# WHY COMPANIES CRASH

THE GREAT PARADOX OF MANAGEMENT IS THAT GROWTH TODAY CAN INHIBIT MORE GROWTH TOMORROW. HERE'S HOW SOME HIGH-FLYING FIRMS OVERCAME THE CHALLENGE THAT COULD PULL APART YOUR BUSINESS, TOO

BY RICHARD GEROFSKY

Every successful business owner and executive knows intuitively what it takes to achieve dynamic growth: a solid business model with a clear and engaging value proposition (people want what you have to offer, and you can make money at it); a well conceived and implemented strategy (doing the right things); and great execution (doing things right).

Some of us have had the experience of being there when "all the planets aligned." Success appeared inevitable. But did it last? For a year, maybe two, the trajectory seemed almost vertical. It might not have been easy or effortless—long days, cancelled vacations, the call of "all hands on deck" to handle the workload. In fact, people became so busy making it happen that it was easy to overlook the signs of things to come: softening orders, quality and delivery issues, margin pressures, a restive workforce and a lengthening cash cycle. We used to do so many things right. Where did we go wrong?

It's the great paradox of business management: growth can inhibit your ability to grow. In a recent survey of Canada's Fastest-Growing Companies conducted by PROFIT and FOCUS Management, the management consultancy in which I am a partner, 56% of respondents worried about their ability to sustain the growth they had experienced. In two-thirds of those cases, their growth rates already had declined due to their inability to effectively manage the increased size and complexity of their businesses.

At FOCUS, we see this a lot among successful companies. And the cause is usually what we call "organizational misalignment": the scenario in which a company's assets are not arranged and directed in a way that allows the company to meet changing market demands in an efficient manner. The worse the organizational misalignment becomes, the more a company wobbles—making it harder to maintain an ascent. Some companies level off; others slow down and descend; and some crash.

But while some degree of misalignment is evident in just about all businesses except for startups, it can be managed and minimized. Companies that learn how to meet the demands of the day while reassembling their parts and correcting course can not only avoid growth-sapping misalignment—they can achieve a substantial competitive advantage. And as some of Canada's Fastest-Growing Companies demonstrate, wobble can be overcome with focus and action.

Here are some of the hallmarks of misaligned enterprises:

- Compensation models that drive the wrong behaviours and put different functions, teams and individuals on opposing sides, rather than incenting collaboration and "win-win" thinking and behaviour;
- Organizational structures that inhibit, rather than encourage, frequent and helpful communication on what is happening in the business and how to improve those things that should be improved;
- Business goals that are vague and subject to interpretation, and individual roles, responsibilities and goals that aren't clearly defined and don't connect into and support the focus and strategy of the business.

It's easy to see how high-growth firms are especially vulnerable to organizational misalignment. It happened at Leeza Distribution, a Montreal-based distributor of premium surfaces for countertops and floors that ranked on PROFIT's list of Canada's Fastest-Growing Companies in each of the past four years. Not satisfied with fighting for business in a crowded marketplace, Leeza president Mark Hanna made significant changes to the firm's strategy, including focusing on fashion- and image-conscious buyers.

**THE SHIFT IN STRATEGY AT ONE COMPANY PROMPTED ITS STAFF TO BREAK INTO COMPETING FACTIONS**

But if the company made a left turn, only some of the stakeholders followed it around the corner. "I started seeing a lot of unhealthy, internal competition between people in different parts of the business,"says Hanna. Leeza had "inside people versus outside people," and back office against front. Instead of pulling together, the business felt like it was pulling apart. "It showed in our performance," says Hanna.

Entrepreneurial DNA can aggravate the problem. "The focus and discipline required to keep the business aligned over the longer term are particularly tough for many entrepreneurs to apply," says Marla Schwartz, president of Benecaid Health Benefits Solutions Inc., a provider of health-benefits plans for small and mid-sized businesses. "They are driven to

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achieve business results, but also tend to be somewhat easily distracted.”

Based in Toronto, Benecaid is a four-time member of the PROFIT 200 list. “In our case, we found that everyone was getting bogged down in the day-to-day details of operating the business,” says Schwartz. “We had spread ourselves too thin—especially the management group—and were, quite honestly, feeling exhausted.”

Benecaid’s principals came to recognize that they needed to sharpen their focus to a few key priorities. “Not an easy thing to do,” notes Schwartz, “especially for habitual overachievers, who by nature want to do more, not less.”

Some sectors are particularly prone to misalignment. Consider the case of RIFCO National Auto Finance of Red Deer, Alta., another repeat member of the ranking of Canada’s Fastest-Growing Companies. As president and CEO Bill Graham tells it, “The financial-services industry is famous for creating internal conflict, especially between the sales and credit departments. We knew this was a real barrier to winning the hearts, minds and business of our key customers—auto dealers.”

On the other hand, it also represented a huge opportunity for RIFCO to do something visibly and tangibly different in the marketplace. “We saw it as a chance to position us favourably against our competition, most of whom were saddled with the traditional way of addressing the business and the resulting internal tensions, competitiveness and lack of co-operation.”

Turning an industry norm into a unique value proposition required more than a bit of nip-and-tuck surgery. RIFCO restructured so that its sales and credit groups reported to the same executive, which helped communication, reduced finger-pointing and facilitated conflict resolution.

But that wasn’t enough to make the right things happen. “Compensation is a huge driver of behaviour in this industry,” notes Graham. So, the company implemented a new pay system that rewards behaviours that increase shareholder value rather than pitting one group against another.

RIFCO also started placing both its credit and salespeople at auto dealers on an alternating basis, a few days at a time. This move allowed credit staff to develop a better understanding of how their actions affect the auto dealer’s business for better or worse, and engendered mutual empathy between sales and credit. “We are seeing far greater levels of teamwork and collaboration than ever before,” says Graham. “It is helping us capture more business.”

Hanna, deep into implementing major strategic change and facing internal tension and resistance, attacked the wobble in his business on multiple fronts. “I recognized that in order to address the issue in an effective way and find a real solution, I had to turn the problem over, in part, to the employees,” says Hanna. He conducted one-on-one meetings with a number of employees, followed by group sessions focused on what matters most to the business. The product of this effort is “The Spirit of Leeza,” a corporate constitution that articulates the expectations for and obligations of every Leeza employee. Employees are expected to learn and embrace it, and receive ongoing coaching to keep them on the right path. When instituted, it became clear to all stakeholders who belonged on the team and who didn’t—prompting several staff departures.

Hanna then scrutinized how people were communicating within the business. “It was clear that we had to do a better job of building the management team, developing strategy, managing its implementation and ensuring that important things were getting done—and done right,” says Hanna. This led him to institute regularly scheduled, planned management-team meetings (normally off-site and away from distractions) at which strategy is formulated.

Hanna also recognized the importance of ongoing communication in achieving and maintaining organizational alignment. “We implemented live communication routines [company-wide] to ensure that we discuss important business issues regularly and we do so in a way that is efficient and effective and produces useful results.” These include short, twice-weekly informal “headline” meetings to highlight big happenings, as well as monthly, 30-minute updates that combine live, teleconference and web-enabled attendance for Leeza people across the country.

As Hanna has worked to restabilize his business, he has recognized that alignment requires hard work: “This is a journey that needs to be planned and a plan that has to be followed, even when we are tempted to think that we have arrived.”

For Jeff Quipp, president of Pickering, Ont.-based Search Engine People, the challenge was to sustain rapid growth before wobble could take the company down. Like a snake shedding its skin, Quipp’s business had experienced steady growth since its inception in 2003 and he was routinely on the lookout for new, larger accommodations. “I think the success that we have enjoyed is driven in large part by what I call a ‘win/win/win’ business philosophy,” he says. “We believe that for success to be achieved, and for that success to be sustainable over time, three important stakeholders have to benefit: the customer, the employee and the company.”

## YOUR INFLIGHT CHECKLIST

How can high-flying enterprises maintain their lift? Extensive analysis of Canada’s Fastest-Growing Companies reveals the questions successful CEOs continually ask of their firms:

- [ ] What steps do we take to make sure that every employee fully understands where the business is heading and how we plan to get there? Is it working—do they understand? How do we know?
- [ ] How do we ensure that our people’s individual objectives and plans support what we are trying to accomplish as a total organization? Is it working—are they aligned? How do we know?
- [ ] How good are we at keeping a focus on performance—especially at sharing and discussing how well we are doing as a business, as teams and as individuals?
- [ ] How do we engage with our people and involve them in order to build commitment toward our business direction and priorities, and toward getting important things done? Is it working—do we see commitment in how they approach their jobs? How does it show?
- [ ] What are we doing to manage the growth, development and progression of our people? Are our efforts appreciated? Are we a valued partner as well as employer? How do we know?

Quipp’s negative experiences prior to starting Search Engine People demonstrated to him the need for a well-aligned organization, in which every person is moving toward the same goal but enjoys the right degree of freedom and discretion in figuring out the best way to get there. The process starts the day a new employee walks in the door. “Everyone gets an orientation on the direction we are taking the business, our critical priorities and the fundamentals of the win/win/win approach,” says Quipp. “We ensure that people get regular, ongoing feedback on performance—in some cases, facilitated by technology in order to make the process as efficient and timely as possible.” This feedback is backed up by formal checks every six months to review progress on major projects and compare the results achieved against objectives.

**GROWTH OVER THE LONG TERM REQUIRES A LEVEL OF DISCIPLINE THAT MANY CEOS LACK**

All of this has contributed measurably to how well the business has performed—particularly its growth. Not everything has gone according to plan, however. “We put an incentive-based compensation system in place, and discovered that we had created a sense of entitlement among our employees,” Quipp explains. “It felt more like a Christmas bonus than a performance-driven plan that was geared to achievement of business objectives.”

He attributes the false start to poor communication, causing staff to receive confusing or conflicting messages. “We’ve ironed out most of the wrinkles now, and I am seeing the difference it makes in individual performance. For those people to whom money makes a difference, there is added incentive to perform at a superior level. And there are performance rewards beyond money, for those who are incented by other forms of recognition.”

The payoff has been significant for Search Engine People, another four-time member of the PROFIT 200 ranking. Quipp says the company has industry-leading customer-satisfaction and retention rates, and it also enjoys very high employee retention rates. “We are doing the right things for our people—the employee is winning,” says Quipp. He adds that Search Engine People has sustained solid overall performance, especially growth: “We are doing the right things for the business—the company is winning. Honestly, I couldn’t hope for anything more.”

These stories, and those of many other business leaders FOCUS has worked with, give credence to the idea that misalignment attacks a business’s ability to sustain growth by short-circuiting its people, processes and systems, draining away energy and focus, and inducing stall. Stall can be detected through careful observation of what is happening in the business and by assessing its results on a regular basis; and wobble can be resisted at the startup stage and repaired in more mature organizations through the right combination of strategic alignment (making sure the business has a sound and relevant strategy that positions it for success) and organizational alignment (connecting every employee to the strategy and ensuring that what matters most to the business matters most to each of them).

As many leaders of Canada’s Fastest-Growing Companies have experienced, getting aligned and staying aligned is seldom quick or easy; it’s more of a journey with twists and turns. But to hear these leaders tell it, the eventual payoff is all the justification they need. P

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