented and standardized processes. It's tremendously costly, in terms of time, money and effort, to make up for process deficiencies with *ad hoc* people solutions. And as people move in, through and out of the business, there's no guarantee that the next person will be as heroic as the last. The problems emerging from a lack of process increase exponentially as the business grows. Ultimately, they outstrip the capability of the business to solve them with heroic efforts.

To successfully transition to an entrepreneurial organization, a business needs to develop essential processes that are effective, efficient and scalable. While there will always be a time and place for heroic efforts, they should be the exception. Heroic processes should be the rule.

2. Value Creation: From one-hit-wonder to *hit-making-machine*

You've got a better idea? Great. How long before someone copies it? Or leapfrogs it? Or confuses the market into thinking that they can do what you can do? Better *isn't* forever.

Consider a company I used to work for: FedEx. FedEx was founded in 1973 with a better idea – overnight delivery. However, recognizing that overnight delivery would soon be copied, they identified the next level of value: "absolutely, positively overnight." In other words, while competitors might claim to deliver overnight, only FedEx could reliably deliver. Still, it was inevitable that others would figure things out and close the reliability gap. So FedEx extended the value equation to "real-time tracking." They realized that customers would value the peace-of-mind that comes from knowing the location of their package at any time. And so it continued with additional value elements like customs clearance, deferred service and logistics. By sequencing together new sources of value, FedEx survived start-up, transitioned to an entrepreneurial organization, and became the fastest company at that time to reach $1B in annual revenues.

In short, they transitioned from being a one-hit-wonder to a hit-making-machine.

3. People: From performance mayhem to *performance management*

In a small, entrepreneurial business you can get by with people not having clear reporting relationships. You may benefit from flexible roles and responsibilities. Yet as your company grows, the ambiguity around reporting, roles and responsibilities can start to create mayhem. People don't know who to take direction from or what the priorities are. Performance suffers. But who's accountable for what?

Successfully transitioning to an entrepreneurial organization means instituting a solid foundation of performance management that helps your people give you their best. Communications are at the heart of this. Your people need to know the answers to these six questions: 1) Who do I report to? 2) What am I responsible for? 3) What are our goals as a company? 4) What is expected of me to support those goals? 5) How will I know if I'm doing a good job? 6) What support will I receive to help me improve?

Ensuring that you continually answer these six questions can help avoid the mayhem that arises when the informal and flexible structure of an entrepreneurial business leads to ambiguity and confusion.

4. Finances: From watching the cash to *wagering the cash*

Most fast-growing entrepreneurial companies know to be protective of their cash. They know that fast-growing companies are likely to die not because of the P&L but because of cash flow. The double-edge sword of this mindset is it can produce an overly conservative view towards investment. And without sufficient investment, a company's ability to grow will be limited.

Keith McFarland, in his first-rate book, *The Breakthrough Company*, (think "Good to Great" but for mid-sized companies) researched fast-growing companies to identify which ones ultimately produced superior, long-term financial results and why. Amongst his conclusions was that *breakthrough companies* are those which are willing to place bigger and bigger bets, with the skill to pick the right bets. An example of a big bet: Tony Hsieh of Zappos moving the entire company from San Francisco to Las

Vegas to find the right employees to staff their call center.

How do you pick the right bets? A combination of information and intuition. Utilize information but don't dismiss the learning that underlies intuitions. Value your intuitions but don't disregard the richness of information. Embrace the dynamic tension that results when considering both information and intuition. Assess opportunities with both "I's."

5. At the top: From leadership icon to *leadership team*

The most difficult part of the transition involves you, the iconic founder. It's the critical issue that every entrepreneur must ultimately face: for your business to continue to grow and thrive, it has to evolve beyond you.

The more your business depends on you the greater its exposure. Is the vision and roadmap locked in your head? Do you alone possess key information about your customers? Do critical supplier relationships depend on you? Are you the brand? So, if a bolt of lightning strikes you, then what happens to the company?

Need more convincing? You're not scalable. You can't do it all. At some point your business will outgrow your capability to do it all. And that's good. That's why you need to extend your company's leadership beyond you to a true leadership team. People with the right skills, traits, motives and values to oversee and transform the various parts of the business. Yes, you'll need to relinquish some control. Yes, they might not do things exactly as you would. And, yes, they simply might not be as good as you. But you *still* can't do it all. So find the best people you can, support them, develop them, and then let them help you win.

Small and medium-sized enterprises are not the same. Growing from small to medium-sized means transitioning from an entrepreneurial business to an entrepreneurial organization. This requires some major changes to how you, as an entrepreneur, think about operations, value creation, people, finances and your own role. Are you committed to making the transition?

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