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Palm Springs Convention Highlights

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The Five Stages of Business

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These five functions must be controlled no matter where a company may be:

- Leadership & Ownership
- Marketing, Sales & Estimating
- Production
- Finance & Administration
- Employee development

Editor's Note: This article is based on the presentation given by Mark Labourdette and Gregory Neil at the RIA Convention in Palm Springs.

The theory is that all companies, regardless of product or market, pass through the same predictable five stages of growth as they move from the entrepreneurial state to organizational maturity. This theory is valid where growth is defined as an increase in organizational size and complexity.

The Benefits of Growth

No matter what level a company is at, there are some good reasons for growth: to provide a future path of opportunity for employee security, allow for sharing in owner's responsibilities, and the potential for the owner to have more freedom.

Some owners choose not to grow for the wrong reasons. They associate growth with an increase in stress because they don't know how to grow without it being a painful process. Hence the saying, "businesses grow to their own level of incompetence."

That might have been true 20 or 30 years ago, but today there are many resources available. The purpose of this article is to help identify what stage a business is at, to learn what steps can be taken to be more successful at that stage, and how to move up to the next one.

Stage One

In a Stage One company the owner does everything. If there is one job at a time — the owner sells it, estimates it and is personally involved in getting the work done. The business is very lean and efficient. Work is typically done with no employees and one or two helpers. The office is in the home; bookkeeping is cash based; marketing is done as needed; and contracts are simple, often time and materials.

The dangers at this stage include: competing on price against tremendous competition; cash flow ebbs and flows to match the sporadic marketing efforts; there is very little in cash reserves; and the owner is typically working way more than 40 hours a week.

Success comes with ensuring complete customer satisfaction; achieving GP margin to protect profitability; and developing systematic habits and good time management. Only the strong survive to push on from here.

Stage Two

Stage Two is an important, challenging and critical stage where the owner moves from being the chief technician to hiring employees. The sales volume grows faster than profit margins. Separation of overhead and job costing begins, with job cost estimate to actual reporting. Accounting moves to accrual-based bookkeeping and standard documentation for contracts, project management and invoices is established.

Building systems that create some order and a business identity, "this is how we do it here," are implemented. Results are no longer dependent on what the owner can personally accomplish, but what the owner can accomplish through employees. How employees are managed determines whether one gets their best effort or business as usual. Set up job descriptions to determine each person's accountabilities with built-in benchmarks. Set up weekly meetings to support team reports.

This is a critical point for determining whether the owner remains as the driving force for the business — or begins to build systems and practices to place employees in the driver's seat.

Dangers at this stage: Fearing loss of control as one starts to delegate to employees; owners step back in and do it for them or micro-manage how they get it done. The owner is now putting in "extra time" to build new procedures and train employees; but overhead creeps up as gross profit creeps down.

Success looks like: Employees clearly understand what their accountabilities and goals are; production crew shows reliability in producing work; and sales demonstrates the ability to close new business.

Stage Three

In Stage Three a company incorporates; often has multiple jobs going at one time; and the quality and complexity of information increases. The owner learns leadership and management skills, while employees become the driving force of the business. They solve problems; begin planning for one to two years out; their practices for the capture and delivery of information at meetings improves dramatically; and job cost controls are tied to standardized estimating. The owner creates a management team with one person from each division.

The results from national surveys over the last 25 years show employees are asking for more recognition, more acknowledgement, and more responsibility and accountability.

Dangers at this stage: The owner is micro-managing or commanding and controlling, which creates employees who are afraid to think for themselves and underutilizes their capacity. Benchmarks are not dialed in to support company success and growth, with the owner and key managers unskilled in inspiring leadership and coaching employees, expensive mistakes can force the company to regress back to an earlier stage.

Success looks like: The teams solidify and the owner trusts office/finance, production, sales/marketing teams to get the job done. There is cross training, leadership, and mutual accountability with employees who show signs of the company's successful company culture. The owner is successful at coaching employees to give their best effort. Benchmarks are set to challenge the growth of employees individually and are consistent with the company's vision and direction. In team meetings employees move from reporting on what happened to solving problems and making promises for what will happen in the next week. Management team does Strengths, Weakness, Opportunities and Threats (SWOT) planning for the next one to three years. The company has a full benefits package and complete employee manual.

Overview of all the 5 Stages

- **Stage 1:**
  The owner moves all the pieces.
- **Stage 2:**
  The owner continues to move most of the pieces, but learns patterns of game success and begins to delegate.
- **Stage 3:**
  The owner develops a manual of play and coaches employees to move the pieces; employees begin to become self-managing and self-generating.
- **Stage 4:**
  The owner trains, coaches and mentors team performance to be the driving force of the business.
- **Stage 5:**
  The owner lines up championship games challenging team's performance, team vision, and team's strategies for success.

Stage Four

A Stage Four company operates independent of the owner. Sales are successful independent from the owner; key managers are good at strategic thinking and financial analysis; multiple jobs demand multiple marketing channels; and the management team and key managers become the driving force of the

The Success Equation — Measure these at every stage:

- Customer Satisfaction
- Net and Gross Profit
- Key Employee retention
- Sold and Produced volume

company. The owner is not needed for daily operations as his or her primary function is coaching and inspiring employees to succeed. Team planning is critical to success. An annual review of last year's outcomes drives the fine tuning for next year's planning and revised performance measures.

Dangers at this stage: Owner does not trust the ability and alignment of the "new" management to handle daily operations and planning to achieve the company vision. The sales force does not produce predictable results independent of the owner; the business is slow to take on an identity independent of the owner, sometimes the owner's "entrepreneurial" personality is at odds with the new management. The "hungry mouths" syndrome requires the business to function as a well-oiled machine at all times.

Success looks like: The owner is coaching and inspiring the successful leadership of all middle management; the sales team solidifies to produce predictable results; margins, schedules and profits are stable; the owner can take more than two weeks off at a time, and everything works.

Stage Five

By the time a company reaches Stage Five there are multiple jobs, multiple employees spread through several departments, and many clients who are unknown to the owner. Success requires cross training between divisions for maximum efficiency; and the need for those who are planning and executing to inform each other of what is going on regularly. The owner only works on enhancing the business through team building, training retreats, coaching and mentoring key staff with "performance challenges." Management should be successful at aligning all of the systems and practices, cross-company training, strategic planning, and execution and clarity of the vision.

Danger at this stage: Premature owner disengagement; unstable middle management; unknown or unclear direction, mission and vision; lose track of the values that got the company to this point; poorly conceived performance measurements; information overload and bad data; meetings that last hours due to handling too much detail.

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Success looks like: The ability for the owner to sell the company or remove himself from any active participation; the company has significant value independent from the owner; there are mature middle management and executive management teams; a clearly developed "career ladder" providing opportunities for all employees; predictable profits produced and managed by teams and senior management; and a depth in management so that no single employee can endanger the company functions.

A company can run successfully at any stage provided the owner:

- Knows what he/she needs personally and financially from each person.
- Concentrates on doing what he/she is good at and does more of it.
- Places the right people in the right positions.
- Coaches and mentors their success.

Overview for all Stages

Strong companies do not happen overnight. They are created and then nurtured through their different stages. However, proper planning will help to make the transition from one level to the next a little smoother. Owners should keep in mind that:

- Different measures are developed appropriate for each stage and each level of accountability.
- The complexity of the information increases through the five stages.
- The detail seen by the owner and senior mangers decreases through the five stages.
- The management of the information is delegated to all key employees as the company grows. ■

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