The Entrepreneur's Guide to Managing Growth and Handling Crises

Theo J. van Dijk

Praeger
The Entrepreneur’s Guide to Managing Growth and Handling Crises
The Entrepreneur’s Guide to Managing Growth and Handling Crises

Theo J. van Dijk
We have met the enemy and he is us.
Walt Kelly
## Contents

_Acknowledgments_  ix

1. Impediments to Growth  1
2. What Needs to Change and Why  9
3. Common Failures of Post-entrepreneurial Businesses  53
4. Creating Order from Chaos  93
5. The Ones that Went Before: Some Successes and Failures  139
6. Conclusion  151

_Appendices_  155

A: The Early Part of a Company’s Life Cycle  155
B: Some Guidelines for Employing Consultants  156
C: Example of a Practical Cash-Flow Control System  157
D: Sample Job Descriptions  160
E: Recruiting a General Manager  162

_Bibliography_  167

_Index_  169
Acknowledgments

The many nameless but pretty essential and effective contributors to this, my first book, are without a doubt the entrepreneurs and their employees in the many industries and countries that I have been associated with. To them and to the ones I am currently still (in 2007) engaged with goes my supreme gratitude for being such a target-rich environment.

To my exceptionally gifted professional friends David and Ken Wright of Wright Consultancy, Dublin, Ireland, my great appreciation for recognizing that what I had been doing for the last twenty years or so was well worth writing about and, what is more, for reading the very first unedited version of the manuscript and nonetheless encouraging me to keep at it and with it. They were always available to share their penetrating views and sound ideas.

Another skilled professional friend and supporter, Vivian Byrne, Managing Director of CSA Ltd., Dublin, Ireland, also read the first unedited manuscript and helped me during many a one-to-one session with his unwavering enthusiasm and his razor-sharp insights.

Rien Smit, a once-upon-a-time colleague who did eventually find his niche as the Managing Director of Woningborg Advies b.v., the Netherlands, spent many years, much like me, helping SENIC businesses through their first major organizational crises. We often compared notes, swapped experiences, and sought each other’s long-distance remote support when the goings got really tough.

Rick Oates, Jr., Partner & Talent Scouting Specialist of Construction Group International, Tonawanda, New York, has helped me more than he will ever realize in finding the faith to trust that really important decisions are best left to our Lord and that we should concentrate instead on getting ourselves all snarled up with the little insignificant ones. His support and his zest for life were an inspiration to me during many a period of turmoil.

Stan Kopaskie, former Vice President of Birdair, Inc., Amherst, New York, who always impressed me with his calm, collected, take-me-as-I-am dressed-down manner, gave me much down-to-earth advice, taught me not to take myself so seriously, and, above all, imparted this wisdom: When the chips are down you follow your instinct.
Ian Stewart, Director of Genesys Systems Ltd., Dublin, Ireland, was an eager reader and critic of the second version and has incorporated some of the SENIC antidotes into Genesys’s approach to system implementations for growing entrepreneurial businesses.

Michel Meyerink, Managing Director of Mediaplosion b.v. and Websitesdirect b.v., and Eric Noordermeer, Managing Partner of Albion Network Technologies b.v, two Dutch entrepreneurs, read the first manuscript and gave me blunt feedback. It took me awhile to get over that, but thanks anyway guys!

My two smart and beautiful daughters, Judith and Nicole, both read the first version of the manuscript and gave me their frank judgments. Their subtle female tact in nudging me gently but firmly to reconsider some pretty “I told you so” statements was quite phenomenal. They are so much more intelligent than I am.

My sincere appreciation goes out to Jeff Olson of Praeger. Jeff looked at the first version of the manuscript, decided to take on the project, and gently but firmly led me to the second, much improved, version. Then, applying one of his own slogans—“when there is no path, make one”—he actively promoted the project and hit pay dirt. He made me review the whole project once again so it could be part of Praeger’s Entrepreneurs Guide Series. I agreed reluctantly—don’t forget I already had invested the better part of a year in this, my first writing project—but then with renewed enthusiasm and his continued encouragement rewrote, cut and pasted, and added more material until he was satisfied. Looking back, the first two versions were really rough and nowhere near as comprehensive as the final one you presently hold in your hands. Many thanks, Jeff. You patiently and skillfully helped me fulfill one of my more important missions in life.

To my wonderful wife, Bridget, I owe undying gratitude—and not really because she read every word of every version that was produced over a period of well over a year while giving me her honest opinion—but primarily for her continued support and the sometimes required push to keep me focused. The untold story of the glories and defeats, the frustrations and successes, and the restless travels of a husband who always wanted to experience another entrepreneurial environment, another culture on another continent during another assignment are no doubt carved in her heart. Often the trials and tribulations of the work day came home to be vented in the private atmosphere of yet another rented dwelling. To her must go the ultimate credit of this book, for sticking with a husband, who after 38 years of marriage is still “a work in progress” and has so many dreams and missions that are yet to be conquered.

Eternal gratitude is reserved for my Heavenly Father, who determined that fateful evening on the May 2, 1993, in Riyadh, Saudi Arabia, that my mission on earth was not even close to completion and that I had to stick around a while longer until it was. Maybe this book is a tiny token of my gratitude to Him for giving me a second chance.
Impediments to Growth

The time has come for action—but what action?
General Franz Halder, Chief of the German General Staff (1938–1942)

You are to be congratulated! To reach the stage where your venture has survived the exciting start-up years is quite a feat. The company mortality rate for the early entrepreneurial phase is extremely high, especially during the first year. Few infant firms survive the first creative period of growth. Allow yourself a quick look back and be proud that you made it! It was tough but fun. You were in sole charge and in full control, making those vital instant key decisions and enjoying it! There were plenty of hurdles along the way but you overcame them all. Personal drive and perseverance—not to mention your trusted and dedicated team of employees—made it all possible. Your quest to grow the business and be even more successful and even more profitable appears to be well on track.

That’s why your first crisis comes as quite a shock—not to mention the impact on your bank balance and already overstretched resources. What’s more, this crisis always appears to happen at the very moment when you thought you were slipping and sliding smoothly into the senior leagues!

This book is about how a successful entrepreneur can better face the next major challenge. Greiner (1972) called this follow-on period from the entrepreneurial phase “the first revolutionary crisis.” This phrase often describes the transition period from entrepreneur to owner-manager, because the skills to be the “creator” and the skills to be the “leader or developer” are often mutually exclusive.

A lot has been written about entrepreneurs. We have all read one or more of the rags-to-riches stories. Similarly, at the other end of the spectrum, the literature on management in large and multinational companies is almost exhaustive. But the challenging and often lengthy periods between these two extremes are seldom the subject of consideration. In particular, little has been said or written about the first revolutionary crisis. Even less has been written about the phase that comes after that, SENIC Businesses. This, then, is the subject of this book: the transition of the
entrepreneurial phase via the first revolutionary crisis to the next phase, called the direction or autonomy phase.

Products and markets play an important role during this transition. But the make-or-break factors during this often extremely turbulent period are the behavior and characteristics of the entrepreneur, sometimes even the entrepreneur’s family, the employees, and (if already brought on board), a general manager. They all play a role in what I call the SENIC business: Still Evolving, Now In Crisis.

A SENIC business is one that has more or less survived the exciting but anxious start-up years. SENIC businesses are still owned almost exclusively by the entrepreneur(s). But knowingly or unknowingly to all participants and bystanders, the entrepreneurial years have come to an end and the first organizational crisis has taken root. It has to be dealt with. Survival is once again at stake!

When and how entrepreneurial businesses reach this turbulent SENIC phase on the timeline of their overall lifespan is not really very important, in my opinion. Some businesses get there fast; others might take many years or sometimes even a few generations. It all depends and depended on the drive and ambition of the current entrepreneur. Take, for example, the corner shop where past generations have scratched a reasonable living, but then the fourth generation becomes ambitious (lucky, some would say) and decides to buy another corner shop, and another one and so on. The start-up phase of the business in this example has long since passed. But the point is that in the life cycle of this particular business, the first revolutionary crisis will probably be reached during the fourth generation. When incremental growth in turnover and staffing reaches a specific but difficult-to-predetermine level, the crisis will strike unannounced.

Considerable and sometimes critical changes are now required to give the newly arrived SENIC business a better-than-even chance during the next evolutionary period. This realization alone is a difficult notion to swallow for any entrepreneur and existing team. As an entrepreneur, you are not the most humble and patient of individual and your personally picked team of employees soon grasps that what is required is not necessarily in their favor and often not to their liking.

This is not a book on middle management in multinationals or top management in large or multinational organizations. This is a book on the circumstances that often exist in SENIC businesses after the initial entrepreneurial phase has run its course. Thus it is a guide to entrepreneurs and their staffs to enlighten, inform, and prepare them for the next phase. The first organizational crisis will not evaporate by itself. Action of some type or other is required.
THE CONTRIBUTION OF SENIC BUSINESSES

Surviving the entrepreneurial stage is important to the national economy, yet is often not spoken about, recognized, or published. Yet SENIC businesses are responsible for over 50 percent of all employment and, depending on which country they are in, contribute between 50 to 75 percent of gross national product. Therefore, it is somewhat surprising that not more attention is paid to SENIC companies in the business literature. Most of the publicity and attention, particularly of the popular press and the academic fraternity, seem to be focused on the very large, multinational companies. Since little is said and even less is written about businesses of the SENIC variety, even though the majority of employees in the Western world—probably in the whole world—work for this type of business, I like to think that what is described in my book is what it’s really like out there. So even if you are not an entrepreneur but work for an entrepreneurial company, you might recognize some of the issues described in the following chapters.

The businesses that have survived the creative start-up period have gained a measure of respectability, a client base, and some of the characteristics of an established organization. The entrepreneur’s family is starting to show an interest as well. There is something to be divided! As an old Irish saying goes, “Where there’s a will there’s a relative.”

The SENIC business’s senior management—let’s not refer to it as a management team as yet—tends to be made up of extremely loyal and hard-working employees. They are honorary members of the family, but with no voting rights, of course.

These and other employees of our SENIC businesses are often still stuck in a time warp, say the early seventeenth century, being treated practically like captive slaves to the greater glory of the entrepreneur. They are probably not aware of it.

SENIC All the Way

My own association with SENIC businesses spans three continents over the last twenty-odd years. I was usually the first professionally educated manager, if you like, that entered the playing field in order to prepare the organization for the next growth phase, whatever that was supposed to be.

Over the last twenty-odd years, I’ve worked with many entrepreneurs experiencing many problems. Sometimes the company had gotten into a hole that had been merrily dug deeper and deeper until it defied all normal logic of market dynamics and rational decision making. Sometimes, the situation was so badly out of control that you wondered why there were still any customers left. Perhaps you’ve seen similar situations:

- The entrepreneur who worked day and night with his faithful band of brothers but, unfortunately, the original idea did not seem to carry the business anymore.
The company that had developed contempt for customers: "Hey, they want it on time as well? What's the matter with these customers? Can't they see we are doing our best?"

The over-generous entrepreneur whose most trusted and loyal employees were not really very capable as senior managers. They had fallen upstairs into the "Peter Principle" bucket.³

The extremely suspicious entrepreneur who thought that budgeting was only meant for control so that you "could find out how the SOBs were spending your money."

The entrepreneur who didn't realize that if you gave people responsibility, you also had to seriously consider giving them—I know it hurts—authority.

The inconsistent head-in-the-clouds entrepreneur who believed that creating chaotic situations was not the same as living in a dynamic environment.

The overworked and completely stressed-out entrepreneurs who feel that fire fighting with leaking buckets can be fun and extremely satisfying, but don't realize that it's not necessarily productive.

The entrepreneur with an engineering background who believed that standardization in machinery, tools, and equipment was a supplier's plot rather than a method to make the business run more smoothly when it came to engineering and maintenance (see Time Out 1.1).

The many entrepreneurs who believed their nieces and nephews, perhaps recently graduated from college, were well suited for a senior position in their organizations.

The large number of entrepreneurs who believed that accountants and lawyers always give sound business advice, and who might not understand that these advisors were possibly in there for the money.

The overly headstrong entrepreneur who took everyone to court who disagreed with him, and who didn't realize that accountants charge by the hour.

The fully matured Scrooge-type entrepreneur who expounded that "You could never trust employees because all they did was spend your money while you were trying to make it."

The somewhat "stuck in a rut" entrepreneur who confused "twenty years experience" with "one year experience twenty times over."⁴

The impatient entrepreneur who believed (to be fair, not without grounds) that ISO 9002 is a system that you can buy off the shelf.

The not-so-streetwise entrepreneurs who were probably well aware of the distinction between tax avoidance and tax evasion, but maybe not the behaviors required!

**Changes Are Afoot**

We can all relate to some of the entrepreneurial experiences described. Successful entrepreneurs have not achieved post-entrepreneurial conditions by sitting back and letting others tell them what to do. However, what the examples illustrate are the symptoms that are part of the SENIC condition.
Treating the symptoms does not eliminate the root cause. If the cause of the problem is not addressed, it will reoccur and (in accordance with Murphy’s Law) probably be even worse than before. Often the very essence of the working environment so cherished by the entrepreneur and his employees needs to be transformed. Thus, reading between the lines so far, you can no doubt pick out some of the most acute impediments to growth, namely:

- the lack of an effective organization
- no real delegation of authorities and responsibilities
- the lack of formal systems
- lack of a proper definition of customers

These issues may sound too simple to be the problem, and that is exactly why a lot of entrepreneurs are tripped up. Thus remember, the difficulty is
not the identification of the problem. The challenge lies in the execution of the detail. You don’t just wave a magic wand and introduce authority and responsibility to your staff. It’s a long and arduous learning process. Also, the chances are that the employees of the first hour are often not suited for some of the management tasks ahead.

Then there is the really curious question, “Who exactly are our customers?” Nothing is more difficult for an entrepreneur than to say “no” to what appears to be a potential customer but, believe you me, you can’t satisfy them all. In contrast, sometimes the original, successful product formula needs to be adjusted to appeal to a wider, well-defined customer base. One thing is for certain: your company needs to change and you, the entrepreneur, need to change with it.

**Success Is Not Guaranteed**

Some SENIC businesses will continue to be very successful despite the problems. Others survive but are badly bruised by the SENIC experience. Some do not survive at all. In hindsight it is always easy to deliberate why successes were booked and failures were experienced. After a success or failure, all the experts can tell you why certain things worked and others didn’t.

That’s not to say failure isn’t useful. We learn as much from some of the failures as we do from the successes. But most entrepreneurs do not have the luxury of getting it totally wrong first time. The chances of cruising effortlessly through the SENIC phase are slim. After all, the survival statistics of entrepreneurial businesses don’t lie. In a special report on family business and chances of survival, the *Economist* stated,

> But in reality, very large numbers fail to make the leap. Only a third of businesses successfully make the transition from each generation to the next, says Mr. Astrachan—“and that figure has been very stable, and is true around the globe.” The majority are either sold or wound up after the founder’s death. Some studies suggest that only 5% of family firms are still creating shareholder value beyond the third generation.

Whether the generation leap triggers the first organizational crisis or other factors are responsible for it, arrive it will. So to reiterate, this is really a book about post-entrepreneurial businesses that have hit difficulties due to growth or have run out of steam. The main object of this book is to help entrepreneurs get beyond this SENIC phase and confidently enter a planned period of sustainable growth, in other words, to enhance your chances of success.

**People Power**

One thing this book can’t do is give entrepreneurs instant advice on how to get more customers in a decreasing market, how to improve quality without considerable effort, or how to enhance logistics on a shoestring.
What this book can do is to help all the parties involved in SENIC businesses understand the very basic notion behind all organizational principles, which was so well put by Henry Ford in 1944: "You can take my factories, burn my buildings, but give me my people and I will build the business right back again."8

**Ground Rules**

All the examples given in the book are real, however bizarre they might sound, and often relate to my own experiences. If they are not incorporated in the text, then they are offered as short stories of the "It Couldn’t Happen to You—or Could It?" variety. In short I will refer to these as *Time Outs*, as illustrated previously in Time Out 1.1. *Time Outs* do not form part of the main text. They are presented as independent anecdotes to illustrate a point or relate to an experience. Often they also present the light-hearted side of SENIC, but nevertheless with real consequences. Just because it’s funny doesn’t mean it was right or effective!

In order to protect the people involved and also, naturally, to keep the lawyers at bay, countries, business names, and names of owners and employees are disguised unless specifically referenced. That’s the advantage of having worked in so many countries in a variety of industries. So if you as an entrepreneur or business owner or employee recognize yourself in the text, it is purely coincidental. The relevant text, without fail, will not, repeat *not*, refer to the SENIC business or circumstances that you are thinking about. Rather they refer to another business struggling and fighting with the same problems under similar circumstances in a faraway marketplace in one of those "foreign countries."

You’ll find, after every section, the main points summarized. They are termed **Fouls** or **Free Throws**. Fouls are actions that can be avoided, but that will be penalized in the marketplace when they are not avoided. Free throws are just that—preemptive actions made without competitive pressure that can make the life of an entrepreneur so much easier.

The book also has some references to sport. In my opinion, business is like a game that needs to be played and enjoyed by all parties involved. Don’t forget the "rule breakers" are often new businesses and the "rule makers" are the existing players desperately trying to protect their turf in the name of customer concerns, industry standards, or some other pretense often concocted by the lawyers or, even worse, government officials influenced by the industry leaders. Entrepreneurs and new businesses are the lifeblood of a free-market economy. Some of them will grow into the multinationals of the future because the existing multinationals will have run out of steam. If you don’t believe that, look at the *Fortune* 500 of fifty years ago and see how many companies on that list are still active today. Not unlike products, organizations have life cycles, too.

So enjoy this book and take heed of the observations and implications. As I have always said, without fail, to all the players in every SENIC
business that I had the pleasure to be associated with, “Never mind all that, the best is yet to come.”

NOTES


3. The Peter Principle, based on a book by Dr. Lawrence J. Peter and Raymond Hull (1969), says that everyone gets promoted to his level of incompetence.

4. Passed along to me by Tony Factor, one of the most successful businessmen in South Africa during the 1980s and 1990s. He was dyslexic and used to encourage his staff by saying, “If I can do this, and I cannot read or write, then you can do it.”

5. The distinction between entrepreneurial business and family business is somewhat blurred. However, consider that the majority of entrepreneurial businesses are family businesses. When an entrepreneurial business can be described as a family business is probably a moot point.

6. Joe Astrachan, Cox Family Enterprise Center, Kennesaw State University, Georgia, USA.


What Needs to Change and Why

Entrepreneur: Do I have to change, too?
Answer: Yes, that’s the price of progress.

INTRODUCTION

Question: What are we playing?
Entrepreneur: Who cares—keep playing!

The creative period must seem a long time ago for any entrepreneur and his employees when the first revolutionary crisis hits them, sometimes without too much warning. The exhilarating days of creativity, long fruitful hours, and companionship appear to be a distant memory. And what’s more, they are alas of little use to the current state of play.

SENIC Arrival

The inevitable crisis is a first but vital step on the challenging road to a company’s future development. “No pain, no gain,” so to speak. Naturally, in my experience, for each business this first crisis takes on a unique style and spans a different time frame. Gradual or sudden, induced or natural, kick or push started, it doesn’t really matter. What matters is that the by-now SENIC organization (remember, Still Evolving, Now in Crisis) has achieved some measure of success, by hook or by crook, by design or luck, by hard plodding or dream walking, or any other way you can think of. In marketing speak, the business has created, or is filling, a significant need in the marketplace. Customers are buying its products or services. What’s even more useful, they are paying for them!

Small businesses, such as the corner shop, the local tradesman, the local garage, and so forth, are examples of ongoing small organizations that are run, almost exclusively, by entrepreneurs or owner-managers. But the SENIC organizations that I am talking about have grown beyond the small businesses that fill local needs in well-defined niches for a limited geographical market.