

Keeping the Business Humming All the Time

02/07/05

Many of our readers have asked about the general purpose of business. What distinguishes businesses that grow, as compared to businesses that stop expanding? Which businesses tend to thrive and prosper? What is the difference in outcomes for owners of businesses that keep growing vs. businesses that stop expanding?

The driving force behind any small business is the owner, or owners. Their enthusiasm, commitment, drive and experience fuel the growth of their businesses – up to a point.

At some point in every business, growth slows, stalls, or heads in a negative direction. The # 1 issue behind a slowdown is lack of knowledge as to what to do next. I call this the Peter Principle for businesses. The Peter Principle was originally put forth by Canadian sociologist Laurence Johnston Peter (1919–1990). It is a theory that, according to the American Heritage Dictionary, “Employees within an organization will advance to their highest level of competence and then be promoted to and remain at a level at which they are incompetent.” In other words, people surpass their skill, keep trying to do more, and then fail because they don’t have enough knowledge, skill, or innate ability to perform at the new level.

The same thing happens in business – a business advances

to its highest level of competence, then runs out of skill, gets stuck, and stays there. The only way out is to back off, stop growing and operate within the current competence, or add more skill to fuel future growth. One classic model for fueling future growth is venture capital, whereby the venture capitalists bring in not only money, but also new skills, practices and disciplines that enable new rounds of growth. That is not the only model. Many businesses continue to grow year after year by focusing on expanding the education and skill of both owners and employees.

A major distinguishing characteristic of companies that grow vs. those that stop expanding is owners who challenge their companies, and the people within them, to continue to learn and make progress. Unfortunately, for many of us, we look at graduation from school as a transition point – from education to work. We let go of the skill of constant learning that we honed during our formative years. We get caught up in the day-to-day challenges, and think we don’t have time to focus on education and growth. Often within a business, not only the owner, but many of the employees have stopped challenging themselves to grow. Doing things the same old way becomes accepted practice. And the business stalls. Hence, the

Peter Principle for Business comes into play.

What about outcomes? Who prospers? Businesses with a moderate, planned, grow rate tend to prosper. Their focus on reasonable expansion and enhancement allows them to afford the normal cost increases that happen in our economy. They regularly, but carefully, add new clients and services, which keep them from becoming obsolete. They take on new initiatives a few at a time. They avoid overload. Owners of growing companies insure that the business regularly adds new clients, services, and ability to deliver. They also tend to move personnel around, so that people don’t get settled or stuck, and are challenged to keep learning and growing.

Alternatively, businesses that stop growing are prone to getting caught by competitors. Businesses that stall eventually cannot keep up with cost increases for wages, goods, delivery, etc. Old clients move on, or do not see enough increase in value over time to support price increases or to warrant expanded buying. Eventually the business goes from flat growth to being replaced by a more innovative, more aggressive competitor. And a downward spiral begins, ending in collapse, foreclosure, sale, or some other form of closing up the business.

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Owners of steadily growing businesses, while often faced with significant challenges, tend to reap greater financial rewards than those business owners who settle for flat, or up and down growth. There are three ways that a business owner is compensated: salary for managing the business, bonuses for operating the business profitably, payout for selling the business. All three are at risk in privately-held companies, as the business owner tends to be the banker of last resort, giving up salary and bonuses, and using savings to shore up the business in difficult times. Therefore, an owner's ability to prosper tends to be in direct relation to the growth and profitability of the business.

Build a machine that can steadily expand, handle the expansion, and deliver a profitable outcome. That's how you make money, year in and year out. Unfortunately too many business owners focus on today's revenue, today's problems and today's customer's needs, and put themselves at the center of the businesses' activities.

Most small business owners do not work enough on building a sale-able asset that can contribute to a comfortable retirement down line. They get caught in the trap of reacting instead of planning. They think of the business as belonging only to them, rather than as an independent entity that can

survive a transition and continue to prosper long after the founder departs. Think about what you, as owner of your business, are building for the long term. Think about how you will find the time, and learn to focus your effort, to achieve the long term outcomes you want from your business.

Looking for a good book? Try a classic: *The Seven Habits of Highly Effective People* by Stephen Covey, Simon & Schuster, 1989. It's all about finding the balance between urgent vs. important, preparation vs. reaction, prevention vs. panic. Covey talks about changing your paradigm, from what seems to be important to what you truly want out of life. What could be more important?

Business owners regularly turn to Ask Andi and Strategy Leaders for advice on how to grow profitable, successful companies. They find what they need time after time. Specific advice is available at www.AskAndiBlog.com. Ask Andi is also published weekly in the Westchester and Fairfield County Business Journals and Hudson Valley Business. Written by Strategy Leaders President, Andi Gray, the Ask Andi column is a rich source of advice for owners of established, privately held businesses.

If you are a business owner and you have a question or would like to discuss some aspect of your business, call [1.877.238.3535](tel:1.877.238.3535) or send an email to AskAndi@StrategyLeaders.com.