White Paper

Five Things Growing Small Businesses Get Right

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By: Founders Rick Faber and Eric Smith

GROWTH GURU
THINK BIGGER BUSINESS®

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Many well-established small businesses, sometimes called Phase 2 companies, are seeking to sustain growth into the middle market. These companies, often founder-led, have passed through the entrepreneurial phase and have achieved a measure of stability. They are, however, looking for alignment and need a solid business operating system to bring the disparate pieces together in a unified effort. They probably have some experience in strategic planning but have been frustrated by the lack of results produced from the strategic plan.

Their problem is likely strategic execution, but they do not see it because blame is placed on a variety of tactical issues. Often, the bottleneck to growth is the founder's ability to delegate responsibly. Growth is currently limited by the number of plates the founder can keep spinning at the same time. To grow beyond this limit, businesses must mature their mindset, their systems and their processes. Our research has shown that there are five things growing small businesses moving into the middle market get right.

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So long as a unit fights cheerfully, with spirit and élan, great strength of will is rarely needed; but once conditions become difficult, as they must when much is at stake, things no longer run like a well-oiled machine. The machine itself begins to resist, and the commander needs tremendous will-power to overcome this resistance. As each man’s strength gives out, as it no longer responds to his will, the inertia of the whole gradually comes to rest on the commander’s will alone.

Carl von Clausewitz

LEADERSHIP

Corporate growth begins with the leader. A leader looking to generate consistent growth must grow in the art of leadership. There are three primary facets of the art of leadership: vision, courage, and self-sacrifice.

Vision

Vision is a future-oriented statement of purpose. It is the product of the leader’s imagination, albeit imagination grounded in reality. To quote Einstein, “Imagination is the preview to life’s coming attractions.” It encapsulates what you want to accomplish, where you want to go, or how you want to change the world. Vision should be specific to your organization, detailed enough to guide action and strategy, customized to account for the circumstances in which you find yourself, and distinctive to the point leader’s passion and commitments. It is a picture that you paint of what the future could or should be. That future needs to be better than the present or it is not worth sacrificing for and will not be compelling enough to drive organizational behavior. However, the vision must also be realistic to provide impetus for people’s hopes and activities.

One of the most difficult, yet most important, tasks of the visionary leader is communicating the vision in clear, compelling language. The bane of effective visioneering is the communally developed vision statement. Nothing waters down vision more effectively than asking a team to come up with a vision statement. It is important that the team own the vision, not create it. The role of the team is to create the strategies, plans, operations and tactics that will drive the vision forward.

For clear communication of vision, Growth Guru uses the ‘Win Window.’ The leader identifies what a ‘win’ looks like in one-, three-, and five-year windows. The goal is to clarify the future in terms of products, people, processes, facilities, revenue, net profit (or EBITDA), culture, etc. Team members may not always agree with the leader’s vision, but they need to be willing to commit to the vision.

Courage

Most anyone can sail a boat in calm seas, it takes courage and experience to survive the storm.

Growing a company takes courage. Excellence is an act of courage. Not only does excellent work require discipline, it requires courage because, on the one hand, we fear giving it our all and coming up short, but on the other hand, we often fear success more than failure. Success breeds change, bigger impact on more people, and the potential to suffer the jealousy of those around us. Courage is required to press through those changes.

Many companies in manufacturing and construction, tout safety as value. But safety is much more than just physical safety. Workplace culture must be both physically and emotionally safe. This means confidentiality is consistently maintained, the leader is not griping about certain team members to other team members, appropriate transparency is practiced, and there is a culture of trust rather than fear of retribution, which is different from accountability. Creating a culture of responsibility means demanding accountability and being willing to be held accountable by others. Blaming others for unmet goals might be more simple, but ownership demands assuming accountability whether or it leads to success.

One aspect of courage that often catches leaders by surprise is the need for vulnerability. Communicating vision, expressing core beliefs, and explaining why particular behaviors are required of employees all take courage because expressing deeply held convictions is akin to standing naked in front of a crowd. The best leaders summon the courage to risk vulnerability.

Finally, leaders wishing to grow themselves and their organizations must seek to surround themselves with professionals who uplift them and whose presence calls forth their best (more on people later). This takes courage because there is a temptation to seek out sycophants, surrounding ourselves with those whose capacity is lower than ours and who tell us only what we want to hear.

Self-Sacrifice

A growing leader should selflessly love their company, mission, people, and products. It's a commitment to something bigger than oneself, requiring boundless compassion and empathy. As Jim Collins points out in Good to Great, the best leaders "channel their ego needs away from themselves and into the larger goal of building a great company…their ambition is first and foremost for the institution, not themselves."

In their seminal HBR article on "The Five Stages of Small Business Growth" Neil Churchill and Virginia Lewis note that one of the biggest areas of self-sacrifice for small business owners is money. They must wrestle through the need to risk the cash and established borrowing power of the company to finance growth. Many owners would rather maintain the status quo, keeping the company stable and profitable in order to fund alternative owner activities such as starting new enterprises, running for political office, or pursuing hobbies and other outside interests. These companies are called 'lifestyle businesses' because they support the owner's chosen lifestyle. If a lifestyle business happens to grow it is by luck or the good fortune of outside circumstances, not intention.

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> **Great vision without great people is irrelevant.**
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> **- Jim Collins**

CULTURE

Behaviors

While core values can serve as points on a compass, they often do little to create the culture we seek. Brené Brown said it well: ”Organizational values are gauzy and assessed in terms of aspirations rather than actual behaviors that can be seen, taught, measured, and evaluated.” Values are ideas and ideals while behaviors are actions. Actions can be taught, measured and evaluated with a level of specificity that is lacking in core values. For example, a company might adopt ‘Respect’ as a core value. But what does respect look like in action? Saying ‘sir’ or ‘ma’am’ when speaking with anyone older? Replying to emails within twenty-four hours? Showing up to meetings on time?

In order to get to the behavior, we must ask what the value looks like in action. Statements like ‘listen with your eyes,’ ‘respond to emails within two hours’ or ‘be obsessive over response time,’ and ‘honor commitments’ all carry more punch than listing ‘respect’ as a core value. Behaviors are what allow us to create culture and hire to that culture. The identification of behaviors rests primarily with the leader. Embedding the behaviors in the company culture can be accomplished through a variety of means, including weekly company-wide shout-outs that highlight stories of the behaviors in action, taking five minutes in the weekly meeting to discuss a behavior of the week, or rewarding employees who notice others modeling the behaviors and posting about it on social media.

Fab 5 (6 or 7)

Growth minded CEOs also need to form an inner circle of decision makers who will carry out the strategic growth plan while championing it to their teams. Smart leaders surround themselves with people who will not just support them but challenge them to be their best. While there will often be certain roles within the company that comprise this inner circle, the selection of this team must force thinking outside of roles. Just because someone is high on the org chart does not guarantee they are a good fit for your inner circle leadership team.

Some questions to ask in the selection of your team:

- Who would we place in the leadership team if we were to double our current size?
- Who has a growth mindset?
- Who is hungry for more?
- Who has the capacity for exponential growth?
- Who can handle the truth?
- Who is capable of fierce conversations?
- Who demonstrates great discretionary effort?

People

Getting clear on company behaviors allows us to identify desirable characteristics our people must posess for us to move our business forward. Clearly defined behaviors, as opposed to nebulous core values, allows for the hiring and retention of the best people. The fastest, most effective path to winning the hiring war is hiring and firing to cultural fit as represented by clearly defined behaviors.

Along with cultural fit, there are four characteristics we look for in any team member placed in a key role. First, they must be resourceful. When in growth mode we cannot afford to surround ourselves with people constantly in need of being told exactly what to do. We need people we can trust to figure out how to accomplish the goals set for them. Second, they need to be engaged. They must have the desire, passion, and intentional presence of a champion. Lou Holtz, legendary football coach at Notre Dame, famously claimed he never had a motivation problem on his team. He simply removed those who were not motivated.

Third, people must be accountable. This means they are willing to be held accountable and, if in a management role, are willing and able to hold others accountable. They must be willing to take ownership of results and must never play the victim. Do you have someone who always has a good reason for things not getting done? Odds are you have someone who fails at accountability. Fourth, people in key roles must be leaders. They are committed to the vision and are willing to do whatever it takes to make the vision a reality. They communicate well with others, especially their direct reports, and can clearly articulate the 'why' of decisions, whether theirs or the company's. They set the tone by example and model company behaviors for others.

WORK ON THE BUSINESS

Perhaps the most difficult task for a small business owner, especially an entrepreneur, is transitioning themselves out of the day-to-day operations of the business. The owner has been the one with all the answers, the go-to person functioning as master problem solver. What serves to drive getting the small business off the ground is eventually the very thing that becomes the bottleneck to growth and keeps the company from moving forward.

What does the transition from working in the business to working on the business look like?

First, the CEO must push problem solving down the chain of command and focus on opportunity hunting. As Peter Drucker famously stated, "Good executives focus on opportunities rather than problems. Problems must be taken care of, of course; they must not be swept under the rug. But problem solving, however necessary, does not produce results. It prevents damage. Exploiting opportunities produces results." The job of CEO is vision and direction, two inherently opportunity focused tasks. But pushing problem solving down the chain of command to focus on opportunities can be tough because others will likely not solve problems in the same way or with the same efficiency. Even though problems carry an overwhelming sense of urgency and demand attention, the wise CEO must learn to make heroes instead of be one.

Second, the CEO must avoid the trap of becoming the genius with a thousand helpers. Or, in the case of most entrepreneurs, they must work themselves out of the genius with a thousand helpers model. Collins coined the phrase to distinguish CEOs who build great management teams from those that do not, instead using the company as a platform for their own talents and ambition. Many entrepreneur's start their businesses this way. They see a need, know they have the ability to fill that need, and carve out a niche for themselves doing great work. Eventually they hire people to help them carry out their great work. While this is an effective way to get a business off the ground, it does not scale and forces the company into total dependence on the presence of the CEO. Collins asserts that the key to overcoming genius with a thousand helpers syndrome is reversing the way we think about growing the business. Instead of figuring out what we're going to do and then hiring people (helpers) to accomplish it, the CEO must first hire the right people, taking the time to painstakingly get the right people in the right seats on the bus, and then figure out where the company is headed.

Third, related to moving on from the genius with a thousand helpers model, CEOs of growing companies learn how to intelligently delegate. In short, if it can be done by someone else, do not do it. This creates what some call a 'crisis of control.' Owners who built a company from the ground up often find it difficult to delegate. They are picky about how they want it done, or they enjoy the high of being good at something. An owner-operator may have built a good company from their technical expertise and now they are having to spend their time recruiting and developing talent. They feel a constant pull back to core competency.

Fourth, working on a growing business rather than in it sometimes necessitates personnel changes. We know that what got you here won't get you there, but we sometimes ignore the fact that who got you here may not get you there. The early adopters thrive in ambiguity and value flexibility in their day-to-day work. As the company grows there is an increased focus on systems and processes that need to be maintained and improved for greater efficiency. The transition from fluid to fixed job descriptions is uncomfortable for many. Creating systems and running systems are two very different things and people typically gravitate to one or the other. The person who loved creating the system is rarely the one who wants to run the system. Often, the star performers who got the business off the ground are the ones that need to be transitioned out. This can be painful for the owner, especially given the sense of loyalty that is developed during the start-up phase of the business.

Lastly, while working on the business, getting the right people in the right seats and hunting for opportunities, the CEO must work to remain customer-centric. While getting the business off the ground the founder is in constant contact with customers. As the business grows the founder spends more time and energy on internal concerns such as personnel, hiring and firing, development of systems, and so forth. The founder gradually loses touch with the needs and concerns of customers. Within a few years the best customers are looking for other solutions because they feel your company no longer has their best interests in mind. The only cure for this is to maintain regular contact with customers. The struggle to remain customer-centric is not unique to growing, entrepreneur-led small businesses. A.G. Lafley, former CEO of Procter & Gamble, wrote on the difficulties the consumer giant had keeping the customer king. In his 2009 article "What Only the CEO Can Do," he emphasized that the best CEOs find creative ways to keep their businesses focused on the customers.

NORTH STAR STRATEGY

At the end of World War II, many American generals thought it best to press on from Berlin to conquer Russia. However, an economist brilliantly wrote what would become the heartbeat of American strategy moving forward: Isolate and Contain.

In the same manner, effective business strategy should be simple to understand, concisely stated, and function as the guiding North Star for the activities and tactics of the company and its employees. The best small businesses are keenly aware of their North Star, allowing them to prioritize activities that contribute most effectively to the bottom line.

The discovery of your North Star begins with a keen sense of four basic categories: Right, Wrong, Missing and Broken.

1. Right. What is working well in the company? These are the right things being done in the right way. They are the things that bring competitive advantage and should be emphasized and capitalize upon.
2. Wrong. What is the company doing that it should stop doing? Put these on your 'stop doing list' and eliminate them.
3. Missing. What is missing in the company's activities? These are things that need to be implemented.
4. Broken. What are the things we are doing now, we need to keep doing them, but they are currently broken? It is the right activity and it needs to be continued but it's not being performed correctly. Something about the execution needs to be fixed.

While most CEOs are at least vaguely aware of what is right, wrong, missing and broken in their companies, the best CEOs do two things other CEOs do not have the courage to do: They put their best people and resources on what is Right and they root out what is Wrong and ruthlessly eliminate it.

Strike Zone

What does your best customer look like? What makes them your best customer? Do you find a set of common elements across the breadth of your best customers? Leaders of growing companies give thought to customer fit and think through things like sale size, industry, geography, service expectations, and margins. Ultimately, you will want to stratify your customer list so you can identify (at a minimum) what your best customers look like, what customers you need to fire, and the spectrum in between those two extremes.

Once you figure out what your best customers look like—your strike zone—you can begin to rule out chasing deals that might look great but in the long run cost margin, time, and energy relative to the strike zone. CEOs find that by focusing on their strike zone they can increase margins and reduce headaches brought on by problem customers in such a way that they have more time, enjoy their work more, and make more money. It's not uncommon for a company to see an increase in profit combined with an initial decrease in revenue as they home in on their strike zone.

Environmental Scan

It is crucial to complete an environment scan of your industry and market, before finalizing your North Star Strategy. What are the current trends of clients and potential future clients? Has technology changed or is it changing in your sector? Is there a new buyer of your product or service, or are buyers being influenced differently today?

For example, communication changed dramatically during the COVID-19 pandemic. Companies and employees moved to video conferencing in a major way, and in ways that will not change how we communicate forever. It effected how groups worked, how we communicated with clients and how digital marketing moved quickly to capture and expand markets.

Differentiation (Hedgehog) and Flywheel

A critical component of strategy is the Flywheel. In his book, Good to Great, Collins describes the flywheel as the chain of events that leads to sustainable business.

Closely related is the hedgehog, that one thing that your company does best. You'll find your hedgehog at the intersection of three elements:

1. That which you are deeply passionate about
2. What you can do better than anyone else in the world
3. The driver of your economic engine.

I'm often surprised by the number of CEOs I've met who have read Good to Great, claim it to be a great book full of insights on how to build an enduring company, but can't articulate either their Hedgehog or their Flywheel. They are missing out because these two concepts combined and properly executed provide an amazingly simple way of looking at your business and keeping it on track for sustained growth.

DISCIPLINED EXECUTION

"In war it is less important what one does than how one does it. Strong determination and perseverance in carrying through a simple idea are the surest route to one's objective."

- Hulmuth von Moltke,
Architect of Prussia's military victories over Austria and France and co-creator of the united German Empire in 1871

"Execution is the great unaddressed issue in the business world today. Its absence is the single biggest obstacle to success and the cause of most of the disappointments that are mistakenly attributed to other causes."

- Ram Charan

Imagine sitting on a yacht in the sunny Mediterranean, sipping your favorite drink while being lulled to sleep by the gentle sway of the boat. Now imagine that you could do this in full confidence that your business was humming on all cylinders, functioning exactly as it should. Also imagine that if there is anything wrong with the company you have a diagnostic system as quick and accurate as the one your mechanic uses to check the electronics on your car. This diagnostic system that allows you to have peace of mind on your yacht is the dashboard you create for your business.

The first step in creating your peace of mind dashboard is the disciplined, thoughtful selection of what should be measured. The goal is to measure what truly matters for the success and growth of the business. Key performance indicators are an obvious first choice, but the dashboard should also include selected sprints that are necessary for driving strategy forward. Begin making your dashboard metrics by asking, "What do I need to know in order to feel confident the business is moving forward even if I'm not present?" By simply listing these items you're already moving forward on the creation of your Yacht Goals Dashboard.

It is critical that the metrics you select represent an appropriate combination of lead and lag measures. Lag measures represent your ultimate goal whereas lead measures represent the things that will get you to your goal. Very often lag measures are not directly controllable but lead measures must always be in our control, otherwise they are not true lead measures. An easy example to illustrate the point is weight loss. Let us say the goal is to lose ten pounds. Your weight when you step on the scale is the lag measure. It is not directly controllable and it's a lagging indicator because it can only be measured after the fact. Since lead measures are the things that should lead to the accomplishment of the goal, obvious lead measures for weight loss are diet and exercise. But 'diet and exercise' are not specific enough. For exercise, an exercise goal might be 'forty minutes of aerobic exercise three days per week.' This is an appropriate lead measure because it's 1) measurable, 2) under my control, and 3) going to help me accomplish my lag goal (weight loss).

To summarize, lag goals, such as increased sales, profit growth, or higher margins are not enough. Diligent thought must be given to what can be directly controlled that will lead to results and must be tracked on a dashboard.

White Space

Often the first thing that goes through a leader's mind when considering strategic execution is, "I don't have time for this." Many CEOs and point leaders already feel overwhelmed simply trying to keep up with the current demands of the job. So, when a consultant comes along talking about the latest greatest tool for accelerating their business, a good CEO is already skeptical! "That sounds great, but there is no way I'd be able to pull that off right now." The last thing the CEO wants is something else that makes them feel like they are not doing enough already. And it is not just the CEO. Many of our best employees in the trenches executing the vision feel they have no margin for change or anything new.

This is where the creation of white space comes in. Strategic execution done improperly adds hours every week to the already over-crowded calendars of the CEO and division leaders. But strategic execution done properly actually gives hours back to the CEO, allowing them to hop off the hamster wheel. Remember the discussion of RWMB above when looking at your North Star Strategy? Now that the North Star is established and the company has a firm grasp on its priorities, the effective CEO begins to eliminate distractions and things that don't give a good return on the investment of time and energy.

Critical Success Initiatives (CSI) Rhythm

Sprints are quarterly achievement goals that drive the company forward, organized into manageable chunks with time for reflection. Selecting and shaping these goals takes thoughtful consideration. Since it is perfectly possible to select goals that do not drive the mission forward it is critical to select goals that flow from the strategy. Well executed objectives that do not drive strategy forward derail organizations.

We refer to these goals as 'sprints' rather than quarterly objectives because we want to instill a practice of running hard for ten or eleven weeks and then taking a few weeks to assess the quarter's work and reset for the following quarter. Too often when operating under quarterly objectives people will roll into a new quarter without considering what the new quarter's objective should be. The sprint prevents this. Very rarely can something accomplishable in a quarter not be accomplished in the first ten weeks of that quarter. This is because we allow the work to expand to the time allotted to complete it. By making the sprint ten weeks we focus our energy on execution and allow for seasoned reflection on the next quarter's goals.

A great method for figuring your (at most seven) key diagnostic measures is to imagine being five years down the road and your strategic initiatives have completely failed. What were the factors that led to this failure? Identifying these will help you know what your what your key diagnostics should be.

If you are already tracking quarterly objectives—whether OKR's, BHAG's, WIG's, SMART goals, or some other method—congratulations. You have positioned yourself ahead of the curve. To go to the next level in goal setting and achievement your goals must be carefully

considered and intimately tied to strategy. Sprints allow the space for careful consideration and a system such as Growth Guru weds quarterly goals to strategy.

Power Hour

'Power Hour' is the weekly meeting. The most important lead measure for whether the business operating system (strategic execution) is working is the consistency and quality of the weekly meeting. This meeting has one purpose: To drive strategy into execution.

A typical structure for the meeting follows:

5 minutes	Opening comments from the facilitator
10 minutes	Sprint progress (on or off track)
5 minutes	To dos from last week (on or off track)
5 minutes	Dashboard (on or off track)
5 minutes	Issues, decision, and action team
30 minutes	Action Team only
5 minutes	Define problem or opportunity
5 minutes	Share definitions and finalize
15 minutes	Discuss and share alternatives
5 minutes	Solve and communicate

The meeting should be kept to one hour each week and many participants will only be there for the first half hour. The following norms are critical to the success of the meetings:

1. The meeting starts and ends on time.
2. Dashboards are distributed prior to the meeting.
3. Progress reports must be one-minute presentations and noted as on or off track.
4. Determination of the biggest issue or opportunity is done by group vote and the CEO holds the tie breaking vote.
5. The CEO assigns the Action Team and whenever possible the CEO is not on the Action Team.
6. The Action Team are no more than five people.

Begin to Solidify Your Value Chain

Value chain is a term used to describe the business model that lays out the entire range of activities needed to deliver the firm's product or service. The purpose of value chain analysis is to acquire and maintain a competitive advantage. The term was introduced and popularized by Harvard Business School professor Michael Porter in Competitive Advantage: Creating and Sustaining Superior Performance. Value chain analysis is required to optimize your company to produce the greatest value at the least possible cost, thereby maximizing margin and owner/shareholder profit.

Porter divides a firm's activities into 'primary' and 'support' activities. While specifics of the activities will vary by industry and from company to company, Porter claims the following five primary and four support activities are essential in nearly any company.

Primary Activities:

1. Inbound logistics
2. Operations
3. Outbound logistics
4. Marketing and Sales
5. Service

Support Activities:

1. Procurement
2. Technological Development
3. Human Resources Management
4. Infrastructure

Support activities are overhead costs that are justifiable only if they make the primary activities more efficient.

Process improvement is not usually a priority. Rather, it is often one of the last things we look at. The basic goal of process improvement is increased efficiency throughout the company. The process must include individual flexibility to leave room for individual optimization. In other word, this is not a one size fits all process. Writing down the twenty percent of the process that gets eighty percent of the results is all that is required. The improvement of processes and their documentation typically become sprints for operational people or technical experts, not visionaries. Process improvement should include frontline employees currently doing the job as they're the most likely to have insights into how to make things more efficient. One question to keep in mind is whether technology could improve any operational processes through automation or technical advances. Human touch is expensive and processes that can be done better or less expensively through automation will save on human capital. In an environment where hiring good people is difficult, we want to make the absolute most of their time and energy.

Typically, the hand off from one process to another is more problematic than improving individual processes. For example, the system of going from sale to order entry to order delivery is more difficult and complicated than improving only the sales process. Someone must be in charge of thinking systemically through the process improvements to ensure that an improvement in one area does not create problems in another.

GROWTH IS A CHOICE

Great Leaders do not assume growth just happens. You must envision it, research it, develop strategies to attain it, yes plan for it. Leaders also give life to the growth goal, provide passion to achieve, and live the behaviors necessary to win daily. All of these attributes are a choice, no different than other choices in life, like living healthy, exercising regularly, and being the best at something.

If your choice today is to become a high performer in your life and business, and to grow personally and professionally, you need a coach. Business is not different that any other professional endeavor. Great athletes have coaches. Great musicians have coaches. Great speakers have coaches.

Great business leaders have gurus, Growth Gurus.

We will not do the work for you. We will not create your vision or get you up in the morning to do your job, all of that is still up to you. But I can promise we will provide a clear map on this journey of growth, with the great opportunity to win and Think Bigger Business!

Ready to grow your business?

Rick Faber

rickf@mygrowthguru.com

402.659.3321

MyGrowthGuru.com