



A Perfect Pour: Smooth Transition

AAHA 2007

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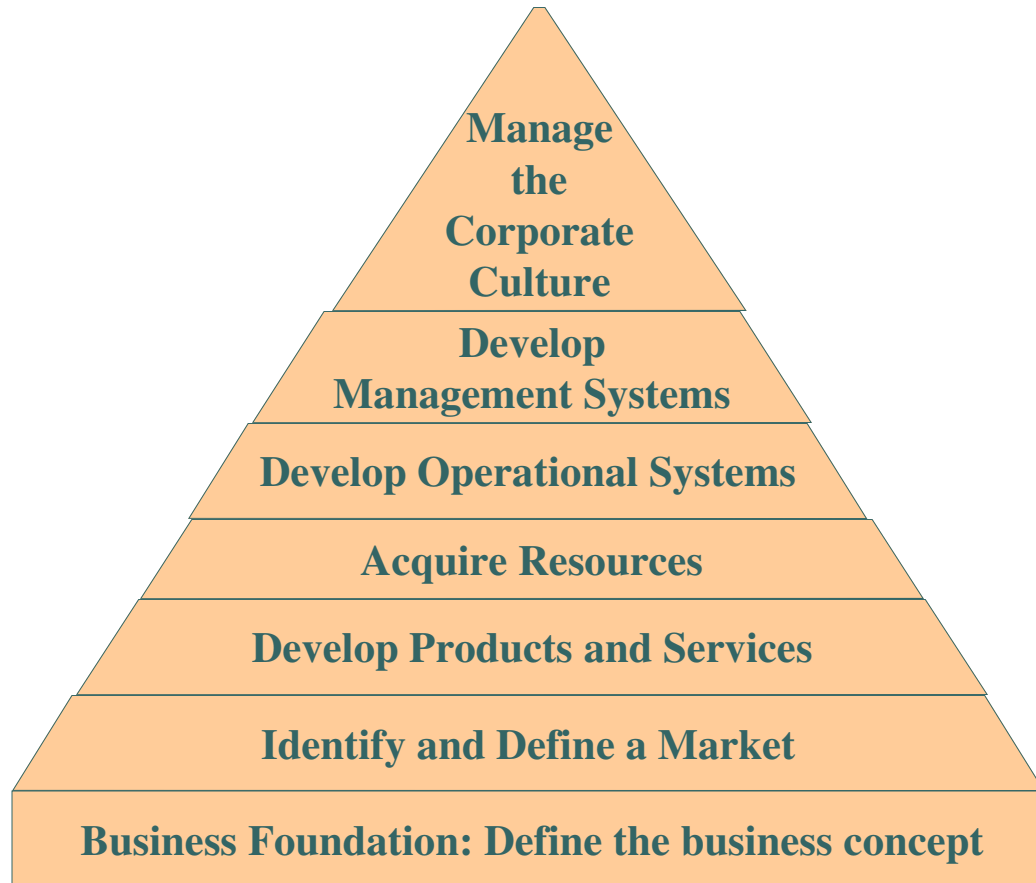


Lecture Audience

- Owners, managers and employees of entrepreneurial companies
- Anyone who wants to understand why companies often fail to transition from entrepreneurial to well managed
- Companies that think they are well managed but might be “losing their way”



Pyramid of Organizational Development





A Successful Start

- Everything is done “on the fly”
- People get used to the adrenaline rush that comes with success and trying to keep up
- Little time to think, not enough time to do



Organizational GROWTH

- 7 Stages

- New Venture
- Expansion
- Professionalization
- Consolidation
- Diversification
- Integration
- Decline and Revitalization



What Happens?

- At each of these stages, one or more of the critical tasks of organizational development should receive special attention.
 - Stages are measured in annual gross revenue
 - Stages represent typical situations or (statistically speaking), 68% of the firms studied fell under one standard deviation of the normal curve
 - 2 ranges of revenue: one for manufacturing companies and one for service companies.



Service Company

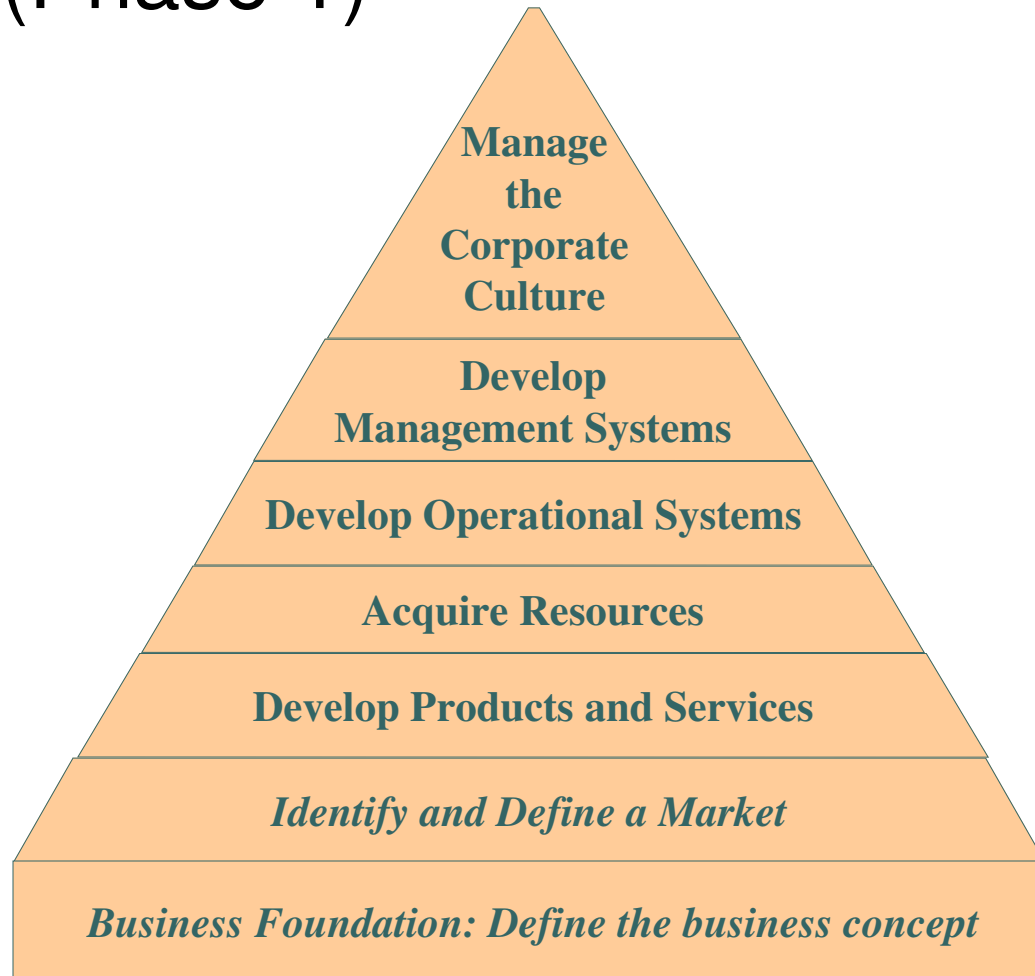
- Needs to handle growth come much sooner in a service business as compared to a manufacturing business
 - Service companies are more complex
 - The “people” are the service and are much more difficult to manage than widgets
 - Data shows that a service company is three times more complex to manage than a manufacturing company
 - In raw numbers, a \$5 million service company is the rough equivalent of a \$15 million manufacturing company



Stages of Organizational Growth

- New Venture (Phase 1)
 - For a service company, this is defined as less than \$750,000.00 in annual revenue

Pyramid of Organizational Development (Phase 1)





Key to Successful Transition

- The ability to define a market need
- The ability to develop, acquire, or provide a service that will satisfy the market
- The ability to build an organization that is capable of functioning on a day-to-day basis to provide that service

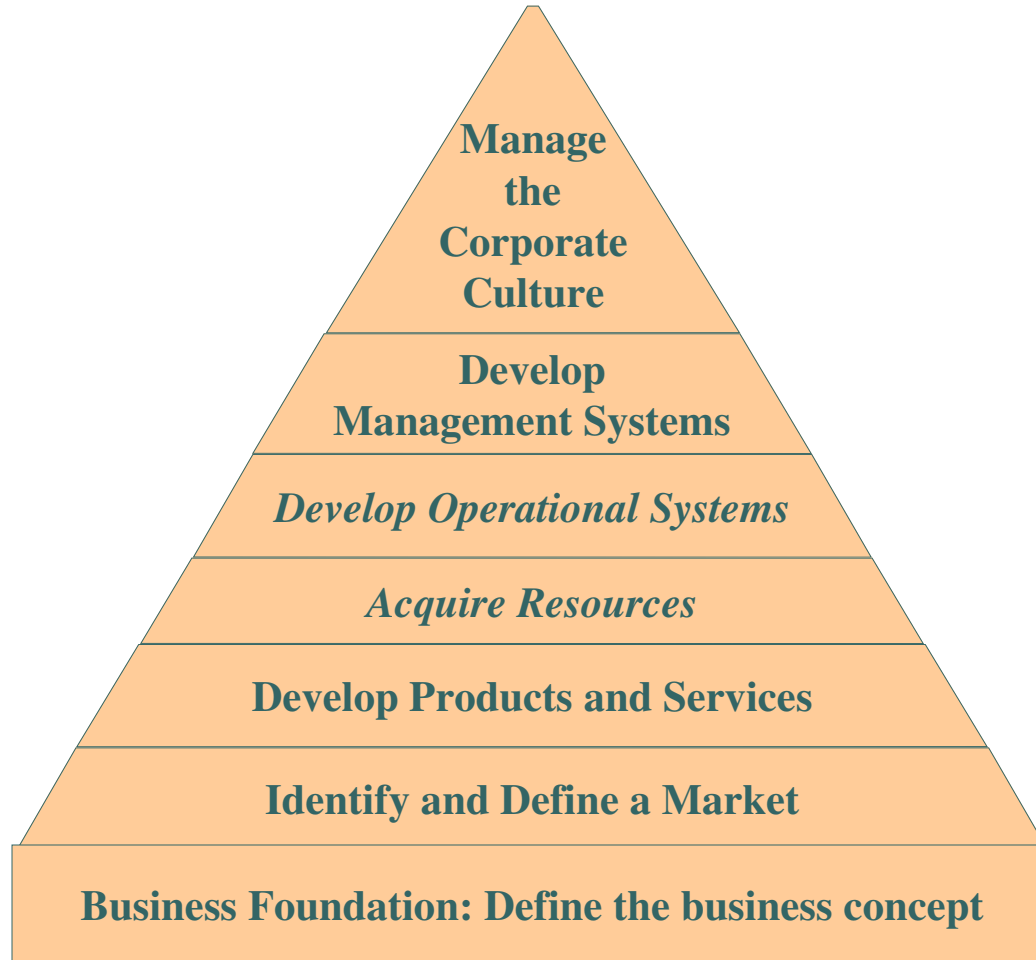


Expansion (Phase 2)

- Approximate Sales Size
 - \$750,000.00 to 3 million



Pyramid of Organizational Development





Phase 2

- Many companies DO NOT survive stage 2 because:
 - Owner or entrepreneur cannot let go
 - Infrastructure of operational systems is not fully developed
 - “Organizational Plumbing” - it is not glamorous and is not seen on the surface



Expansion (Phase 2)

- Do the symptoms apply to your practice?
 - Major problems are associated with growth rather than survival
 - Feel stretched in the areas of: people financing, equipment and space
 - Daily operational systems are difficult to implement because of the sheer volume of business



Expansion Trouble Spots

- Running out of inventory
- Vendors get paid multiple times or not at all
- A drop in quality of service and no one really knows why
- Sharp increase in turnover just when you need the people the most
- Senior executives are overwhelmed - miss flights, forget meetings, etc.
- Computer systems cannot keep up with needs of the business



Keys to Success in Phase 2

- The ability to acquire resources
- The ability to develop COMPLEX operational systems



Professionalization (Phase 3)

- Professional Management
- Sales Size
 - 3.3 million to 33 million



Phase 3

- Until now, totally entrepreneurial, much less formality. A lack of well defined goals and responsibilities but still prosperous
- For service company, this is evident at 3-4 million in sales
 - People who manage the practice must change their skills and capabilities; adept at formal administration, planning, organization, motivation, leadership and tempered with emotional self-control.



Phase 3

- A period of explosive growth forces entrepreneurs to take stock
- The realization that you cannot throw people and money at a problem and make it work
- Must undergo a metamorphosis
 - NOT a CHOICE, but a REQUIREMENT FOR CONTINUED SUCCESS



Phase 2 and 3 are great, but....

- Founders and entrepreneurs have TREMENDOUS difficulty relinquishing control
 - Make a big flourish over bringing in professional management, but..
 - Can turn even professional managers into “managerial eunuchs” by still insisting on having their hands in everything

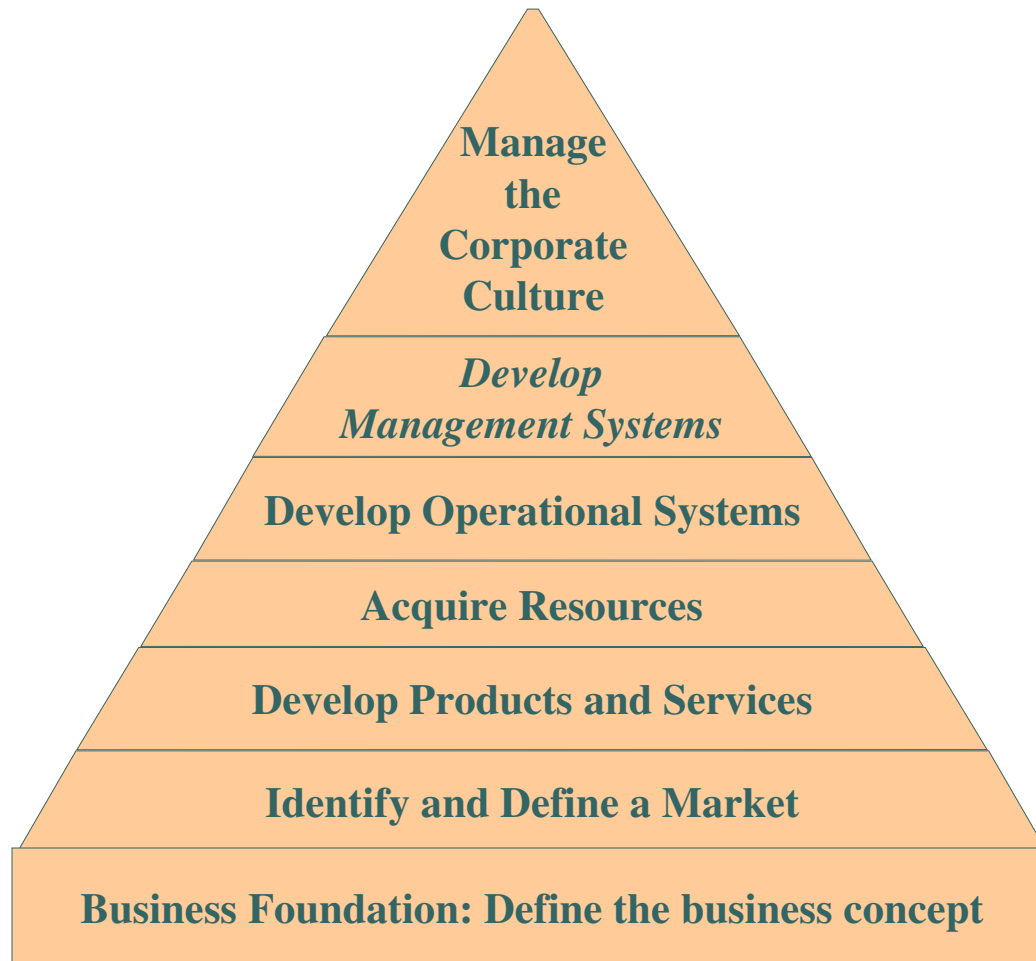


Professional Management

- NOT just bureaucracy. It becomes that without an entrepreneurial culture.
- If entrepreneurship is carried to the extreme in a large culture, it can result in chaos with bleak prospects for the future of the organization.
- THE TRANSITION TO SUCCESS IS IN THE DEVELOPMENT OF MANAGEMENT SYSTEMS



Pyramid of Organizational Development





Develop Management Systems

- Planning
- Organization
- Management development
- Control



Key to Success for Phase 3

- The ability to plan and develop strategy
- The ability to develop an appropriate organizational structure and goals
- The ability to provide management development



Consolidation (Phase 4)

- Sales Size
 - 33 million to 150 million

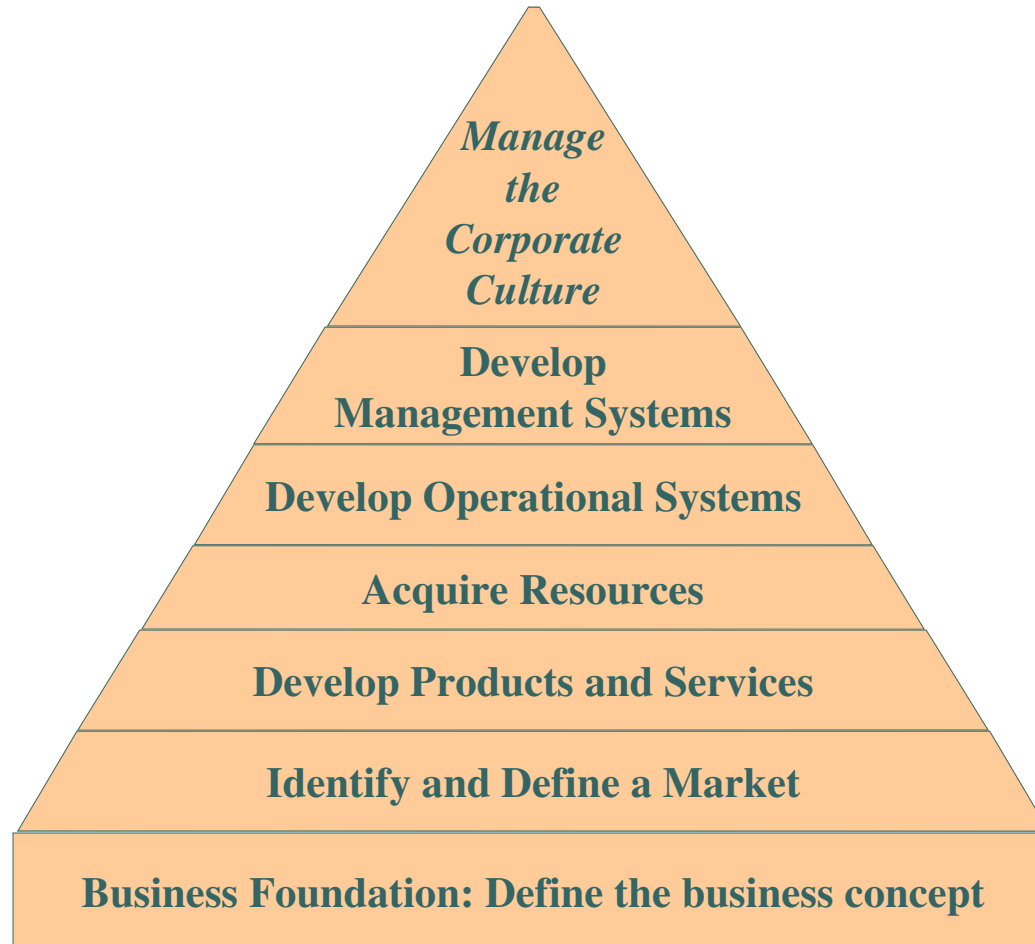


Phase 4

- The intangible asset: the BUSINESS CULTURE
- It is the “feeling” that connects the entrepreneur to the necessary growth and provides inspiration daily
- It is the primary task of stage 4



Pyramid of Organizational Development





The Culture

- To manage the culture, we must manage:
 - Values
 - Beliefs
 - Norms



Key to Success in Phase 4

- Define the culture
- Develop a formal plan for auditing the culture and transmitting it to employees



Differences Between Entrepreneurial and Professional Management

- Phase 1 and 2 are really the entrepreneurial stage; 3 and 4 are the professional management phase
- Assessing progress involves 9 key result areas



Results

- Profit
- Planning
- Organization
- Control
- Management Development
- Budgeting
- Innovation
- Leadership
- Culture



Profit

- Profit seen as a by-product
- Profit Orientation, with profit as an explicit goal



Planning

- Informal, ad-hoc planning
- Formal, Systematic Planning:
 - Strategic Planning
 - Operational Planning
 - Contingency Planning



Organization

- Informal structure with over lapping and undefined responsibilities
- Formal, explicit role descriptions that are mutually exclusive and exhaustive



Control

- Partial, ad-hoc control; seldom use of formal measurement
- Formal, planned system of control, including explicit objectives, targets, measures, evaluations and rewards



Management Development

- Ad-hoc development, principally through OJT

- Planned management development:
 - Identification of requirements
 - Design of programs



Budgeting

- Budget not explicit; no follow up on variances
- Management by standards and variances



Innovation

- Orientation toward major innovations; willingness to take major risks
- Orientation to incremental innovations; willingness to take calculated risks



Leadership

- Styles vary from very directive to laissez-faire
- Consultative or participative styles



Culture

- Loosely defined, “family” culture
- Well defined culture



Discrepancies

- Size
- The extent to which systems are developed
- GROWING PAINS are what happens in between



Growth Pains

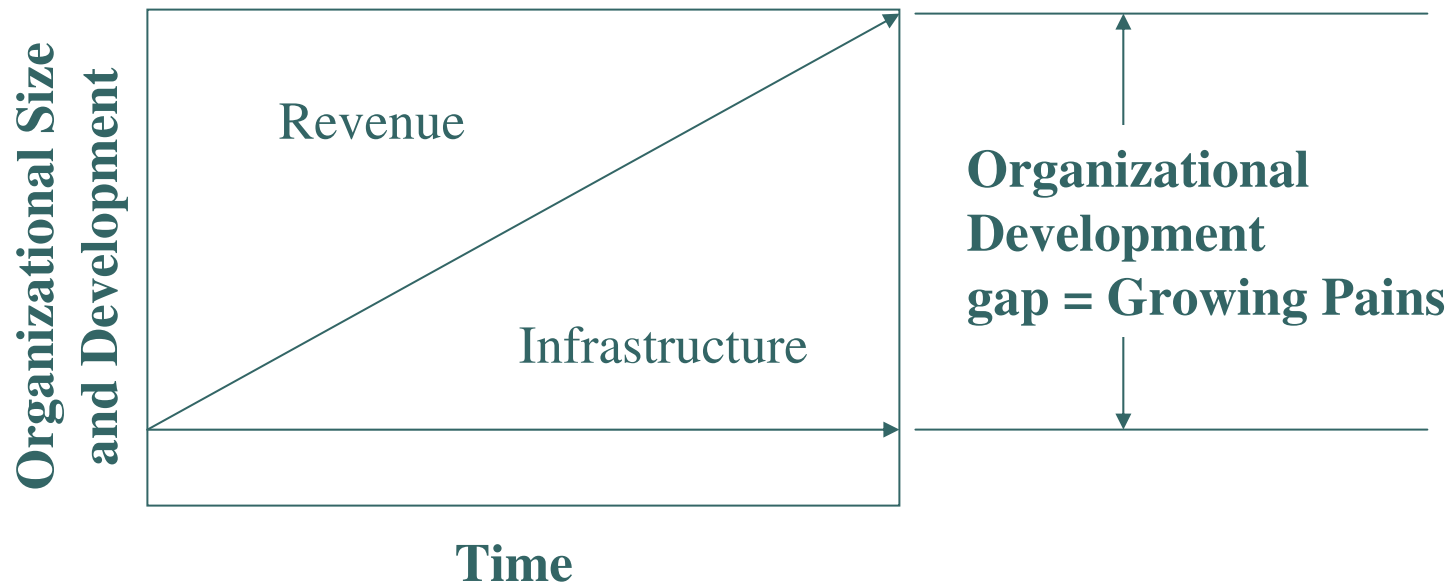
- Like medical pain, they are symptoms of:
 - A gap between organizational development and the infrastructure required to run it
- Operational support systems: Day-to-day systems required to provide our service with consistency



LOOK OUT

- This transition is the time when the very personality traits that made the founder/entrepreneur so successful can lead to demise
 - They want things done “their own way”
 - Doers rather than managers
 - They tend to reject meetings and formal plans and think: “Why do we need all this corporate stuff? We did just fine without it before.”

Causes of Organizational Growing Pains





Growth Rates and Infrastructure

- Less than 15% annually: Relatively unspectacular
- 15%-25%: Rapid Growth
- 25%-50%: VERY Rapid Growth
- 50%-100%: Hyper-growth
- Greater than 100% annually: Light speed growth



Service Companies

- Your practice?
 - Warning signs are at 750k-2 million in sales
 - 5 million in annual sales
 - Again at 15 million
 - Again at 25 million



5 Paths to Choose From

- Try to develop new skills
- Resign or bring in professional management
- Move up to “Chairperson” and bring in professional management
- Continue to operate as before and ignore reality
- Sell out



Top 10 Symptoms

- 1. People feel there are “not enough hours in the day”**
- 2. Too much time spent putting out fires**
- 3. People are not aware of what other people are doing**
- 4. People lack understanding about where the company is headed**
- 5. There are too few good managers**
- 6. People feel: “I have to do it myself if I want it done correctly”**
- 7. Most people feel that meetings are a waste of time**
- 8. When plans are made there is very little follow up, so things don't get done**
- 9. People feel insecure about their place in the company**
- 10. The company grows in sales but not in profits**



Growing Pains Questionnaire

- To A Very Great Extent
- To A Great Extent
- To Some Extent
- To A Slight Extent
- To A Very Slight Extent



Organizational Growing Pains Questionnaire

Growing Pain	A To a Very Great Extent	B To a Great Extent	C To Some Extent	D To a Slight Extent	E To a Very Slight Extent
1. I feel that “there are not enough hours in the day.”		X			
2. I spend too much time “putting out fires.”		X			
3. I am not aware of what other people are doing.	X				
4. I lack understanding about where the firm is heading.			X		
5. I feel there are too few good managers.		X			
6. I feel, “I have to do it myself if I want it done correctly.”			X		
7. I feel that meetings are a waste of time.				X	
8. When plans are made, there is very little follow-up, so things just don’t get done.		X			
9. I feel insecure about my place in the firm.				X	
10. I feel The firm has continued to grow in sales but not in profits.	X				

Scoring

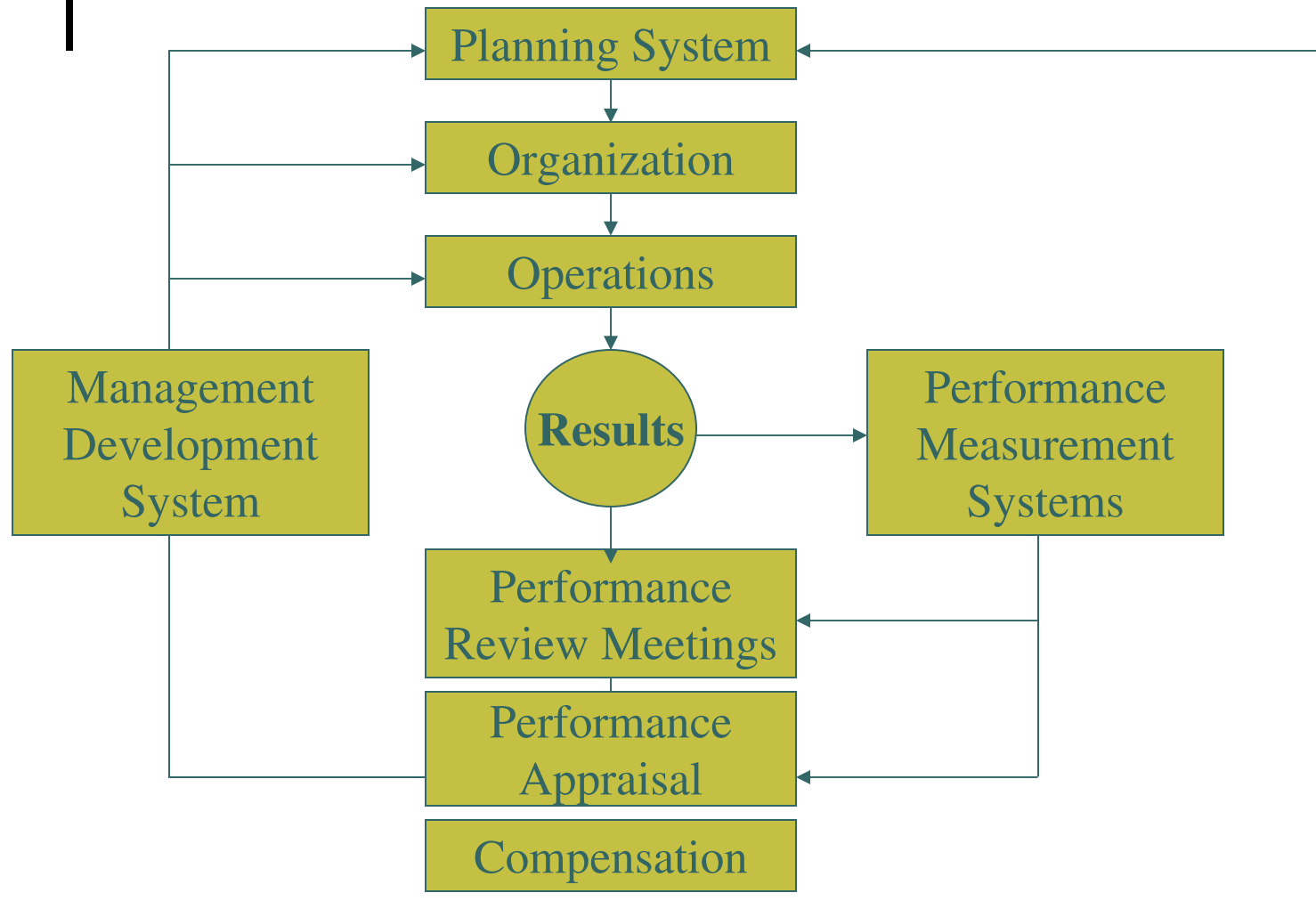
11. Add the total number of responses in each column.	2	4	2	2	0
12. Multiply the number on line 11 by the number on line 12, and record the result on line 13.	x 5	x 4	x 3	x 2	x 1
13. Result of line 11 times line 12.	10	16	6	4	0
14. Add the numbers on line 13 in columns A-E and place the result in column A, on this line.					



Interpretation of Organizational Growing Pains Questionnaire Scores

Score Range	Color	Interpretation
10-14	Green	Everything Okay
15-19	Yellow	Some things to watch
20-29	Orange	Some areas that need attention
30-39	Red	Some very significant problems
40-50	Purple	A potential crisis or turnaround situation

The Management System





Overcoming Growing Pains

- **Implement a Management Development Program to improve the skills of managers, including the senior management team**
- **Develop and Implement a formal strategic plan**
- **Develop more formal and accurate role descriptions, organization chart and communicate it to all**
- **Redesign performance appraisal compensation processes to differentiate high, average and low performers**
- **Develop a succession plan**



Metamorphosis

- Spontaneous and ad-hoc
- Informal plans and employees react to personalities and events
- No accountability or control systems
- OJT
- Profit just “happens”
- Planned and disciplined entity
- Formal meetings and planning are a way of life - some mutually exclusive roles
- Objectives, goals that are measured and rewarded
- Formal training programs
- Profit is expected and a goal to be achieved