



SEVEN DEADLY SINS OF TRANSITION

Rethinking your business

Introduction

In our work with business owners of all shapes and sizes, there is a common theme that runs through our conversations. **How do owners make the significant change from how they built up their business, to how they hand off, step back or exit that business?**

Albert Einstein was right when he said, *"The thinking that got you here won't get you to where you need to be"*.

It takes a lot of dedicated personal effort, combined with a clear vision of where the business is going and the development of disciplined work habits to build a business. Unfortunately those habits now need to change if the owner is ever going to successfully **transition** their business or get near the value they expect to get when they sell.

We call the habits that *supported* the development of the business - but now are the very things that *stand in the way* of enabling the owner to move on - the **Seven Deadly Sins Of Transition**.

The habits that helped build the business but may now be toxic are:

1. Dreaming big
2. Strong leadership
3. Staying with what you do best
4. Maintaining customer intimacy
5. Building a winning culture
6. Walking before you run
7. Hands-on management

In order for business owners to get the transition they want, they must heed Einstein's advice and rethink their role in the company, and change not only theirs, but the next management team's work habits.

Lets review these habits and talk about what needs to change.

1) Instead of Dreaming Big - **Think Small**

How does this work?

- As the owner, the Big Hairy Audacious Goals (or BHAGs as Jim Collins calls them) that drove the business were your goals – not necessarily those of your staff or future owners
- Your inspiration guided people in a specific direction
- With a new team in place the goals need to come from the new owners/operators
- A transition is essentially the rebirth of the company
- The next generation of leaders need to own the vision and direction
- This is best achieved by approaching smaller, achievable goals and building up some recognizable wins
- From here we can expand our thinking and scale up in the goal setting
- To reach big, we need to start by thinking small
- It's not about reining in your ambitions. It's about adopting a mindset that focuses on getting the small – and often simple – details right that will set you on the path to achieving bigger goals – goals that are shared by the new owners – not just you

Seven simple steps:

- **Set:** choose the right goal for you, set a specific target, and break your long-term objective down into manageable steps.
- **Plan:** create simple rules and an actionable plan which links to your daily routine.
- **Commit:** make a commitment, write it down, make it public and appoint a commitment referee.
- **Reward:** put something meaningful at stake and use small rewards to stoke motivation, but beware of backfire effects.
- **Share:** draw on the help of others, tap into your social networks or form a group with a shared goal.
- **Feedback:** know how you're tracking against your goal and seek out specific, actionable feedback
- **Stick:** practice with focus, test different approaches and celebrate success.

Takeaway:

- Over the next 30 days:
 - Work with the management team to identify specific business targets broken down into individual tasks and report back to the team

2) Instead of providing strong leadership - **Lead From Behind**

Leading from Behind means that the leader needs to *step back* when the group or organization (or nation) is moving forward together, and *step in* only when there is need for him/her to lead from the front (IE set Vision, course correct)

At the heart of the idea of leading from behind is the empowerment of other actors to do your bidding.

Nelson Mandela described it this way: *“A leader is like a shepherd. He stays behind the flock, letting the most nimble go out ahead, whereupon the others follow, not realizing that all along they are being directed from behind.”*

The most effective leaders lead from behind, not from the front. They recognize that the next generation of managers and owners are very different from themselves or previous generations

It's a concept whose time has come, given several realities:

- The **psychological contract** between companies and employees is changing. Among other things, people are looking for **more meaning and purpose in their work lives**.
- They want and **increasingly expect to be valued** for who they are and to be able to **contribute to something** larger than themselves.
- People expect to have the **opportunity to co-author their organization's purpose**. They want to be associated with organizations that serve as positive forces in the world.
- Their work ethic is more focused on **quality of work** than quantity

A few words here about **Innovation** — not simply incremental but continual breakthrough innovation will be a key driver of competitiveness. Society's notion of the brilliant innovator, the solitary genius with a sudden flash of creative insights is hard to shake. But, after all, an iPod or a Pixar movie is not the product of a single person's vision or labors. Most innovation is the result of collaborative work involving a diverse group and a collective process of iteration and discovery. Those in positions of authority have been taught to think that it's their job to come up with the big idea — but sustained innovation comes when everyone has an opportunity to demonstrate a “slice of genius”

Breakthroughs come when seemingly ordinary people make extraordinary contributions.

Leaders can encourage breakthrough ideas not by cultivating followers who can execute but building communities that can innovate. Of course, leaders do need to act as direction-setters and vision-makers, and we need to prepare them for those roles. But we often emphasize these skills at the expense of others that are growing in importance. If you're looking for innovation, it doesn't make much sense to say that the leader's job is to set the course and mobilize people to follow them there. If you want your team to produce something truly original, you don't know where you're going, almost by definition. The traditional leadership model just doesn't work.

Leading from behind doesn't mean abrogating your leadership responsibilities.

After all, the shepherd makes sure that the flock stays together. He uses his staff to nudge and prod if the flock strays too far off course or into danger. For leaders, it's a matter of harnessing people's collective genius.

Those who are exceptional at leading from behind are likely to be different than those who excelled at leading from the front. And this raises the question: are we identifying and developing the leaders who can tap the power of collective genius?

Take away:

- Over the next 30 days task your leadership team to develop a methodology to build an innovation process within the company

3) Instead of staying with what you do best - If It Ain't Broke – Fix it!

The much-touted phrase 'If it ain't broke, don't fix it' is excellent advice, provided you live in an unchanging world and you have reached the ultimate pinnacle of perfection.

Now neither of these two things is ever true, but the danger is that we behave as if they were. Nothing lasts forever, but it is so tempting to assume that it does and our default position is to continue in a steady state for as long as humanly possible. But in fact the opposite is true: the base case is decline, and all life, business or individual, is a battle against entropy and decay.

Some of these forces are simply related to the passage of time; **technology advances, tastes change, or customers just get bored and want something new. Other forces are more intentional - whatever you are doing, someone somewhere is working on making you obsolete.**

Whether it's Japanese cars vs the US automakers in the 1980s or cloud computing against Microsoft today, there are always people who want a slice of your pie. They know they can't compete head-on, so they work on changing the rules.

Think about Uber, Air B and B or Netflix. How have these organizations **disrupted** what were seemingly solid business models in the taxi, hotel and entertainment businesses?

Here's a useful, if alarming, exercise. Look back over the past five years at how much has changed. Now go back to your plans for the future and see if they incorporate a similar level of change.

Take a lesson from those who live with rapid change. Intel, for example, 90% of whose revenues in any given December come from products that weren't shipping in the previous January.

What's the most famous phrase associated with Intel? It's Andy Grove's

memorably titled business classic, ***Only the Paranoid Survive***. So cultivate some productive paranoia.

Whether it is a sharp-elbowed competitor or the forces of entropy, someone or something is working for your downfall. What, or who, is it? You need to get ahead of them. You are either one step ahead or falling behind. There is no steady state.

Take Away:

- Over the next 30 days have a brainstorming session with your staff on what could possibly change in your industry over the next 12 months

4) Instead of maintaining close relationships with customers - distance yourself from your clients

You built up your business by attracting one customer at a time. It was a hard fought battle to get and maintain those customers, and in a lot of cases you may have personal relationships with them. That's great for a business that you run on a daily basis, but not so good when you want to step away.

The process of handing over customers to a trusted successor takes time. Your impulse will be to do things the way they've always been done. Your customer's impulse will be to call you at the first sign of concern. There are some basic steps to undertake this transition.

1. **Don't delay.** It can take years to introduce a successor to your business and provide him or her with the training and resources necessary to keep the business going.
2. **Involve your successor.** It's crucial that you have your successor(s) participate in discussions and meetings with larger clients throughout the transition. Junior employees are typically brought on initially to handle smaller accounts, and while this is fine in the beginning, it doesn't give them the proper experience and training required to serve the bigger clients.
3. **Think about culture.** Owners should consider how their successors will fit in with specific customers, and how their management style may be different.
4. **Go over the financials.** Transitioning your business doesn't mean simply teaching your successors to handle clients. You must provide guidance on issues such as the most profitable client size for your firm and cost management.
5. **Get help.** Don't try to manage the transition on your own. Instead, involve the appropriate consultant and delegate responsibilities to them during the process.
6. **Be open to change.** You need to accept that some parts of your business may change when your successor takes over. The sooner you come to terms with this, the better.

Takeaway:

- Over the next 30 days identify a customer that you think would be a good fit with each of the individuals in your company who you plan to transition customers to. Have a conversation with each employee about how they would handle the transition.

5) Instead of focussing on winning - **Expect to Fail**

While building a winning culture may have been key to your success in the past, the wins of the past may not be relevant based on where the new business is heading. At this time of re-birth of your business you need to recognize that what was a win for you may no longer be a win in the new environment. The Key Performance Indicators (KPIs) of a new order will most likely be very different from how progress was formerly measured.

Failure-tolerant environments take the central part of a process and assume failure, and then build up a support system around that process.

This happens by building on a few core principles:

- **Acceptance of failure:** You have to accept that “stuff” happens and failure is commonplace – this needs to be internalized so that failure isn’t punished, but rather embraced!
- **Massive redundancy:** Then, it needs to be easy to have lots of redundancy built into the system – for designers, that means lots of designs get generated. For startups, that means lots of ideas are tested, and for Google, that means lots of servers are used
- **Cheap, easy, fast:** As a side-effect of the redundancy, it needs to be easy, cheap, and fast to have lots of ideas, lots of servers, or write lots of code. The harder it is, harder it will be to create redundancy
- **Iterative, reality-based testing:** Testing these individual components constantly becomes key – you need to force failure on the system to figure out how it reacts from a system-wide level

Building up processes based on the ideas above makes it easier and easier to deal with failure and come out on the other side!

“You’ll never stumble upon the unexpected if you stick only to the familiar” – Creativity Inc. – Ed Catmul – CEO Pixar

“I have not failed. I’ve just found 10,000 ways that won’t work.” - Thomas A. Edison

“Success is stumbling from failure to failure with no loss of enthusiasm.” - Winston Churchill

Where can you apply this failure-based thinking?

There are lots of interesting directions that this line of thinking can go.

For example it could start with the hiring process, and the idea that maybe interviews don't work at all. When you're interviewing new potential employees do they readily talk about their failures? So how would you build a failure-tolerant system around the hiring process?

Takeaway:

- Over the next 30 days identify the riskiest thing you could do in your business over the next 12 months and have your staff identify what it would take to make it work.

6) Instead of waiting until things are perfect - **Run Before You Walk**

Sometimes, the situation demands that you perform tasks requiring a higher level of expertise and skill, before you learn the basics.

Run before you walk is a metaphor that means you have the potential to achieve incredible success, whether you already own a small business or are thinking of starting one. If you are struggling to find new clients or unable to deliver high quality services to your existing clients to gain more business, you're just walking and not making any successful strides in your business ventures. You may have the potential to increase your business, run towards more growth, acquire more clients, and gain more profits.

Some of the common challenges faced by **walking** businesses are:

- *I have an idea, but don't know where to start*
- *I'm struggling with resources and multitasking*
- *I can't get noticed*
- *Our website is getting hits, but no one is buying*
- *I am trying to grow the business, but it's not working*
- *I'm worried about competition*

Many small companies can take longer strides in business from day one. The longer strides - **learning to run** - highly correlates with today's entrepreneur who is focused and intelligent and who comes up with incredibly simple yet revolutionary concepts, and changes the way everyone sees and uses things which were already present.

"Don't wait for things to be perfect before you share them with others. Show early and show often. It'll be pretty when we get there, but it won't be pretty along the way. And that's the way it should be". - Ed Catmull, CEO Pixar

As with any quote you can take what you want from them, but my personal interpretation is that sometimes you have to jump into something and be prepared and act your best and perform better than you ever have at a moments notice, even if you haven't had the chance to fully prepare. Ultimately it's saying

that life doesn't always give you the time to be completely perfectly ready before it drops a challenge on you and you just have to deal with it, do your best, and not shy away from the challenge!

Takeaway:

- Find one good idea in the company that has stalled and challenge people to make it happen by ignoring the reasons for why it hasn't been done

7) Instead of being a hands-on manager - Take Your Hands off the Wheel

1,000 Canadians turn 65 in Canada every day.

Many of those are entrepreneurs who have worked hard to build successful businesses and are often reluctant to give up control of the business to the next generation of leaders. Although some entrepreneurs decide to sell and reap the rewards of their hard work, lots of others want to keep it going, but know they need to hand the reins to a new generation of leaders.

One of the biggest sticking points for Boomer business owners that want to transition out of a leadership role is that their style--the way they run their ship--is often very different from how a Millennial operates. The well-trod path forged by a founder will likely veer off into different directions under his or her successor, and that can make a hand-off tough. Boomers tend to run their businesses through force of will, and on the power of their charisma and passion; the culture of their business often reflects their personality. But they are also often less structured administratively. For their business to be run by the next generation it will probably need processes and procedures established, things it didn't need under Boomer leadership.

Hands-off leadership

We all know that engaged employees still have to be managed and directed. They may be self-starters, aligned with organizational goals, motivated by and engaged in their work, and able to think for themselves in complex situations, but they still have to be managed to one degree or another. How do you know when it's time to step aside and make room for a new generation of leaders? And what's the best way to handle the transition?

- Look at the needs of your business
- Prepare the next generation of leaders
- Learn to communicate across generations
- Ease into the back seat
- Move aside and stay there

Takeaway:

- Over the next 30 days, identify a project that can be run by a select group in your company. Jointly agree to the goals and let the team run with the initiative – checking in every 30 days to coach and support

Wrap up

So that's it. Seven ways you need to start looking at your business differently as you prepare to hand off, step back or exit your business.

You have done a great job building the business. Now its time, as Einstein says, to think differently if you want to get the value you have built up and achieve a positive transition.

I'd be glad to discuss your transition with you in more detail.

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