A
Special
Report
For Entrepreneurs

Building a 21st Century Company

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Contents

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About Lanny Goodman

President,
Management Technologies Inc.

Hundreds of entrepreneurs have told Lanny, "I've built a great balance sheet, but I lost my life somewhere along the way." Over more than twenty-five years of development and testing, Lanny has created a methodology with which entrepreneurs can regain control of their lives and fuel the growth and financial strength of their companies. He helps them break the fire fighting habit and start living and leading intentionally.

Since 1980, CEO's and senior managers of an extraordinarily wide variety of businesses both large and small have consulted Lanny. His passion and focus, however, is the entrepreneur and his or her company.

Lanny began his career by starting, building and selling two successful manufacturing businesses. Having experienced first hand the triumphs and trials of entrepreneurship, he found himself drawn to helping other entrepreneurs lead richer, fuller lives and build healthier relationships with their companies.

Lanny holds a BA in Fine Arts and an MBA in Financial Management. This unusual combination of disciplines and perspectives makes Lanny uniquely qualified to help entrepreneurs with the most abstract and complex work of leading a business – strategic planning.

A dynamic speaker, Lanny has presented at sixteen Inc. Magazine national conferences including five Inc. 500 conferences. Lanny has also presented to more than one hundred fifty groups of CEOs for Vistage (formerly The Executive Committee, or TEC), a national network of support groups for CEO's, as well as a wide variety of trade association national conferences.

In 1998, Lanny's work was highlighted in two feature articles in Inc. Magazine and he has been a regular resource for them since. He has also been quoted in Fortune Small Business, the New York Times and many other media.

Introduction

The three sections in this report are designed to familiarize you with a powerful set of methodologies for transforming a business from reactive to strategic and one that highly leverages its people. It is of necessity a brief overview to a complex subject and is best seen as a template for approaching the work. The details of how to implement these ideas will be different for every company.

Many entrepreneurs have no experience working with a strategic planning consultant, so in Part One I've included a section on establishing and managing a relationship with a consultant.

In Part Two I've presented strategic planning is a process, the engine for driving change. In Part Three, building a self-managing company is, optionally, the content of the planning effort.

If you have further questions or would like more information with no obligation, please feel free to call me at 800-523-1002 or write lanny@lannygoodman.com.

part

one

Working With A Strategic Planning Consultant

Why work with a management consultant? After all, "Those who can, do. Those who can't, teach." Besides, they're expensive; they just do a lot of analysis, write reports, make recommendations, but never stick around for the *real* work. Right?

Why Bring in a Strategic Planning Consultant?

A lot of consultants work like that, particularly from the big firms. But it doesn't have to be that way. When you are trying to make improvements in your company, there are compelling reasons for bringing in a qualified consultant.

Bandwidth CEOs are notoriously short of time and bandwidth, particularly if the company isn't functioning optimally. Finding extra time to design, manage, and facilitate a significant organizational change is often impossible. By contrast, the consultant has no competing operating responsibilities and his or her sole job is to help you transform your company into something better, stronger, and healthier than it has been.

Expertise Entrepreneurs are typically experts at the services and products the deliver to customers, and if their companies are growing, they are frequently facing challenges and situations they've never encountered before.

By contrast, a qualified strategic planning consultant brings a depth of expertise around a specific set of processes, which he or she has applied in many other companies, and has seen a wide variety of issues surface when a company begins to go through a strategic transition. The consultant is also likely to have strong interpersonal facilitation skills to deal with the unexpected personnel issues that can crop up.

Perspective The CEO is in the game every day. The consultant comes to the company unburdened with the company's history, cultural assumptions and political considerations. This objectivity is an important resource to the CEO and the management team, just as a coach can see things from the sidelines that the quarterback may not be able to see from the field.

In addition, the old saying, "No man is a prophet in his own country" applies even to CEOs. A qualified consultant can validate the CEOs change message and lend credibility to the initiatives that are being undertaken.

Opportunity Cost A good consultant will not come cheap, but it is also important to consider the opportunity cost of the CEO trying to facilitate a major organizational change without help. Chances are good the CEO's bandwidth, if applied to continuing to support company growth, will produce far more profit than the cost of the consultant.

Efficiency With years of experience, a clear sense of what needs to be done, and the bandwidth to invest in the project, a qualified consultant will likely speed up the change process by months if not years, which means the benefits of the work will accrue that much faster. Bigger benefit faster translates into cost savings and opportunities taken advantage of, which means the consultant will pay for him or herself fairly quickly.

Finding a Consultant

Finding a qualified consultant can take a bit of work, but isn't difficult. There are three basic approaches:

1. **Conferences** – venues like the Inc. 500 conference, and trade association annual meetings will usually have workshops and presentations by a wide variety of consultants in various fields. In fact, they are usually organized more like smorgasbords where you can get a little taste of a lot of things rather than an in-depth exploration of any one consultant's message. However, it will give you a feel for the person's approach. Talk to him or her after their session and schedule a time to talk on the phone or, even better, find some time at the conference to sit down together and talk.
2. **Ask your colleagues** - In your trade association, CEO support group (e.g. TEC, YPO, YEO), charitable or service groups, or casual acquaintances with other business people, there will be CEOs who have used consultants and can make a referral.
3. **Referral organizations** – There are a number of organizations that either publish directories or more directly put consultants and companies together. For example, Kennedy Information (kennedyinfo.com) publishes a directory of management consultants.

Hiring a Consultant

A relationship with a consultant is an intimate one. He or she will be working very closely with the CEO and management team. There won't be many secrets. A consultant can create a lot of turmoil if he or she is not competent, has poor judgment, or misuses the power and influence given him or her by the CEO and the management team.

Once you've identified some prospective resources, you need to decide who will be best for you. The key criteria you should look for are:

1. **Experience** – How many similar projects has the person done?
2. **Industry experience** – This is a question I hear a great deal. There are some types of projects where industry experience is necessary, such as a marketing analysis where you don't want to have to pay a consultant to get up the learning curve for your industry. Processes like strategic planning, however, are not industry dependent. How processes get applied will vary from company to company, but that would be true even for firms in the same business. In fact, having broad business experience is an asset in that the consultant will often have useful insights from other types of business.
3. **References** – You will definitely want to check references. High on the list of questions should be responsiveness and accessibility. Often issues come up that require relatively immediate feedback.
4. **Cost** – Some types of projects lend themselves to clearly defined costs, others do not. Be careful about going with the lowest bidder. You will likely get what you pay for. By the same token, understand if you hire someone from a big firm, you are paying for that high-rise office and the senior partner salaries. If you are doing an IPO then going with the big boys is probably essential, but for many other types of consulting projects you'll get much better value working with a small firm or solo practitioner.

The best way to hire a consultant is to start with a smaller specific project so you and the consultant can get to know each other better, and determine if the match is a good one. Work with the consultant to define a piece of work with a flat fee such that even if you don't go forward with the relationship you will feel like you got at least reasonable value from the work that got done.

Managing the Relationship

The first and most important work with the consultant should be the definition of scope of work and timetable. You know what you want, but you may not know what you need. On the one hand, that's what you're paying the consultant to tell you. On the other, it's your company and you must never abdicate decision making to your consultant. He or she will not have to live with the consequences of your decisions nearly to the same extent you will. Consultants often have strong personalities, opinions, and persuasive communication skills. This does not mean they expect you to let them make your decisions. Some consultants may, but I am very clear with my clients that the final decisions must always be theirs.

Generally the consultant should be expected to bring a project methodology to the table and should, from his or her experience, be able to define the costs fairly accurately. Bear in mind that consultants will likely need access to and cooperation from your employees, which may or may not be forthcoming adding both time and cost.

There are pros and cons for both flat fee and time and materials relationships. My experience is that the flat fee is a much better way to work. The primary reason is it doesn't serve you well to create a structural inhibition to utilizing your consultant. For example, when you call your lawyer, you know the meter kicks on the minute he or she picks up the phone and you're going to get a bill, probably in six-minute increments. With that kind of relationship, you learn pretty quickly to stop before you pick up the phone and ask yourself the question, "Is getting his or her opinion on this matter really worth the $____ it's going to cost me?"

That may be fine for a lawyer, but for a management consultant, it isn't healthy. You need access to that person and I've found the best arrangement is, if it is a large, potentially multi-year relationship (as strategic planning projects often are), to identify a scope of work and flat fee for the year, divide by twelve, and establish a retainer for that amount. This gives both of you predictable cash flow and when you need to call, you won't hesitate to get the benefit of your consultant's counsel.

This kind of relationship also requires considerable trust on both sides: the consultant will put in the level of effort you're paying for, and from the consultant's side, you are going to honor the scope of work agreed to. With my clients I have an agreement to take a look at things after about six months to see if the retainer needs adjusting up or down. When I establish this kind of relationship with a client, it is much easier to just do what needs to be done when it needs to be done without having to waste time renegotiating or selling and getting approvals. My personal philosophy is, this kind of trust from the client warrants flexibility from my side so if a few extra hours are needed to get something done, I just do it.

If issues, problems, or misunderstandings crop up in the relationship, as can happen with any relationship, it is crucial to address the issue promptly. You do yourself and your consultant no favors by glossing over issues or letting him or her wander off a cliff for lack of feedback or a heart-to-heart talk to clear the air.

The First Rule of Consulting

The rule I operate by and believe every consultant has an ethical responsibility to honor is that **it is never OK for the consultant to become part of the problem**.

Where this kind of thing shows up most commonly is when a client has brought in multiple consultants on a project who can't get their egos or personal agendas out of the way to focus on benefiting the client. This suggests that if you have the need for multiple consultants, keep the consultants in the loop, making sure they understand what you're doing and why. Insist they take the time to talk with one another to ensure they understand each other's scope and agenda, and can work out the details of how to work with and around each other.

Conclusion

It is common to have a long-term relationship with a consultant who has done good work for you. I've worked with some clients on and off for more than 20 years. One client I've helped with five different companies he started. In many cases my clients become personal friends. Taking the time to find someone whose philosophy you resonate with, whose judgment you trust, and who you like working with can be a major asset for you.

part two

Do You Own Your Company Or Does Your Company Own You?

Strategic Planning for the Entrepreneurial Firm

Strategic Planning And Leadership

Of all the tools available to the leader, strategic planning is perhaps the most powerful. Done well, it is a transformative tool that will create focus, alignment, and that most elusive of organizational attributes, vitality. If done poorly, however, it will consume considerable time and energy of the company and produce little in the way of return on investment.

Strategic planning is not about creating a strategic plan. It is about becoming a strategic leader. There is no formula, no plug-and-play silver bullet that will propel a company into strategic nirvana. Becoming a strategic leader is a journey, a transformational journey. Transformational means you can't see the end from the beginning. But there are very predictable benefits, not all of which are intuitively obvious.

The conventional reason for doing strategic planning is to dream the future and build a bridge to it. There are many less obvious results of this effort.

Turning Dreams Into Realities

What makes us unique as human beings is that we have this God-like capacity to create something where nothing existed before. We create realities. It is a truly astonishing capability, but one that we so take for granted; we don't put much conscious intention on it. Becoming a strategic leader means becoming very intentional about the realities you create. Remember, every morning when you wake up, you will find yourself confronted with some reality. The question is not "if", the question is "What is that reality?" Is it one you have carefully shaped and grown, or one you have just let emerge willy-nilly? Managing your reality is the essence of strategic leadership.

The first thing strategic planning requires of you is to define what reality is desirable, to build a strategic vision. This opens an opportunity to explore your own heart and mind, to understand what matters to you, what brings meaning to your life. In the final analysis, the discovery of meaning in one's life and the ordering of one's life by that meaning is far more important than the mechanics of making a living or building net worth. As Napoleon said, "Men will die for a bit of colored ribbon."

As a leader in an enterprise, the creation of meaning is the most powerful glue that will draw and hold employees to you, create loyalty, commitment, trust and love. These are assets that cannot be measured on a balance sheet, and yet they are the most valuable dimensions of human relationships, personal or commercial. The highest form of strategic leadership is to define and articulate what gives your life meaning, and how you expect that meaning to be reflected in the purpose and activities of the enterprise.

This will do two things. First, it forces everyone in the firm, particularly the top management team, to assess their alignment with that vision. If they are not, they will probably leave the firm. If they are not fully aligned, over time that alignment will become closer. The second thing that happens is the process of coherence begins to take place.

Coherence and Vitality

Coherence in this context has much the same meaning as coherence in laser light. What makes lasers so useful is that the light is one wavelength, tightly focused with all the photons going up and down in the same plane at the same time. A hundred-watt light bulb will light up your room. A hundred-watt laser will drill a hole through your wall. There is an analogue to this in organizational life. In highly coherent organizations there is a very clear sense among all employees of who they are as a company, where they are going, what they are there to do, and what the rules (values) of the firm are.

What happens as firms start to become coherent is any structural inhibitions to that coherence emerging are driven to the awareness of the management team. The reason this occurs is because directly proportional to the coherence of the organization is the sense of vitality. This may not be a very scientific term, but everyone has an intuitive sense of it from his or her own life experience. By vitality I mean the sense of energy and enthusiasm; that experience of being close to the heart of something important in life. Vitality manifests itself in people coming in early and staying late. It shows up in a reduced focus on compensation issues and a new level of creative energy. It feeds people at a deep emotional level and is the antithesis of the alienation that characterizes so much of organizational reality we've seen emerge in the past hundred years.

As vitality emerges, employees become hooked on it. Anything inhibiting that vitality gets immediate scrutiny. So any structural inhibitions to coherence forming, with the attendant increases in vitality, will surface quite automatically. Initially, it will be relatively superficial things that are the focus of attention. These could be communication issues, or something in the organizational structure that inhibits moving toward the vision. Like peeling an onion, deeper issues emerging may be such things as a long-term senior employee, fundamentally out of step with the rest of the firm, needing to leave or retire.

Because of the drive to vitality, the CEO will have strong support for the resolution of issues that surface, which will make the work much easier. Nothing is harder than making tough organizational decisions when you don't know how the rest of the firm will receive them. This coherence and drive to vitality creates a self-correcting quality to organizations that in turn creates enormous leverage for the CEO to get things done.

Strategic Planning and Control

Figure 1 - Five Steps of Strategic Planning

The strategic planning process also creates leverage for the CEO in that it is a way of laying tracks for the firm to run down. In so doing the CEO can step out of much of the day-to-day decision making process which frees up significant bandwidth. He or she is also creating a vacuum his or her management team must fill. This is the best and quickest way to discover the real capability of the people around you. It is typical in a growing entrepreneurial firm that senior managers may be less capable than the firm needs, and the CEO spends considerable time compensating for their deficiencies. With the planning process in place, there is no place for people to hide. Again, there will be considerable support for the CEO to make those changes necessary to keep the process of coherence and vitality development moving forward.

Two other compelling reasons for becoming a strategic leader are first, it is the antidote to the reactive, fire-fighting habit that characterized entrepreneurial leadership. Second, it is a systematic process for driving change critical in a time where the basic rules in the game of business are changing faster than ever before. In the same way a magnifying glass focuses a few square inches of sunlight to a point, causing a dried leaf to burst into flame, strategic planning focuses the psychic energy and attention of the company, and supports our deepest creative abilities. By creating specific mechanisms for change in the organization, it maximizes the adaptive quality of the firm, which in times of dramatic change is the most important attribute to ensure the firm's survival and prosperity.

The Strategic Planning Process

The strategic planning process described here is a template only. The work of being a strategic leader is largely figuring out how to take this template and apply it to the idiosyncratic realities of your business. In a very small firm, much of this can be done "on the back of an envelope" and carried around in one's head. In a larger company, it will of necessity be a more formal and structured process. However, it is a methodology that has worked very effectively in a wide variety of firms large and small, in service and manufacturing, both for-profit and non-profit organizations.

It is important to recognize that strategic planning is the most complex and abstract of all business processes. Becoming a strategically lead firm will change the culture of the company and force the CEO to address very broad abstract issues a far cry from the daily operational problems filling the days of most CEOs. The five steps are shown above.

Vision and Design

The most important step in the process is the development of a clear and compelling vision for the firm. This is what will begin to order the company's focus and efforts.

In the closely held company, there is a step that comes even before the development of the vision for the company.

Strategic planning is how one designs and shapes the nature of the business itself. The first step in the design of anything is asking and answering the question, "What do we want this thing to do?" The nature of design is that form follows function and if the function is not deeply understood, the form will wind up being arbitrary to a greater of lesser extent.

Very few leaders have looked at their companies and asked the question, "What do I want this business to do for me in my life?" As a result, when the first question of design is not asked and answered comprehensively, it is axiomatic that the design effort will be flawed. The result is most businesses are poorly designed, and therefore making them function requires far more personal effort on the part of the CEO than is appropriate.

When I start working with a client, the first thing I do is bring client and spouse to my offices in Albuquerque, NM for my Business Design Session to answer the following four questions:

1. What do we need and want out of life?
2. How can the business help us accomplish these things?
3. What would the business need to look like in order to for it to effectively help us create our desired life?
4. How do we get it there?

The result of answering these questions is the definition of the function of the business from which we can design the form. With a specific vision for the business, we have the foundation on which to build our planning process.

Current Reality

In order to build a bridge from our current reality to our desired reality we need to develop a comprehensive picture of our current reality. There are two dimensions to this reality, internal and external. The first question we have to answer is who knows what the current realities are? Where does this information reside?

For internal information, the one thing we know is there are profound structural inhibitions to the flow of current reality information into the CEO's office. CEOs have at best a fragmentary and imperfect sense of what's really going on in their own companies. Nor does any one employee have the whole picture. It is diffused throughout the company. But the employees collectively have a clear understanding of what's working and what isn't. How then do we access this information? I use two vehicles: a survey and what we call Burning Issue meetings.

The survey we use is one I designed called the State of the Organization Survey™. It is suitable in companies with about thirty employees or more. In smaller firms a simpler set of more open-ended questions is a more cost effective way of getting at issues.
Burning Issue meetings are similar to focus groups. With burning issue meetings, workgroups are assembled with a facilitator without the supervisor present. The process is

explained and the question "What are your burning issues?" is posed. The facilitator's job is to turn the stress and frustration that inevitably pour out into a set of themes that the employees in the group feel accurately express their collective feelings. These are then reviewed with the supervisor and collected for the leadership team's planning meeting.

This process gets the employees involved, which is critical to a successful planning effort. The two types of data gathering support each other. A written process allows us to drive our inquiry in very specific directions. The burning issues give us a more organic feel for people's real hot buttons. They also validate each other in the unlikely (but not unheard of) event that one or the other process is deemed to be tainted in some way, usually because a manager doesn't want to accept the accuracy of the employee perceptions.

Customers also know about your company, and often our clients will ask us to conduct a client survey to get customer opinions about what's working and what's not in the firm.

Two addition types of data gathering are useful. First is process mapping. Business processes don't scale well. What works at $5 million doesn't work at $7. What works at $30 million doesn't work at $35 and so on. The planning process inevitably generates a lot of new strategic initiatives that are exciting and challenging. It is important for the team to keep in mind there are many existing processes that don't work very well and need to be overhauled. An afternoon with the leadership team to prepare a set of process maps for the company will generally make it clear where there are one or two processes, which if improved would have a significant impact on quality, service and eliminating waste.

The second is to look at the external world. Dreaming is easy, but dreams must be made to fit into the real world. Therefore, I usually ask the leadership team members to prepare brief, ten to fifteen minute presentations in preparation for the offsite planning session (step three in the planning cycle). These presentations generally cover these four areas:

1. The Industry (usually prepared by the CEO)
2. The Marketplace (usually the head of marketing and/or sales)
3. The Economy (usually the controller or the CFO, but sometimes the CEO is best equipped to do this report)
4. Technology (this can be information technology the firm consumes, process technology for manufacturing, if the company produces technology then developments in its field. May be prepared by several people, head of engineering, head of information technology, possibly an IT consultant to the firm, or head of manufacturing, or all three.)

The purpose of these reports is to do a reality check on the external world. The presentations should address the question, "What do we see emerging in the next 3-5 years in each of these four areas that we need to be integrating into our planning thought and vision development?" For example, consolidation is a major issue in many industries today. Uncertainty in the economy may be a significant issue for some firms and less so for others. At the least, the team will have questioned its assumptions and come to consensus about them as the planning process moves forward.

These four types of data: employees, customers, process maps, and external realities will give us a rich data set about current reality. Then it's possible to begin to build a bridge from the current to the desired reality.

The Offsite Planning Session

The offsite planning session is where the vision and current reality come together to produce strategic priorities -- the focus for the coming year's activities.

The process of the offsite is:

1. Publishing, discussion of and commitment to a common vision
2. Agreement on strategy for accomplishing the vision or at least a process by which such a strategy would be developed
3. Agreement on issues raised in the data gathered
4. Conversion of issues to objectives
5. Prioritization of the objectives
6. Decisions on next steps.

An effective offsite planning session will take at least two full days and I will commonly spend three and a half with some team building work thrown in.

The worst place to have an offsite is the hotel down the street. You need to get away from your normal environment to do your best work. Go to the shore, the mountains, the river, someplace markedly different from your normal environment. No spouses, no kids, no tennis rackets or golf clubs. Participants should stay at the meeting facility. There is a focus and intensity that develops over time, and going home at night disrupts this.

The meeting space should be casual -- sofas, overstuffed chairs, coffee tables. There is nothing more deadly to this process than sitting around a conference table. Dress code should be jeans or other very casual attire. This is a time to step back and take a fresh look at the business. It's important the environment reflect this function.

I am often asked about a facilitator for this process. Aside from the fact that facilitating offsite planning sessions is a key piece of what I do for a living, there are compelling reasons to have a skilled facilitator. First, it allows the CEO to be a participant. Second, the facilitator can help deal with emotional issues that may arise, keep the CEO from overly influencing the proceedings, and take the burden of managing the meeting off the CEO's shoulders. The operative term however, is *skilled*. In many respects, the offsite is the most sensitive part of the process, and working with someone with knowledge and experience you can rely on can save you from major problems.

Operating Plans

Returning from the offsite, three tasks must be undertaken. First, the employees should hear the results of the session: the vision, the strategy, the issues and prioritized objectives, and the next steps. Second, it is necessary to close the loop with employees to review with them the results of the survey and burning issue meetings. Third, the objectives need to be allocated to the various functions for transformation into operating plans. Ideally this work should be pushed as far down into the organization as possible to get as many people involved as possible. People are much more likely to execute plans they have had a hand in developing.

The structure of an operating plan is very simple: objectives, projects, and tasks. The operating plan is basically an outline with objectives being the major headings. Under each objective there will be projects and under each project, tasks. At each level we need to know four things: what is it, who owns it, by when does it need to be done, and what resources are required? Sales forecasting and budgeting should be done in conjunction with operating plan development, and the pieces of the plans and budgets will likely require a couple of iterations to get the numbers to work, the projects spaced out appropriately, and scaled to what can actually be done in addition to everyone's normal daily workload.

Individual Performance Planning

The last link in the planning cycle is the development of specific performance commitments from all employees. Our desired outcome from this process is:

- A recalibration of perceptions about successful performance between manager and employee
- Negotiation of mutual performance expectations between manager and employee
- Creating a forum for addressing both qualitative and quantitative performance issues
- Link performance expectations to the operating plans.

The simplest way to do this is a structured dialogue between manager and employee. Preparation for this meeting requires the employee do a self-assessment. The questions should be:

1. What is my job?
2. Looking back on the past year, what reflects my best work and why, my poorest work and why?
3. Based on the current operating plan, what are my key priorities for the coming year?
4. What additional resources will I need to accomplish these objectives?
5. What support will I need from my manager?

The manager should answer the same questions about the employee prior to the meeting. When the two meet, the employee should review all of his/her answers first, and the manager then respond point by point in order to come to an understanding. The typically four to six objectives agreed upon should be documented and signed, and copies given to each participant and a copy in the personnel file.

There are many opportunities for creativity in this process as employees are increasingly becoming accustomed to peer reviews, 360º reviews and other types of processes. If you are using rating scales, you should abandon them. They are destructive to morale, they appear quantitative but are virtually always subjective, and there are potential legal liabilities with them as well.

In the next chapter, we'll talk about shifting the focus of the review process from the point of view of the boss to the point of view of the internal customer of each employee.

Conclusions

The annual planning cycle outlined here is, in this day and age, basically training wheels for what should become a continuous planning process with a fifteen month rolling forecast and budget. In too many companies, senior managers and the CEO are buried in operational details and take much too little time to work "on" the business itself. The following chapter describes how to build a self-managing management team. In a business governed in this way, a continuous planning process, where strategic initiatives are identified and slipstreamed into the workflow in something closer to real time, is a more effective way to run a company in a fast-changing world. The annual cycle is the place to start, however, to learn the skills and get the systems in place and build a baseline of employee data.

Remember, the work is not so much creating a plan, it is building a company that is intentional: that decides what it wants to be, and proactively and systematically pursues those objectives. Inertia is both a friend and enemy to companies. It keeps customers coming back reliably but also makes it difficult for companies to adapt to changing times and market conditions. Today, without some way to pull back from the operational level of the business and think strategically, a company is at grave risk of getting shunted into an evolutionary dead-end. For the CEO of an entrepreneurial company, the process described here is the way to create a company that works for you rather than you working for it.

part three

How To Run A Company That Runs Itself

The Magic of the Self-Managing Management Team

Introduction

The premise here is simple: you are spending a lot of money on your people and not getting an appropriate return. But it's not your fault, or theirs. Let's look at history for a moment.

In the first half of this century, what was scarce in business was capital. Labor was cheap and abundant. Getting unskilled people productive quickly was the primary management need. What we know as the principles of management were developed early in the 20th century in a capital-poor, labor-rich environment.

Now the world is awash in cash. In the 21st century, the scarce resource is talent. And it's no longer cheap. In most companies, the largest single expense item (after raw materials in manufacturing) is the cost of labor.

Leveraging People

The leadership agenda for the foreseeable future is leveraging people: figuring out how to unleash the total talent, intelligence, creativity, knowledge, experience, energy and enthusiasm of the people for whom we pay so dearly.

Unfortunately, traditional management practice was actually designed to minimize return on labor. "Check your brain at the door and do precisely what we tell you" was the foundation of modern "scientific" management.

It was a very effective strategy for decades, and created a huge amount of wealth, and a robust middle class in the US. However, changing worker demographics, technology, global competition, and the accelerating speed of business has made traditional management practice obsolete.

The result is:

- Employees don’t think or behave like owners
- The CEO winds up carrying too much of the burden of running the company, and can be a bottleneck
- There is little internal accountability for corporate functions
- Employees focus on pleasing their bosses rather than their customers, internal or external

The breakthrough came with the emergence of Complexity Theory, a scientific discipline that crosses virtually all sciences both physical and social.

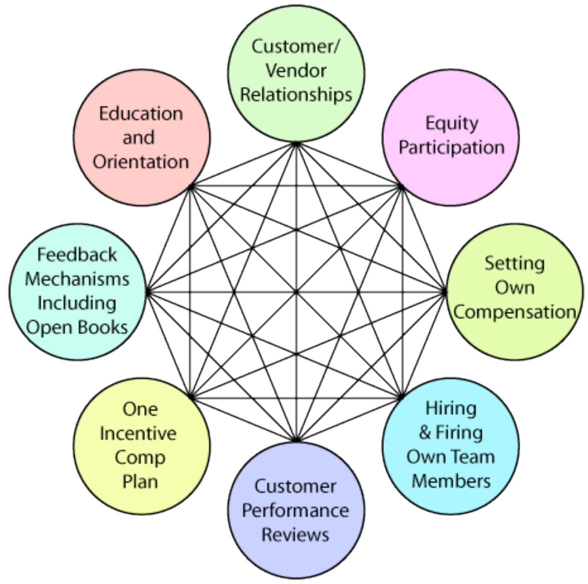
One of the central tenets of Complexity Theory is that all systems have a natural propensity to self-organize. Traditional management practice does not leverage this natural tendency very much and in many cases, actively resists it. Running a company that runs itself is about pushing the envelope of self-organization and creating a culture in which self-management is the driving force.

The key to self management is recognizing that human behavior is a function of the ecosystem in which people find themselves. Biologically speaking, adaptation is the key feature that sets humans apart from all other animals. Therefore, creating self-organizing behavior requires designing an ecosystem that draws out of employees self-managing behavior. The model for self-managing behavior is entrepreneurship. Therefore, the design criteria for the internal ecosystem of the company is to replicate as closely as practical, the realities of the marketplace which shapes the behavior of entrepreneurs. In this model, we draw for guidance on two robust, demonstrably self-managing systems: the marketplace and nature. Self-organizing behavior in the marketplace is driven by the dynamics of the customer/vendor relationship. In the natural world, all living things are driven by their DNA to survive and propagate. In business, the analogue to “survive and propagate” is profit. The work, therefore is creating an ecosystem in the company in which the customer/vendor dynamic exists where customers have real recourse, and in which all employees are passionately focused on profit and have the skills to understand how profit is created and how they can contribute.

I characterize entrepreneurial behavior as having two fundamental attributes. First is a profound, "The buck stops here" sense of responsibility. The second is a 360° systemic view of the organization. All of the mechanics described below are designed to draw that kind of behavior out of your people. It must be understood that not everyone in your organization will have the desire or capacity to develop these attributes. The system will select these people out as necessary.

The payoff is huge leverage for the CEO. With a self-managing Leadership Team in place, the CEO has very little to do day to day. The CEO can choose to invest this bandwidth into moving the company forward strategically and or working fewer days and developing personal pursuits. It is a natural succession strategy as it makes the company much less dependent on the CEO who assumes the role of coach/facilitator rather than commander in chief. By reducing the amount of time the CEO needs to spend in the business, he or she can begin a transition process into whatever level of reduced workload he or she desires and at the same time setting the stage for a gradual equity transfer and continuity of the business.

Self-Management



Creating a self-managing organization needs to begin at the top. There is no point in trying to create a culture of self-management when the top management team doesn't understand or know how to do it and hasn't gone through the transformation that such a change requires. The necessary systems and process described below are for the top management team, which in a self-managing environment, collectively takes on the role of CEO.

Making the Change

The most difficult part of leveraging people is changing our most deeply rooted assumptions about leadership and management. Growing up in the world of business, we have been acculturated to a set of assumptions and beliefs that are no longer valid. So have all our employees. Understanding and shifting these fundamental assumptions is the most difficult part of the work. The rest is pretty mechanical.

Like all other cultural changes in an organization, you can expect stiff resistance. It is not that people are intrinsically pig-headed but that the natural selection process never sleeps. Whatever level of success people have achieved has been based on behaving in ways appropriate in your historical culture. When you change the rules of the ecosystem in which they operate, they no longer know how to or even if they can be successful. Therefore, they will resist change in ways both obvious and subtle.

Changing Culture

Corporate cultures have a justifiable reputation for persistence. I have found cultures relatively easy to change, however. Cultures are defined by those artifacts which shape and determine employee behavior. They include how the company organizes, compensates, and provides feedback. Changing those artifacts will change the culture. What takes time is the employees internalizing the implications of these artifacts in terms of what new behavior is expected and then learning and gaining confidence in that new behavior.

A question that often surfaces around culture change is how one gets buy-in from employees. My response is that for the process of management, buy-in is necessary. For leadership, which is what cultural change is about, buy-in is desirable but not essential.

Cultures are notoriously intractable because changing the rules is a threat to everyone in the company, sometimes even the CEO. Culture change requires the CEO putting a stake in the ground, making a stand for something. Those employees who get it and want to participate will rally to that. Those who don't will likely go away. Either outcome is OK. Buy-in will come from the employees' resonance with the leader's vision. Leaders need to communicate the vision clearly and persuasively, and have an ethical responsibility to make the transformation as safe as practical. Beyond that, it's up to the employees to decide whether or not they want to participate.

I have found that there are eight key artifacts necessary to create a self-managing environment, illustrated to the right. Note that they are all interconnected as they are dependent on each other to function as effective shapers of employee behavior.

Internal Customer/Vendor Relationships

Creating internal customer/vendor relationships begins with organizing into Strategic Business Units (SBU) and Internal Service Units (ISU). SBU's are characterized by having their own sales resources and being responsible for revenue, gross margin, and pre-tax net margins. They are the engines that pull the train. There are a number of ways they can be organized such as by branch, by channel, or by product line.

ISU's are typically Accounting/Finance, Marketing, Talent (my preferred name for the human resources function), and information technology (IT). In a manufacturing environment, production is usually an ISU.

SBU's pay for the services they consume from the ISU's and negotiate prices during the budgeting process. Reviews come not from bosses, but from customers. If service is unacceptable, the internal customers have very real recourse to improve service.

Setting up accounting for these relationships can be done fairly simply or with significant complexity, depending on what makes sense both short and long term.

Comprehensive Employee Orientation And Training

Functioning effectively in a self-managing environment requires skills that employees don't necessarily acquire in a traditional management culture. For example, having access to information is of no value if employees don't know how to interpret it, or understand how their units contribute to the numbers being reported. New employees must be oriented carefully to ensure they understand how the culture differs from what they are used to. A core training curriculum should include:

- Reading and understanding financial statements and other key metrics
- Interpersonal skills including:
  - Communication
  - Giving/receiving feedback
- Team skills
- Change skills
- Hiring/Firing
- Continuous Improvement/Total Quality Management/World Class Manufacturing
- Meeting management & facilitation

Open Books and Unit Level Income Statements

Running the business with open books is a critical part of the process. You can't expect people to act like entrepreneurs if they don't have the rudimentary knowledge of how to read and understand an income statement and balance sheet. Opening the books is not as simple as hanging the financials by the water cooler. There are a number of considerations to be thought through regarding how to package the numbers, amount of detail, and significant training to be done.

For further information read, The Great Game of Business by Jack Stack, and Open Book Management by John Case.

Each unit manager must know where their money is coming from and where it's going in order to manage their unit. So income statements for each unit are essential. Balance sheets are not generally necessary.

Single Incentive Compensation System

All incentive compensation plans (with the possible exception of sales commissions) get scrapped in favor of one plan based on profitability. Shareholders determine the minimum acceptable return, and if employees can summon the creativity to exceed those expectations, get to share that increment over the base threshold with the shareholders.

An important message to employees to enhance their entrepreneurial point of view is in a capitalist society, shareholders get paid first. If the employees cannot generate an appropriate return through creativity, excellent customer service, and attracting and retaining top talent, then the shareholders can't justify keeping their assets at risk in the marketplace.

There are a number of ways to set this up, but two key features are first, the bonus is typically paid monthly (usually with a delay equal to the accounts receivable period). Secondly, if the company loses money, each individual's bonus account goes negative by the same formula that the profit bonus is calculated. As new profit comes in, until it has offset the cumulative losses, no new bonus money is paid out. If you want people to behave like entrepreneurs, you cannot insulate them from the pain of the game.

Internal Customer Reviews

The review process gets done between internal customers and vendors. The boss's voice is an important one, but only one of many. In fact, bosses may know less about an employee’s performance than his or her peers and subordinates. There are typically many more lateral transactions in organizations than vertical. When reviews and compensation are taken out of the boss's hands, he/she can really begin to act as a coach and facilitator, since suggestions will no longer be interpreted as commands.

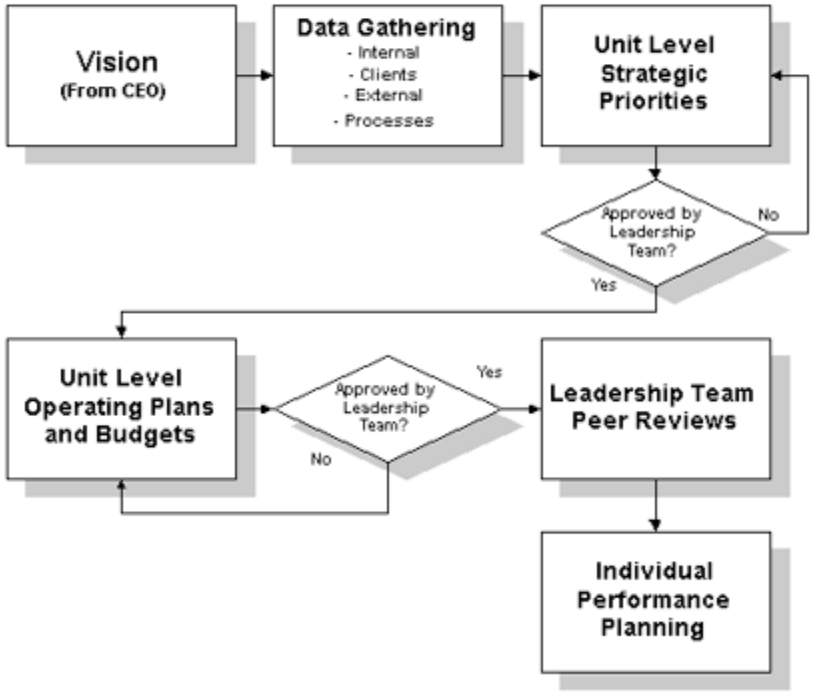
I have developed a comprehensive web-based system for conducting team reviews between internal customers and their internal vendors.

Team Members Hire And Fire Their Own

You cannot expect people to be willing to sink or swim with their teams if they have no influence on the team's composition. Therefore it is essential that the team be empowered to hire and fire its own members. Given the legal and regulatory environment, careful thought needs to go into the protocols by which under-performers are approached, counseled, and ultimately held accountable.

Likewise, hiring members requires that the team develop hiring skills including job definition, hiring process design, interviewing and reference checking skills, and candidate assessment.

Unit Manager Control Of Compensation (Including Their Own)



This seemingly radical idea is based on the notion that if we want a self-managing team, then we have to eliminate the artifacts that have institutionalized the power discrepancy between boss and employees. The two things that historically define the power base for a boss are salary and the performance review.

The salary setting process is done in conjunction with the budgeting process, and from a practical point of view, will probably not be done at the beginning of implementing self-management, but likely in the second year.

The controls on the process are that the market determines the selling prices of your goods and services, and gross profit is determined by the cost of goods. That's the ceiling. The floor is the minimum acceptable return on sales determined by the shareholders, and everything else has to fit into the window between floor and ceiling for each unit. Internal service units are not generally expected to make a profit, but just break even.

In addition, any bonus pool money must be fit into that window as well. If a manager comes in with a proposed salary that is inflated, he/she will have to sell it to the team since it is coming straight out of the bonus pool.

Employee Equity Participation

A longer-term but important consideration in getting employees to think and behave like owners is to actually make them owners. This is a complex area of specialization but offers potentially significant benefits to entrepreneurs in creating liquidity and diversifying their balance sheets in (with a qualified plan) a highly tax advantaged way. Two resources for further study are the Foundation for Enterprise Development (www.fed.org) and the National Association for Employee Ownership (www.nceo.org). Both have excellent libraries, conduct conferences, and have accounting and legal resources to help entrepreneurs in this area.

Once this genie is out of the bottle it is very difficult to put back in so do your homework.

Strategic Planning

Strategic planning is the mechanism of choice for driving the process of building a self-managed team, and is central to the work of what a self-managed team does as described in the previous chapter. In this structure the process is slightly different as each unit conducts its own planning process and the leadership team pulls it together into a coherent whole. The figure below illustrates the differences.

Governance

Governance of the organization is what a self-managing team does. This is how they function as the collective CEO. Typically this involves meeting one day a month to work *on* the business as opposed to the typical operational meetings for dealing with day-to-day tactical issues. There is a specific structure and discipline to these meetings necessary to make them effective.

The CEO's job is to facilitate the process. That includes circulating a request for agenda items a week before the meeting. The agenda should be final three days prior. The CEO also facilitates the meeting. Meeting facilitation means managing the process and technically being uninvolved with the content. While it is unrealistic to expect the CEO to adhere to this definition completely, it is important he or she make explicit when taking off his or her facilitator hat and putting on the CEO hat.

First is, while group processes are generally more effective in terms of quality of decision making (given time for the group to learn how to function as a self-managing team), they are not intrinsically efficient. So to maximize efficiency, the rule is we don't want to be communicating synchronously (everybody together in the room) anything that can be communicated asynchronously (e.g. email). Therefore, three days prior to each meeting, each member must prepare a brief status report for their unit and circulate it to other team members. Each member will be expected to have read and studied these reports prior to the meeting.

The meeting agenda is as follows:

1. Review action commitments from the previous meeting.
2. Burning issues that are on the agenda
3. Strategic decision making, should be supported with written proposals
4. Discuss questions raised by the status reports
5. Review action commitments made during the meeting and communication steps appropriate from decisions that have been made by the team.

A burning issue is typically something a team member may be struggling with and looking to the team for advice or counsel. It can also be a decision a team member needs to make, the financial or strategic implications of which he or she feels requires the team's input and/or ratification.

A decision by the team is made generally in response to a written proposal submitted by a team member or conceivably someone else in the company. The proposal, like the status reports, must be submitted at least three days before the meeting so team members have adequate time to read and study the proposal, and be prepared for substantive discussion on it.

Finally, if a status report is submitted with some data that is not adequately explained or causes and responses outlined, the team will likely want to quiz the relevant unit leader further.

Conclusions

In the first ten years of my consulting career I focused primarily on developing and refining an effective strategic planning methodology and process for entrepreneurial firms.

In the late ‘80s, I began to realize entrepreneurial firms were generally not paying attention to the reality that the world of business was changing radically. Having gone through a brutally painful decade of downsizing, many larger firms had already begun to come to grips with the need to change how they did business and were running innovative experiments. The entrepreneurial community was falling behind. They were not asking the questions, "What should a 21st century company look like? How would it be different from what we have done in the past?"

Increasingly I found myself bringing not just the process to my clients but the content of their planning effort as well. They needed help figuring out how to create environments, which brought greater return on their investment in payroll as well as attracting and retaining top talent. Like any other research project, there were a few failures from which we learned, and a number of dramatic successes that encouraged further development of the work.

The result of more than 15 years of development is a robust methodology for creating an organization that largely runs itself, freeing up a majority of the CEO's time for strategic and/or personal pursuits. The methodology outlined has proven to be very effective in a wide variety of organizational settings.

I have found that the only environments where the process will not work effectively is if the senior people in the company are just not very knowledgeable about business (for example in research oriented companies where the senior people may be scientists or technical people who have come from an academic background), and/or are unsophisticated enough that they really don't have the capacity to learn to collectively run the company in a reasonable time frame. In the latter case, a strategic commitment to upgrading the quality of the management team may open the doors to creating a company that runs itself.

What you have read is just a cursory overview of a complex subject. If you would like more information on how to apply these principles in your company or to talk to me about a presentation to your group, write me at lanny@lannygoodman.com or call 800-523-1002.

What Some of Lanny's Clients Have to Say

Lanny is the most brilliant strategic planner and corporate facilitator I have ever known. He has done work for me in my companies, personally. He has worked for numerous people that I have referred him to and everybody has agreed that they have received immense value. I couldn't recommend anyone more highly.

Jim Trattner, CEO
The Trattner Network and TalentWave
Santa Monica, CA

My enthusiasm is reignited - the focus we were able to gain in two days exceeds the focus of the past five, maybe ten years! Your ability to understand our personal and professional challenges allowed a very focused plan to emerge. Thank you, Lanny for being so very good at what you do. This has been one or our best business investments yet.

Kathleen Peterson, CEO
Powerhouse Consultants Inc.
Bedford, NH

My staff and I are delighted with the whole strategic planning process that you walked us through over these past several months. You truly brought every one of us up a level in our professionalism. Thank you for your talent and knowledge, and thank you for sharing it with us. You were a bargain at twice the cost!

Bonnie Forness, Former CEO
Walden Environment, Inc.
San Diego, CA

Nothing prepared us for running a business like ours. The first few years were manageable, but in about year five or six, our business began to run us. It was frustrating. It was painful. Then in 1997, at an Inc. Magazine conference, we attended your seminar titled "Do You Own Your Business, Or Does Your Business Own YOU?" Great title. Great seminar! For the first time, you introduced us to using our business to accomplish our personal goals.

The two days we spent with you in Albuquerque were days of discovery, deep introspection, defining, projecting, and goal setting. Nothing we had ever done before had made such an impact nor held greater hope for helping us turn our business into the vehicle for fulfilling our specific personal needs. In the year since Albuquerque, we have been able to cut back the hours we spend at our business, comfortably boost our salaries, and have been successful in hiring personnel to help us grow far beyond where we are today.

John McManus, CEO
Magellan's Inc. (Three time Inc. 500 Company)
Santa Barbara, CA

Our work together literally changed my life. Your acute insights have helped me make adjustments to my plan and tackle some of the many complex obstacles that are a part of any entrepreneur's life. In large part due to your extremely valuable input and direction, I have achieved one of my most major professional goals: I have sold my business and at age 41, I will have made enough money to retire.

Now I can focus on some of the non-income producing personal goals I have set for myself. It is without reservation that I attribute much of the mental focus behind my accomplishments to your extraordinary brand of self-direction.

Joan Finkle, Former CEO
The Expert Group
San Francisco, CA

I can never begin to thank you enough for the help, support and the friendship that you have provided during this, probably the most difficult period of my life since becoming a business owner. Your ability to immediately identify the root of the issues I am dealing with has helped me tremendously to begin to focus on causes rather than symptoms. I'll never forget your assistance and your kindness, and I hope that you continue to assist me with the growth of my business until we're both old and gray.

Rhonda Sciortino, CEO
Human Services Insurance
Upland, CA

About
Management Technologies Inc.

Helping Entrepreneurs Turn Dreams Into Realities Since 1980

Since 1980, Management Technologies Inc. has been committed to supporting the entrepreneurial community. We provide consulting services to help entrepreneurs solve the problems inherent in growing and leading closely held companies.

- If you find yourself doing too much firefighting and need to create a process to work on your business rather than in it we offer comprehensive **strategic planning** design and facilitation services.
- If you have ever wished that your employees thought and acted like owners, we can help you create an organizational design that will accomplish that goal. Lanny Goodman is a pioneer in the field of creating **self-managing management teams**.
- If your employees are struggling to function at full potential in increasingly team-oriented environments, we can provide a comprehensive core **curriculum of interpersonal, team, and change management skills**. We can also develop custom training applications.
- Need data from your employees and/or customers? We can gather comprehensive information from your employees with our **State of the Organization™ Survey**, Burning Issue meetings with employees and custom designed client surveys.
- If you've ever endured the pain of making a bad hire, struggled with employees who couldn't get along, or promoted someone who has been successful in one job only to watch them fail in their new position then you'll appreciate the value of our **personality profiling**.

Call Lanny Goodman today to discuss how Management Technologies Inc. can help you turn your dreams into realities.

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