



Cruise control

If you're the owner of an expanding business, you have to know when to loosen your grip on the reins, writes **Leo D'Angelo Fisher**.

FOR MOST ENTREPRENEURS, the defining essence of operating their own business is control. In the formative stages of a business, control comes easily and it tends to be total. But a growing business presents its founder with many challenges. Business owners can be so busy with the daily demands of running a business that, without realising it, the business controls them rather than the other way around.

The owner of a growing business must make judgements about the level and style of control exerted over the business. The bigger the business, the greater the pressure to devolve control. Retaining strategic leadership or unlocking a business's true value often requires ceding operational control to new managers, or even to new partners. As a business grows, so does the pressure for owners to adapt to a continually changing organisational and strategic environment. To not do so places their business at risk.

But it's not only the owners of growing businesses who face pressure to reassess control structures. When Roger Rosentreter founded Sydney financial services business IFP Solutions in 1997, he realised that the cyclical nature of the business made it difficult to implement long-term strategies. IFP is a para-planning business, preparing financial plans for financial advisers, so when the advisers' business was down, so was IFP's.

The impact of the peaks and troughs on IFP was debilitating: it was difficult to attract and retain quality staff, which hampered efforts to develop new business. Despite these difficulties, IFP had a reputation for quality plans and quick turnaround times. Rosentreter was convinced that the only way to realise IFP's potential was to find new business partners to broaden the skills base and to provide it with much needed stability.

Former financial services executives Chris Hocking and John Denton joined IFP as operations manager and distribution manager, respectively, becoming joint owners of the business with Rosentreter through a three-year equity accrual plan. Rosentreter retains a 53 per cent stake in the business.

"I see it as a trade-off. For the business to grow and for me to be able to retain quality staff, I had to let go [of some of the business]. I'd prefer to have a smaller piece of a bigger pie than a smaller pie," says Rosentreter. "When you're in charge but you also have to do the operations, as I was, you don't have the time to work on the strategy side of the business. This has freed me up to work on the business and not so much in the business."

Management consultant Peter Renfrew, director of Linc Consulting Group, says that to ensure sustainability and long-

term profitability, growth must be actively managed. And not all growth, he warns, is good growth.

"Just as too little growth can be a problem, so can growth that is too rapid. The latter often places great demands on cash flow and stretches other resources such as skilled staff and business capacity. With growth comes the [necessity] to exercise discipline and understand which activities and which clients and suppliers really add value to the business," Renfrew says.

Learning to delegate

Owner-operators are often oblivious to their weaknesses, says Renfrew. This may not be an issue in the formative stages of a business, when the founder's personal touch is the key to success, but the shortcomings tend to reveal themselves as the business grows in size and complexity.

"Recognising the point when key decisions and critical relationships need to be managed by someone else is a milestone in the maturity of the business," Renfrew says. "Failure to address this transition phase will result in either business failure or limited growth potential. The first lesson for survival and establishing the path to prosperity is to recognise what you are not good at and be prepared to delegate. This requires trust and confidence in others."

A study of successful entrepreneurs by Brisbane company director John Lyons and lateral thinking guru Edward de Bono, *Marketing Without Money: How 20 Top Australian Entrepreneurs Crack Markets With Their Minds* (Pennon Publishing), illustrates this point. Successful entrepreneurs, almost by definition, are super-confident individuals who know what they want and run their companies accordingly. But they are savvy business people first and recognise that success is not a solo effort.

Gerry Harvey, founder and chairman of listed retailer Harvey Norman, believes in delegating and benefiting from the experience and talents of others. He also stresses the importance of providing environments that foster excellence. Harvey told the authors: "I have my managers mentoring others. If a manager is having problems, I tell him to go and work or talk with another person. I'll tell them that these are the best blokes I've got, so go and spend time with them."

A company's employees and how they work together to create value can form the basis of a winning competitive advantage. Entrepreneurs who recognise the contribution that good people make to business success provide rewards and incentives as a means of aligning corporate culture with business outcomes.

Graham Turner, founder and managing director of listed travel group Flight Centre, told Lyons and de Bono: "The key

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Roger Rosentreter, founder of IFP Solutions.



is to be certain to have each person being rewarded on the outcomes you want right from the start, and to make sure those outcomes are clearly measured and that you've got the right people in the right places to produce those outcomes."

With growth comes greater organisational complexity. A business needs to establish processes and protocols to ensure that roles are clear and that each employee knows how to add value.

Tom Bevington, managing director of business process consultancy Bevington & Partners, says the addition of staff to a young business is very often the beginning of business process breakdowns.

"Entrepreneurs are clear in what they're doing. They're very much in control, focusing the organisation on their customers. But as they get to a critical size, which can be as small as 10 people, a critical issue occurs.

"It's a compliance issue. Some of their employees may not be doing their job right, and if they're not, they're having to do lots of rework to put things right," says Bevington, adding that almost all business strategies fail to deliver their potential because of flawed execution.

Noise pollution

He calls this "noise – an unnecessarily high level of business process failure, rework and unnecessary chasing".

Noise activities, such as missed deadlines and incorrect documentation, result in increased response times and service inconsistency. Business processes (the way an organisation uses its people and resources to deliver value to its customers) that are allowed to deteriorate, or are left to evolve without proper compliance management, can cripple a business.

Bevington says the average noise level in an organisation is 30 per cent – that is, three out of every 10 transactions are errors. That's 30 per cent of staff time taken up in correcting mistakes, chasing things up and duplicating transactions.

"Our data shows conclusively that where higher noise levels are found there is little or no time to focus on the core activities which drive business performance," he says.

Some business process breakdowns are more expensive than others. In one business with 12 employees, Bevington found that 20 per cent of business process breakdowns accounted for 80 per cent of that company's avoidable costs.

Former security industry managers Geoff Taylor and

Alexander Dante started their Sydney-based security firm TaylorDante in 1999 with eight employees. Today, the company employs 300 people in NSW and Queensland.

As their business grew, Taylor and Dante realised that the drivers of TaylorDante's initial success were no longer enough.

"Geoff and I have always been hands-on owners and we decided that we had to identify our key strengths and redefine our roles accordingly if we were to take the business to the next level. We knew that we couldn't keep wearing a million hats," Dante says.

"I'm a salesman first and foremost and Geoff's strengths are in training and human resources. We needed to hire someone with operational strengths to complement our skills."

In 2003, TaylorDante appointed a general manager, former security industry executive Alf Corapi, who became a director and third owner of the business. Since then, the company has grown threefold. With further plans for further growth, the company has undertaken another review of the owners' roles.

"The three of us have a very high work ethic and we're passionate about getting the business where we want it to be, but that meant we were still wearing too many hats. We want to make sure that we have the time to plan for the growth we're aiming for, rather than playing a hands-on role in that growth. To do that, we had to make sure that the three of us have clearly defined roles," Dante says.

In recent weeks, TaylorDante has appointed an office manager and a rostering manager, roles that the directors were previously filling. "At last we feel we're in a position where we can place the business in the hands of our managers and feel that the business is okay," says Taylor.

Underpinning TaylorDante's operations is a set of core values and philosophies, which includes a code of corporate conduct and a set of commitments to its clients and employees. The decision to adopt the code, and to publish it on the company website, was inspired by Flight Centre founder Graham Turner's emphasis on company culture and values.

Another motivating factor was "things that Geoff and I were disappointed about at previous companies we'd worked for, particularly the way they treated employees", Dante says.



EXPANSION

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Geoff Widmer, CEO of Palliser Strategic Management.

Cultural control

Building and reinforcing a positive work environment, with shared values and common goals, is critical to long-term business success. Yet in the early stages of a business, matters of culture are typically overlooked and left to develop in an ad hoc way.

Geoff Widmer, CEO of small-business advisory firm Palliser Strategic Management, says a business's culture is too important and far too difficult to realign later to be left to chance. Widmer regularly mentors young businesses and their CEOs, which includes helping them develop their corporate cultures.

"If you want to establish a culture of high ethical values, you've got to start these things early – you can't just bolt them on later. As the business grows, it's important to sit down with the group and ask, 'What is our culture? What are the things that we believe are important?' It's important to involve staff in this process. Staff are very, very loyal when they're behind a passionate leader, but they need to be involved and there needs to be communication with them," Widmer says.

"It may start off with just two or three things – to be an excellent company, to be on time for meetings, to respect the time of others – it doesn't matter that much. But owners who recognise the importance of culture and take an active approach to developing and fostering their culture rather than just fall into it tend to be the ones who build successful companies."

With business owners having such a dominant role in the life of a business, it's easy to see how the owner's personality can shape a company's culture, for better or worse, in those formative years. The owner's response to control issues will do much to shape the culture of a business.

Richard Bens, managing director of management consultancy RB Business, says all growing businesses reach a point where control becomes an issue. As the business grows, the owner progressively moves into managing different components of the business, taking on functions he or she has little or no experience in: hiring office staff,

analysing profit and loss accounts, managing compliance issues, installing new IT systems, managing cash flows.

"This is a time when owners can become very isolated. As the business grows, business processes become strained – there are customer complaints about late deliveries, complaints from suppliers about quality, staff turnover, and none of the original systems seem to be working anymore," says Bens, painting a dark picture of a business out of control.

He says the problems generally start when the business changes but the owner doesn't.

"It's at this point that a business fails. The owner doesn't delegate; he bottles everything up and doesn't trust those around him. The owner wants to be involved in every aspect of the business, wants to make all the decisions, wants everyone to report to him, and doesn't want any criticism. The business is stretching at the edges, people are overworked, good people are leaving and old customers are going elsewhere. Processes become sloppy, there is a lack of strategy, and profit is declining. He's a control freak, but he's not in control."

The successful business leader, on the other hand, embraces change as a competitive advantage and learns to share control. "Successful owners employ competent people and are prepared to delegate and involve other people in the next phase of the business. They encourage new ideas and they ensure that change becomes part of the culture and that continuous improvement is part of the daily process," Bens says.

Bens believes many business owners place their business at risk by insisting on total control, which ultimately becomes a destructive force. Sharing control, he insists, is not the antithesis of strong leadership, but a mark of it.

"Owners who are willing to develop their own skills and the skills of their senior management team, who are willing to listen to advice, who encourage debate yet remain firm in their vision, these are the leaders who create a positive atmosphere, and best of all, they retain the top talent, the people who really want to be part of the company's success." •