OVERCOMING STAGE II S·T·A·L·L

PART 1

By Chuck Violand

Starting a business is easy. Every month, more than 500,000 are launched in North America. The tough part is sustaining profitable growth once your business moves beyond the start-up phase. Even more challenging is sustaining growth and profitability when your company moves beyond Stage I, typically defined as generating less than $1 million in annual revenue, and into Stage II, usually defined as generating between $1 million and $50 million in annual revenue.

While this is not a line drawn in the sand, it's at about Stage II when an owner realizes a lot has changed within his company and he can no longer do everything himself, nor can he keep running it the way he did in Stage I.

Borrowing a page from comedian Jeff Foxworthy, you might be a Stage II company if:

- People are doing jobs in your company that you have no idea how to do.
- Your guts feel the same way they did when you were a kid riding your bike down a hill faster than you had ever ridden before.
- You start to feel lonely as you realize the key people in your company look to you for leadership and direction before friendship or beers on a Friday night.
- You find yourself doing work and making decisions you never dreamed you would and for which you have little training—formal or informal.

WALKING INTO A BRICK WALL

Sometimes restoration companies are inadvertently thrown from Stage I into Stage II as a result of sales momentum, landing a large contract or weather events. Other times, their owners can muscle the company to Stage II through a combination of iron will, working insane hours or a seemingly bottomless reserve of adrenaline. But at some point, the weather events subside, the adrenaline runs out, or the owner's mind and body, or spouse, makes it clear that the pace can't be sustained. This is when a business owner realizes that what got him to this point isn't enough to take him where he wants to go. This is where small businesses typically encounter what I call "Stage II Stall."

While the causes of Stage II Stall aren't always easy to uncover, its symptoms are easily identified: sales growth slows to less than 1 percent per year for two years or more, declines for two years or more or "ping-pongs" back and forth for several years. A client of ours once described the process of trying to fix this problem on his own by saying, "We kept walking into a brick wall wanting it to be a door." While the door might have been there, the owner and his leadership team couldn't see it. Sometimes it just takes someone from outside the company to point out where the door is and then help open it.

Economic turbulence and market downturns may contribute to Stage II Stall, but they are rarely the cause. The impact these two factors have on businesses is usually short lived and the companies affected by them either rebound quickly or go out of business. Overwhelmingly we see it occur in companies run by smart, hard-working owners—decent people with noble intentions who want the best for their stakeholders, but who simply need assistance to free up the bottleneck.

All Stage II Stall isn't inherently bad or a predictor of imminent business failure. Sometimes it's just an indication of the company's natural rebalancing as it postures for future growth. It's when the symptoms persist for two or more years that you want to pay close attention before they cause unnecessary damage or throw the company into a dangerous decline.

The causes of Stage II Stall I want to address are by no means the only ones that exist. Rather they are four of the most common my colleagues and I have observed in our nearly 50 years of combined business consulting. They are:

- loss of focus,
- checking out,
- arrested professional growth and
- swollen ego.

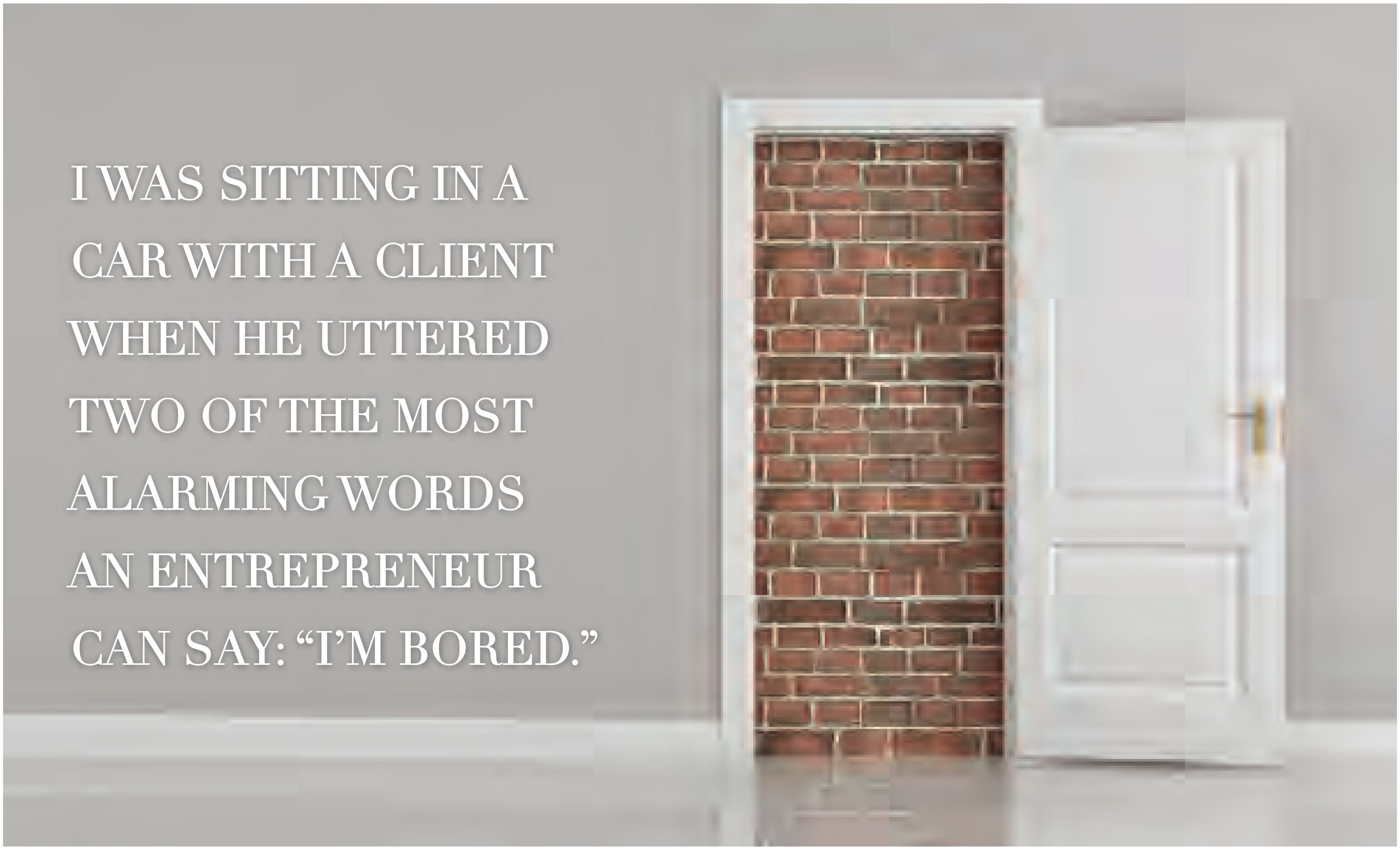
Most companies can survive the effects of one; it's when two or more causes exist simultaneously that serious, sometimes irretrievable, damage can occur. In this installment, I will discuss the first two causes. In the November/December issue, I will cover the final two.

CAUSE I: LOSS OF FOCUS

Business owners and their companies are *least* at risk during the start-up phase or when experiencing financial trouble. During the launch phase of a company, there's a lot of enthusiasm and passion. Everyone is focused on survival and growth. The same concept holds true when the company is experiencing financial difficulty. If you want to get an entrepreneur's attention, just mess with his money!

Things change when a company starts enjoying success. An experience with a client illustrates this. This company enjoyed several years of aggressive growth, strong profitability and healthy cash flow. They had grown from $1.5 million to $7 million in annual revenue in just four years. The team worked day and night handling the work that flooded in. Their energy was consumed maintaining the high level of quality their customers demanded, putting out operational fires and staffing front line and management positions in their rapidly growing company.

The owner of the company was engaging with unquestioned integrity; he is the kind of person everyone likes



and who easily gains the respect and loyalty of those around him, a key strength in Stage I and even more so in Stage II. Everyone had access to the owner when the company was small, but as it grew and managers were added to handle different divisions, he was no longer able to personally communicate his vision for the company to his employees.

While the company's strong CFO kept it operating from a budget, the rest of the strategic plan was weak and gave little attention to sales and marketing, organizational health or operations. Furthermore, the owner/CEO held the plan close to the vest.

Because of the owner's reluctance to share the strategic plan with his management team and to assign accountability for its execution, no one knew what their jobs were beyond daily to-do lists and extinguishing fires within their own divisions. The division managers worked on their own agendas with little regard for the needs of other divisions, sometimes even working in conflict with them. There was no common, long-term goal, no "flag on the hill" that everyone could see and work together to capture.

Unable to maintain the pace without a common objective and clear accountabilities, the company went into Stage II Stall. Fortunately we were able to identify the problem in time for them to turn things around.

The consequences of a company losing its focus may not be noticeable until the organization experiences increased speed, similar to what happens when the front end of a car is out of alignment. At lower speeds, it may go unnoticed except for a slight pull in the steering wheel; at high speeds, the effect can be pronounced. In extreme cases the driver may even lose control of the car.

When a business is misaligned and there is no clearly defined vision or long-term goals, its people—especially owners—are tempted to chase the next new thing that captures their fancy: geographic expansion, new service lines, shifting sales goals. Employees become confused when they don't know what's expected of them and morale slips as they become frustrated or disengaged. When a blurred focus keeps the target moving, people can't gain traction and performance is often sub-par.

This doesn't mean people aren't working hard or don't care. In the case of the company mentioned above, people were simply pulling in different directions. In extreme cases, this can become so frustrating for those who are motivated by growing and winning that they leave the company.

SOLUTIONS: REMEMBERING THE MISSION

The best place for a business owner to start when refocusing the company is to clarify *where* the company is going, *what* has to be done to get there and *who* is responsible for doing what to make sure it happens. Then he needs to write it down. Simply walking around expounding about dreams for the future of the business will not hold up when a non-producing employee who's being called on the carpet asks to see a copy of the goal in writing.

Burt Nanus, professor emeritus at the University of Southern California Marshall School of Business, makes some great points about the value of a company's vision. He states that a company's vision—and by extension its strategic plan—clarifies the purpose and direction of the company. They're ambitious, yet achievable. When they are articulated and easily understood, they inspire enthusiasm and encourage commitment. Perhaps most importantly, they "prevent people from being overwhelmed by immediate problems because they help distinguish what is truly important from what is merely interesting."

Having a written plan (vision) is only the starting point. Follow-through is where the real work takes place and where the results are delivered; this is especially true when things don't go according to plan, which they rarely do. This is also why it's so important to include your key people when drafting your plan. They help the CEO remain focused and the company moving toward its stated goals.

Finally, and perhaps most importantly, the company remains focused when the owner/CEO models the appropriate behaviors to keep the company focused on its long-term goals.

CAUSE II: CHECKING OUT

I was sitting in a car with a client waiting for the traffic light to change when he uttered two of the most alarming words an entrepreneur can say: "I'm bored." Instantly, I knew he was checking out.

Checking out is what happens when a business owner mentally disengages from his business. It is one of the surest ways to experience stall or decline in a company. So, if we know this to be the case, why do so many entrepreneurs put their companies and their own futures at risk by checking out?

Sometimes as businesses grow, the owners aren't sure what they are supposed to be doing. They are fine when the companies are small and their time is spent on jobs they understand or were trained to perform. But as companies grow, it's not uncommon for them to outgrow the owners' comfort zone. So they start to spend their days engaged in inconsequential activities, those they are either familiar with or comfortable doing, as the company struggles along without its leader. This may be described as "rearranging deck chairs on the Titanic."

Sometimes owners check out because they get bored, as was the case with this client. Many entrepreneurs are by nature high-energy people who constantly search for the next new thing. Inevitably, the excitement of their venture wears off, which leads to an overwhelming urge to find something new that rekindles their passion. The upside is that this generates new inventions and progress. The downside is that this flightiness is why many great ideas and business ventures never gain enough traction to become financially viable or to reach their promise.

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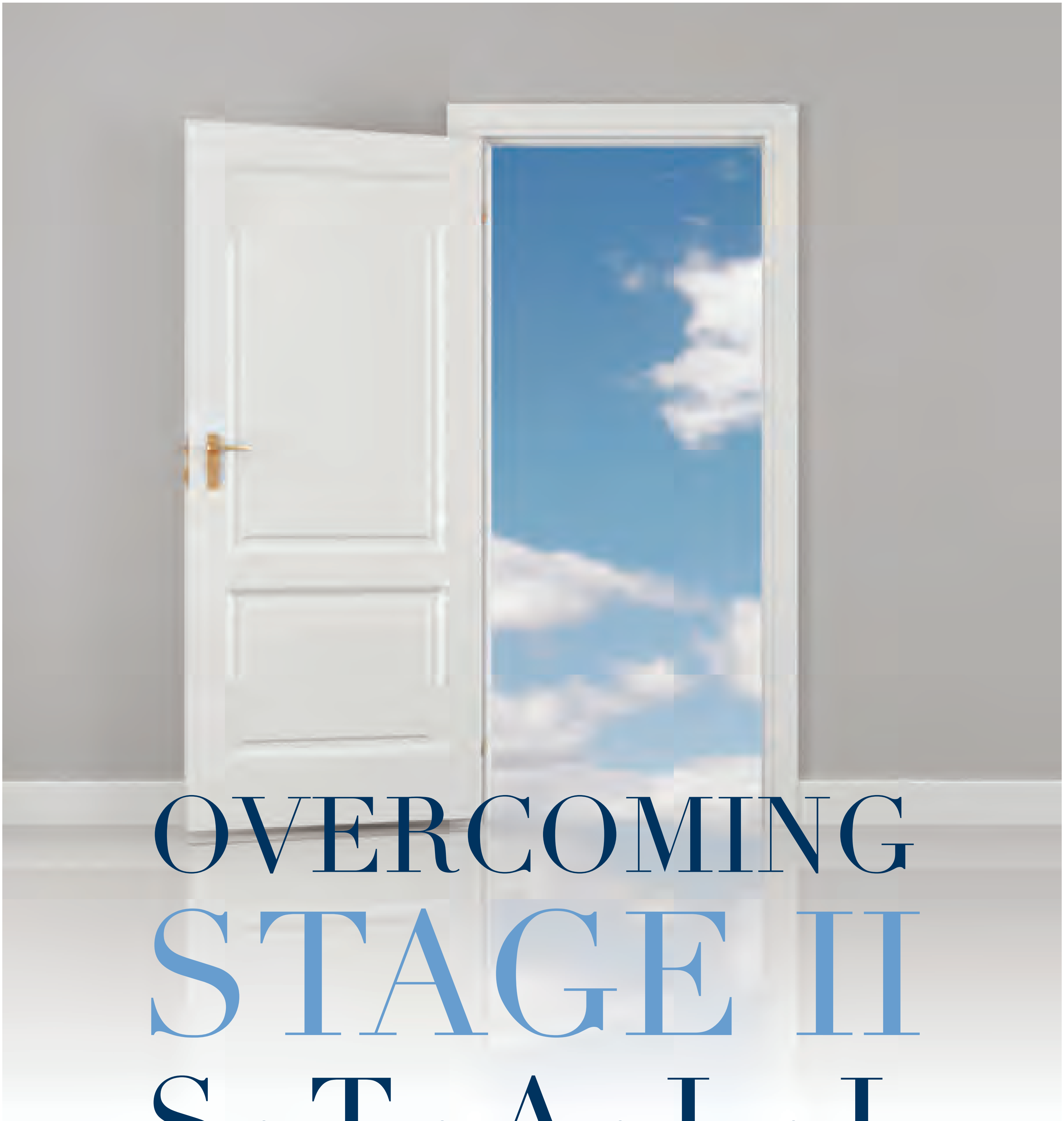
Finally, owners check out when they "go Hollywood," referring to a pursuit of the trappings of success.

Lee Iacocca, former chairman of Chrysler Corporation, accomplished what many consider to be one of the greatest turnarounds in business history when he led Chrysler back from the brink of bankruptcy in 1979. As with many companies, when Chrysler was looking over its own fiscal cliff at impending disaster, it was easy for its leaders to stay focused on what needed to be done *(see Cause #1: loss of focus.)* Then the company started to experience success.

That's when the chairman went Hollywood. We saw Iacocca grace the cover of *Time* not once but twice, pitch margarine, and even be considered a candidate for president of the United States. It didn't take long before we were once again reading about Chrysler's financial woes, which led Dr. Dieter Zetsche, one of Iacocca's successors, to later remark, "Every time we get successful, we get stupid."

When owners check out of their companies mentally or physically (or both), they weaken their decision-making mechanisms and their willingness to confront the tough issues that present themselves every day in business. While they may assign others to perform certain tasks and to deliver results, when push comes to shove, it's easy



OVERCOMING STAGE II S·T·A·L·L

PART 2

By Chuck Violand

Editor's note: To read the first installment of this article, visit *www.restorationindustry.org*

Starting a business is so easy that every month more than 500,000 are launched in North America. The tough part is sustaining profitable growth once your business moves beyond the start-up phase. Even more challenging is sustaining growth and profitability when your company moves beyond Stage I (typically defined as generating less than $1 million in annual revenue) and into Stage II (usually defined as generating between $1 million and $50 million in annual revenue).

Sadly, this transition is where many small business owners realize that the competitive strategies, management systems and leadership skills that helped them grow their companies in the formative years aren't enough to keep them growing as they get larger. This is where small businesses typically encounter what I call Stage II Stall.

In October, I covered two of the four reasons for Stage II Stall: loss of focus and checking out. In this issue, I will discuss the final two reasons, arrested professional growth and swollen ego.

CAUSE III: ARRESTED PROFESSIONAL GROWTH

"We demand discipline. We expect innovation. The lives of my teammates and the success of our mission depend on me. My training is never complete."

—from the Navy SEAL Creed

According to Navy SEAL combat veteran Brent Gleeson, becoming a Navy SEAL involves some of the most physically and mentally demanding training the United States military has to offer. You'd think that once you've completed this training and joined this elite group, you'd be home free. Instead, it only gets tougher. You quickly learn that you're just another new guy in an already well-established organization.

Only a fraction of the candidates who enter Navy SEAL training—the best of the best—complete it, and still they believe their training never ends.

The same principle holds true in any endeavor. Only a select few attain the ranks of the elite—be it the military, sports, the arts or business. Joining the elite is only the beginning; staying there requires growth and continual refinement of your skills. If you don't work to stay on top of your game, there's always someone faster, better, cheaper or just plain hungrier who's eager to take your place. It should come as no surprise that failing to continue your development as a leader can cause your business to stall.

In some cases, in spite of an owner's best efforts to keep up with his business, it outpaces him. This frequently happens in hyper-growth companies. In these situations, it's easy for the demands of the business to outstrip the skills of the owner. Because of the extreme rate of growth, the owner doesn't have time to learn the skills needed to continue leading his company. To avoid stall, owners often bring in highly talented managers from outside the company to drive their businesses forward.

At the other end of the spectrum, owners sometimes resist developing themselves as leaders because they fear the unknown. If they continue to develop themselves as leaders, what changes might this bring to their companies and what new and uncomfortable demands might this place on them as the owners?

When things are going well in your company, it's easy to convince yourself that you have all the answers and don't need to continue growing as a leader. Rather than exploring new ideas, investigating promising markets for your services or driving more efficient ways to deliver those services, you play the mental equivalent of solitaire. You play the same game over and over and settle for an occasional win. When this happens, it doesn't take long for competitors, market changes or technological advances to catch up and send companies into a stall.

People fear change. While this may not be a major factor when a company is young, it's not uncommon for it to occur as the business owner ages. The exhilaration felt from trying new things and rapid growth can sometimes

wane as you get older. As a result you may not be as willing to gamble the groceries on a new idea. In the later stages of business, you usually have more to protect or more to lose if your gamble doesn't pan out.

During a presentation Tim Hull and I do on mastering Stage II growth, we explore a concept Tim coined that is inherent in all small businesses: the short ladder. In large businesses, it's common for managers and executives to be motivated by "climbing the corporate ladder." In small businesses, the ladder is still there, but there usually aren't as many rungs to climb before you bump up against the owner. This situation can present challenges for small business owners.

Not everyone is driven to be the top person in an organization. Many prefer to be great sidemen, which can actually bring greater value to a business. At the same time, most competent people want to continue to learn, be part of a winning team and see their company succeed. It's this professional growth and the feeling of being part of a winning team that brings meaning and excitement to our jobs.

Great employees look for opportunities for professional growth. If those are limited because of a short ladder, and if candidates who sense the growth of the company won't provide enough opportunities to exercise their professional skills, they may pass on your company and opt for another where such possibilities exist.

Some employees will give their employer the benefit of the doubt and assume the growth of the *company* will compensate for the lack of growth on the part of the *owner*. Unfortunately this can be short-lived for two reasons: Failure to grow on the part of the owner can ultimately lead to stall in the company, thus limiting or eliminating the employee's opportunities for professional growth or advancement.

Secondly, owners who don't see the value in developing themselves frequently don't appreciate the value in developing their people beyond what's absolutely necessary to deliver rudimentary levels of service. You don't have to look too deeply to see how this can turn into a vicious, downward spiral of Stage II Stall brought on by the departure of top people. It's not a happy prospect for any company when you understand that business growth is facilitated through the engagement of talented people.

As with the two previous causes of Stage II Stall, arrested professional growth is avoidable. Surrounding yourself with competent people who are motivated and capable of challenging you is a great first step.

CAUSE IV: SWOLLEN EGO

Perhaps no story in history better demonstrates the tragic consequences of arrogance driven by a swollen ego as that of the murder of Julius Caesar. Caesar went to the forum on the Ides of March, apparently unaware he was to die there that day. But how could he not have known? A soothsayer warned him to "beware the Ides of March." There were signs any superstitious Roman would have recognized: an owl hooting during the day, a lion running through the streets. Even Caesar's loving wife, Calpurnia, begged him to stay home.

If all that wasn't enough, consider that Artemidorus, a teacher in Rome, wrote down the names of the conspirators and tried to give the note to Caesar—three times! The last time was just moments before Brutus and the boys attacked.

Caesar felt he was invincible and he paid for his arrogance with his life. While the story of Caesar is tragic, it's not unique. The corporate landscape is littered with the names of once-great business leaders whose careers were destroyed and their companies seriously compromised because they allowed their success to turn into arrogance.

Making decisions while under the influence of a swollen ego is like getting behind the wheel of a car when you're drunk. Your reasoning is clouded. While you may have convinced yourself that your decisions aren't being affected, everyone around you knows better. You put your company and yourself at great risk when making decisions that are distorted by your ego rather than basing them on informed data.

I call this "situational blindness," where business owners don't see situations as they are, but rather as they want them to be. They bend reality to fit their needs—in this case, their egos. They don't do their due diligence, they fail to consider the long-term consequences of their decisions or they simply ignore input from their chief advisors because they think they're above all that.

The good news is that, as Julius Caesar had, you have warning signs that your business and the decisions you are making are being overly influenced by an inflated ego.

Unfortunately, just like Caesar, the alarms are too often ignored. Oh, sure, you still go through the motions of asking people for their opinions, but everyone has learned to recognize this for what it really is—a thinly veiled attempt to have them nod their approval as they rubber-stamp the decisions you have already made.

So, now your company is hit with what might be called a double whammy. Not only are your business decisions being made blindly, but your best people lose motivation when they find their input is no longer valued. Rather than feeling like respected members of a vibrant team, they start to feel like voiceless cogs in a spinning wheel. It doesn't take long for them to begin searching for a place where their opinions matter.

Author Warren Bennis sums it up when he writes, "Authentic leaders, by contrast, don't have what people in the Middle East called 'tired ears.' Their egos are not so fragile that they are unable to bear the truth, however harsh—not because they are saints but because it is the surest way to succeed and survive." What business leader couldn't benefit from that kind of thinking?

MAKING DECISIONS WHILE UNDER THE INFLUENCE OF A SWOLLEN EGO IS LIKE GETTING BEHIND THE WHEEL OF A CAR WHEN YOU'RE DRUNK. YOUR REASONING IS CLOUDED.

RECAP AND RESOLUTION

The lucky ones in life are often reminded by the people who love them that it's "not all about you." While you may not like hearing it, you need that reminder from time to time. It helps you to stay grounded and to maintain perspective.

When it comes to your business, it's a little different, as in many ways it really *is* all about you. Your business is a reflection of who you are—your beliefs, talents, passions, even your ego. On a larger scale, it's about your ability to develop the disciplines you need to lead a growing company. As the demands of your business increase, the demands on your ability to lead increase as well.

When your company grows beyond Stage I and into Stage II, you usually have the technical end of what you do figured out pretty well. Otherwise you probably wouldn't have survived long enough to become a Stage II company. This is not to say there won't always be refining to be done: efficiencies to be gained, new markets to explore and industry trends to stay on top of. But overwhelmingly, the greatest challenges you will face will be driven by the behaviors of the people in your company—especially your own.

As leadership expert James Kouzes writes in *Business Leadership*, "How you lead your life is how people judge whether or not they want to put their own lives in your hands." Since many of the major contributors to Stage II Stall are really about the personal behaviors of the CEO, it's something completely within your own control.

In your efforts to lead your Stage II company forward, it isn't necessary to have fancy mission and vision statements hanging conspicuously throughout the office or pasted all over your website. It is important to have a clear sense of where you're headed—and you, and your employees, should be passionate about going there.

It isn't a requirement that you open the door to the store every day or deny yourself the rewards of your sacrifice and hard work, but it is important that your presence and commitment to the company is felt throughout the organization.

You don't always have to be the smartest guy in the company, nor should you be. But, you do have to demonstrate a commitment to learn and grow to better face the increasing demands of your growing company.

Finally, you don't have to possess the humility of Gandhi or Mother Teresa to succeed in business or in life, but you do need the self-awareness to recognize when your ego becomes an obstacle to your company's continued growth, rather than a contributor to it.

Society, economies and businesses have been evolving to the point where today the people who work for them pretty much do so on a voluntary basis. People no longer *have* to work for companies as much as they *choose* to work for them. At least that's the case with the talented, motivated people who want to make contributions and on whom you depend to grow your business.

One of the main challenges you face as leader of your company is being aware of the symptoms within yourself that can lead to Stage II Stall. Only then can you help your company avoid stall and achieve sustained Stage II growth. **RIA**

Chuck Violand is the founder of Violand Management Associates, a consulting firm that helps restoration and cleaning companies achieve sustained, profitable growth. He can be reached at cvioland@violand.com.

to back away from making the calls that need to be made when expectations aren't met. Instead there's a temptation to accept mediocre performance because the alternative—having to reengage with the company—is more undesirable than the lack of performance.

Just as important, when the owner of a small business checks out physically, the visionary who provided inspiration and direction is no longer around to provide guidance. This is one of the reasons so many companies suffer when the owner unexpectedly dies or is absent for unforeseen reasons. People look to leadership for direction.

Leadership expert Max De Pree, former chairman of Herman Miller Inc., addressed this point when he wrote, "Leaders are obligated to provide and maintain momentum. Momentum in a vital company is palpable. It is not abstract or mysterious. It is the feeling among a group of people that their lives and work are intertwined and moving toward a recognizable and legitimate goal. It begins with competent leadership and a management team strongly dedicated to aggressive managerial development and opportunities. This team's job is to provide an environment that allows momentum to gather."

Does this mean that to avoid Stage II Stall, the CEO has to show up every day and lord his presence over his people? Absolutely not! In a large organization or one with multiple locations, there's no way the CEO can be physically present everywhere every day. But there's no question that he can be present mentally and that his presence is felt. While there are never any guarantees in business, it is this mental engagement that helps to inoculate a company against Stage II Stall. RIA

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