

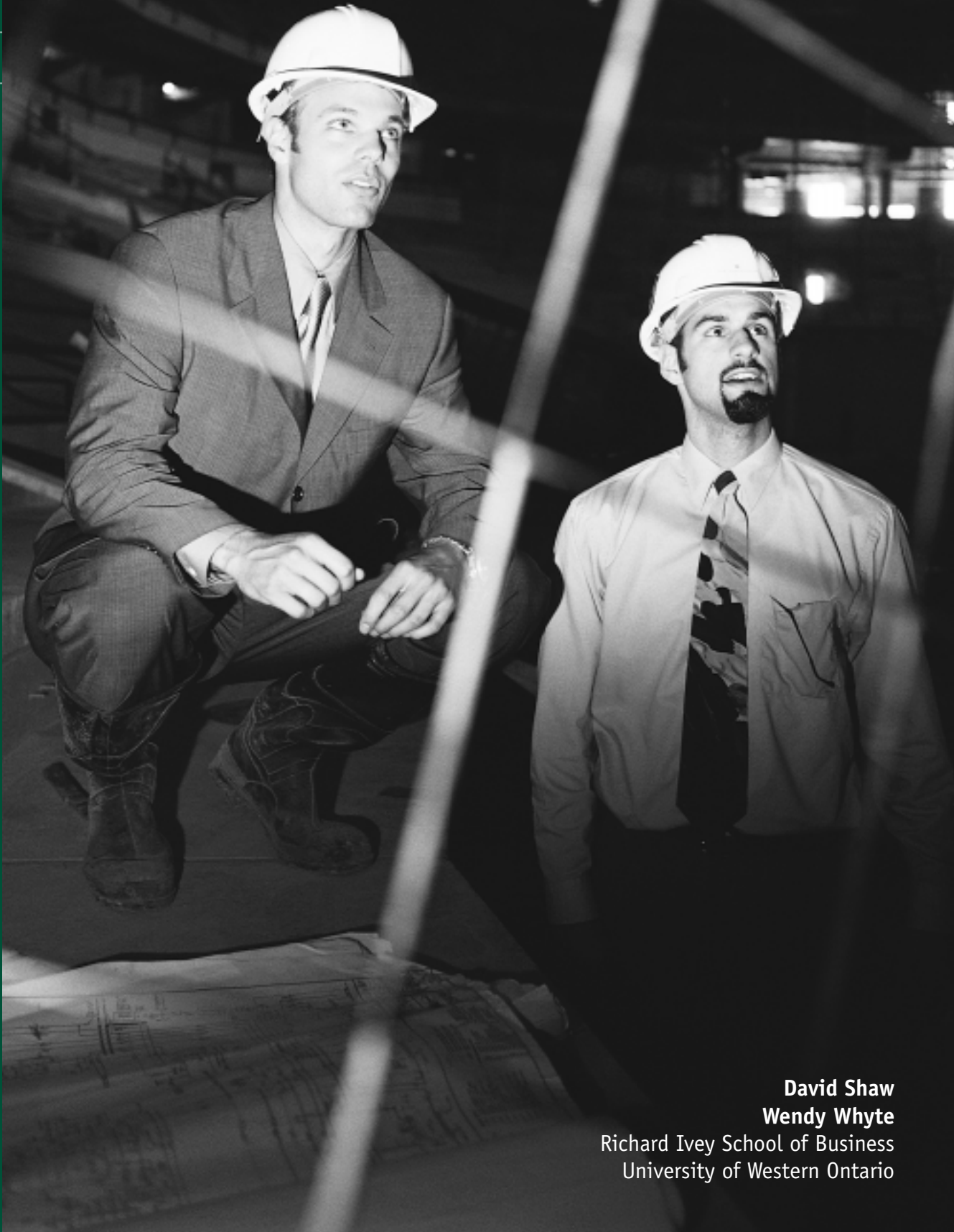
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 **ENTREPRENEUR
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Leading Management Practices

A study of rapid-growth entrepreneurial businesses



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Executive Summary

The CEOs of highly successful, rapid-growth entrepreneurial companies are exciting characters to watch, study and emulate. Managing an organization successfully through a period of rapid growth requires exceptional leaders. We want to know: “What are the real secrets of your success?” “What issues did you have to concentrate on the most to make your company succeed?” Or better still, “Which practices employed in your company – critical to its success in sustaining rapid growth and creating value – might be helpful to me in running my business?”

These companies represent the ultimate management challenge. In studying management, we are challenged to extract the essence of their successes so that other entrepreneurs may achieve equal heights of success.

We surveyed 117 CEOs of Canada’s most successful, rapidly growing entrepreneurial companies, all award recipients and finalists of the Entrepreneur Of The Year® awards during the five years from 1994 to 1998. Our goal was to create the first comprehensive listing of best general management practices for leading entrepreneurial organizations.

SURVEY GROUP CHARACTERISTICS

The companies represented all geographic regions of Canada. They were categorized into five broad industry groups:

Resources	7
Construction	5
Wholesale and Retail	20
Manufacturing	33
Service	51
Category not provided	1
Total	117

The average company had sales of \$19 million and 150 employees in the latest fiscal year, had been in business for about 12 years, and was growing at a compound rate of 24% annually.

A special category – the Top 20-Percenter – describes a group of 23 companies, drawn from the overall group of 117, growing at a rate of 30% or greater and with an above-average complexity score. These 23 companies had an average of 264 employees and \$52 million in sales in the latest fiscal year, three major product lines and exported 60% of their total sales to at least seven countries. The CEO is the company’s founder in 20 of the 23 cases, and 10 are CEOs of public companies. The Top 20-Percenter represent the greatest management challenges based on their growth and complexity, and the responses of these CEOs provide a benchmark.

A leading management practice presents the “how to do it” response to the “what has to be done” important task. The first step in identifying leading general management practices is to determine the tasks the CEOs consider to be important.

We identified five major issues constituting general

management operating activities and asked the CEOs about the tasks and leading practices associated with each issue. We wanted to know whether or not these are major issues for them, and if the tasks and practices are important. The response was clear: these issues are of great importance. Ranked in order of importance they are:

1. Maintain focus;
2. Organize to accomplish the work effectively and efficiently;
3. Manage the company’s vision and values;
4. Manage the decision-making process; and
5. Manage the flow of information.

We wanted to know whether these CEOs used a few or many practices. We were interested in the extent of the agreement on practices across the range of CEOs in companies in different industries and of different size, growth rate and degree of complexity. We were also interested in how well they believe they executed these practices.

The consistency of the responses across all sectors was an important finding. We discovered that there was broad consensus around the important tasks and the challenges

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“These outstanding CEOs always ranked how well they executed a practice lower than they ranked its importance. We concluded: CEOs of rapid-growth companies need to execute many management practices at a satisfactory-plus level, rather than execute just a few exceptionally well.”

Leading management practices

1. 2. 3. 4. 5.

Maintain Focus

- Analyze the impact on existing business activities (such as resource requirements) when evaluating new opportunities
- Diversify beyond one product or service line to reduce vulnerability
- Develop a written plan, and use a system for monitoring the company's activities against the plan
- Look for total solutions for customers even if this means moving beyond your traditional business boundaries
- Require a written proposal to evaluate new business opportunities that includes:
 - Relationship of new opportunity to your competitive strengths and weaknesses
 - Synergies with current distribution and supply channels
 - Customer research
- Use a formal customer-feedback process to maximize customer retention

Organize to accomplish the work effectively and efficiently

- Monitor key accounting-based measures, such as profit, margins and ROI
- Set clear responsibilities and priorities for managers and employees
- Monitor key “real-time” operating variables, such as adherence to schedules, and quality measures
- Appoint managers who have the capability to take on greater responsibility than their current jobs require
- Provide formal training for all new hires
- Expand the span of control of the top management team instead of adding layers to the organization
- Hire people with industry experience

Manage the company's vision and values

- Set out clear criteria and core values for product/service quality and customer care
- Tie compensation to specific business goals for managers
- Hire only those people who fit with the company's values
- Use the planning process to create buy-in for the vision among the top management team
- Provide a mechanism to encourage new product or service ideas from employees
- Hold regular, formal communication meetings with investors
- Tie compensation to specific business goals for employees

Manage the decision-making process

- Clearly define and agree on business priorities with the top management team
- Delegate responsibility for day-to-day decisions to managers
- Review business priorities on a quarterly or more frequent basis
- Use the planning process to create alignment of priorities among the top management team
- Impose and stick to time deadlines for key decisions
- Delegate responsibility for day-to-day decisions to employees
- Use a board of directors with outside members to approve:
 - Capital spending proposals
 - Strategic decisions
 - Operating budgets
- Use a process for debating the implication of alternative scenarios

Manage the flow of information

- Hold regular communication meetings with all employees
- Share company plans with employees
- Use information technology to increase employee productivity
- Provide opportunities for informal communication among all employees
- Maintain state-of-the-art information technology

“A leading management practice presents the ‘how to do it’ response to the ‘what has to be done’ important task.”

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associated with them, and about leading practices and their execution.

The CEOs identified 39 “very important” general management tasks and 37 best practices. Clearly, there are not just a few tasks to deal with, but many. These CEOs recognized this fact, implementing a large number of practices to address these tasks. We identified a set of these leading practices for each major issue category.

How well a practice was executed was always ranked lower than its importance.

We concluded that the CEO of a rapidly growing business has to execute a large number of practices at a satisfactory-plus level rather than just execute a few practices exceptionally well.

Leadership Practices

The CEOs also provided some insight into their own leadership best practices. The most important leadership practice chosen by the respondents in all CEO categories, that of maintaining an open-door policy for employees, stands in stark contrast to the image of an entrepreneur as independent and rebellious.

In fact, they’re highly sensitive to the need to listen to their employees.

- Maintain an open-door policy for employees;
- Delegate decisions to key employees;
- Allocate time to participate in events that allow you to focus on the future;
- Use involved, hands-on leadership;
- Drive strategy from the top; and
- Maintain an organized, disciplined time-management program.

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To receive the complete LMP study, contact the Institute for Entrepreneurship, Innovation & Growth, The Richard Ivey School of Business, The University of Western Ontario at 1151 Richmond Street North, London, Ontario, Canada N6A 3K7 Tel: (519) 661-4236 Toll-free: 1-877-333-4344 Fax: (519) 850-2337 E-mail: instentre@ivey.uwo.ca Internet: www.ivey.uwo.ca/entrepreneurship