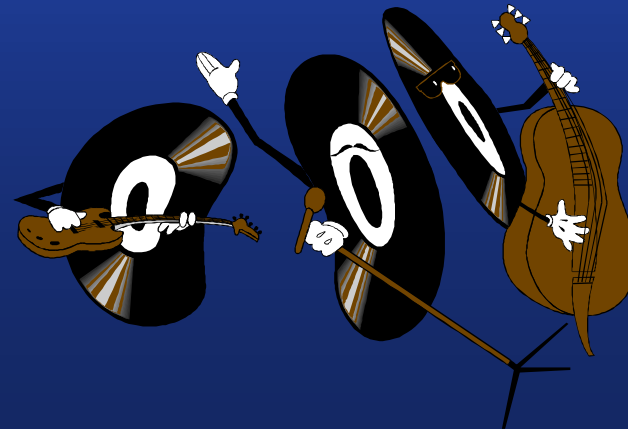


# Leading the Growing Company and Planning for Management Succession



# Leadership

- Process of influencing and inspiring others to work to achieve a common goal and then giving them the power and the freedom to achieve it.
- Entrepreneurs must take on many roles in their companies, but none is more important than that of leader.
- How is the leader of a company like the leader of a jazz band?



# Effective Leaders

- Create a set of values and beliefs for employees and passionately pursue them.
- Define and then constantly reinforce the vision they have for the company.
- Respect and support their employees.
- Set the example for their employees.
- Create a climate of trust in the organization.
- Focus employees' efforts on challenging goals and keep them driving toward those goals.

# Effective Leaders

(continued)

- Provide the resources employees need to achieve their goals.
- Communicate with their employees.
- Value the diversity of their workers.
- Celebrate their workers' successes.
- Encourage creativity among their workers.
- Maintain a sense of humor.

# Effective Leaders

(concluded)

- Create an environment in which people have the motivation, the training, and the freedom to achieve the goals they have set.
- Become a catalyst for change when change is needed.
- Keep their eyes on the horizon.



# **Four Vital Tasks of a Leader**

- 1. Hire the right employees and constantly improve their skills.**
- 2. Build an organizational culture and structure that enable the company to reach its potential.**
- 3. Motivate workers to higher levels of performance.**
- 4. Plan for “passing the torch” to the next generation of leadership.**

# How To Avoid Hiring Mistakes

- Look inside the company first
- Encourage employee referrals
- Make employment ads stand out
- Use the Internet as a recruiting tool
- Recruit on campus



# How To Avoid Hiring Mistakes

(continued)

- **Forge relationships with schools and other sources of workers**
- **Consider using offbeat recruiting techniques**
- **Offer what workers want**

# Hiring the Right Employees

- Conduct a job analysis and create practical job descriptions and job specifications
- Plan an effective interview
- Conduct the interview
- Check references



# Conducting a Job Analysis

- Create a *job description* - a written statement of the duties, responsibilities, reporting relationships, working conditions, and materials and equipment used in a job.
- Create a *job specification* - written statement of the qualifications and characteristics needed for a job, stated in such terms as education, skills, and experience.
- See sample job description from the *Dictionary of Occupational Titles* for a worm picker.

# Planning an Effective Interview

- Develop a series of core questions and ask them of every job candidate.
- Ask open-ended questions rather than those calling for “yes” or “no” answers.
- Create hypothetical situations candidates would encounter on the job and ask how they would handle them.



# Planning an Effective Interview

(continued)

- Probe for specific examples in the candidate's work history that demonstrate the necessary traits and characteristics.
- Ask candidates to describe a recent success and a recent failure and how they dealt with them.



# Conducting an Effective Interview

- *Break the ice.* Goal: to diffuse nervous tension.
- *Ask questions.*
  - ◆ Remember the 25/75 Rule.
  - ◆ Keep it legal!
- *Sell the candidate on the company.* Best candidates will have other job offers. Your job: to convince the best candidates that your company is a great place to work.

# Checking References

Checking an applicant's references is an important part of protecting a company against making a "bad hire."

Is it *really* necessary?

Yes !! According to the Society of Human Resource Management, more than half of all candidates either exaggerated or falsified information on their résumés.

# Company Culture

- Distinctive, unwritten, informal code of conduct that governs the behavior, attitudes, relationships, and style of an organization.
- “The way we do things around here.”
- In small companies, culture plays as important a part in gaining a competitive edge as strategy does.
- See *Amy's Ice Creams* example.

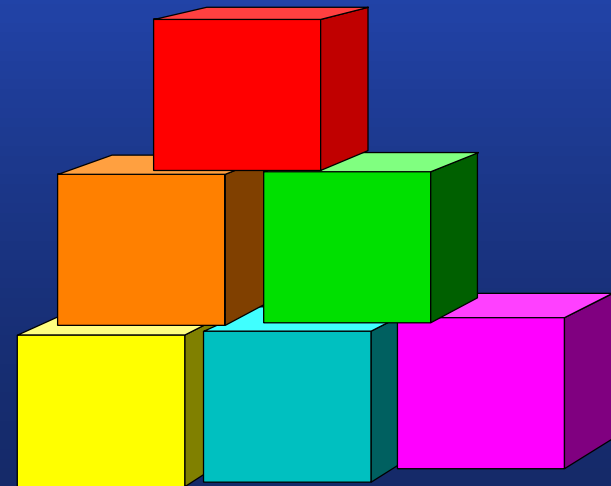
# Characteristics of “Cool” Companies

- Respect for work and life balance
- Sense of purpose
- Sense of fun
- Diversity
- Integrity
- Participative management
- Learning environment

# Structure

## Six Styles Entrepreneurs Use

- Craftsman
- Classic
- Coordinator
- Entrepreneur-plus-employee team
- Small partnership
- Big-team venture



# Common Errors with Teams

- Assigning teams inappropriate tasks
- Creating “make-nice teams”
- Failing to provide adequate training for team members and team leaders
- Sabotaging teams with underperformers
- Switching to team responsibilities but keeping pay individually oriented

# What Makes Teams Succeed?

- Make sure that teams are appropriate for the company and the nature of its work.
- Make sure that teams are appropriate for the task to be accomplished.
- Form teams around the natural work flow and give them specific tasks to accomplish.



# What Makes Teams Succeed?

(continued)

- Provide adequate support and training for team members and leaders.
- Involve team members in how their performances will be measured, what will be measured, and when it will be measured.
- Make at least part of team members' pay dependent on team performance.

# The Challenge of Motivating Workers

- Empowerment
- Job design
- Rewards and compensation
- Feedback



# Empowerment

- Involves giving workers at every level of the organization the power, the freedom, and the responsibility to control their own work, to make decisions, and to take action to meet the company's objectives.
- Requires a different style of management from that of the traditional manager.
- Is built on sharing information, authority, and power.

# Empowerment Works Best When a Business Owner

- Is confident enough to give workers all of the authority and responsibility they can handle.
- Plays the role of coach and facilitator, not the role of meddlesome boss.
- Recognizes that empowered employees will make mistakes.
- Hires people who can blossom in an empowered environment.



# **Empowerment Works Best When a Business Owner**

(continued)

- **Trains workers to continuously upgrade their skills.**
- **Trusts workers to do their jobs.**
- **Listens to workers when they have ideas, solutions, or suggestions.**
- **Shares information with workers, perhaps using open-book management.**
- **Recognizes workers' contributions.**

# Job Design Strategies

- *Job simplification* - breaks work down into its simplest form and standardizes each task.
- *Job enlargement (horizontal job loading)* - adds more tasks to a job to broaden its scope.
- *Job rotation* - cross-trains workers so they can move from one job in a company to others, giving them a greater number and variety of tasks to perform. Often used with a skill-based pay system.

# Job Design Strategies

(continued)

- *Job enrichment (vertical job loading)* - builds motivators into a job by increasing the planning, decision making, organizing and controlling functions (which traditionally were managerial tasks).
- **Five core characteristics:**
  - ◆ Skill variety
  - ◆ Task identity
  - ◆ Task significance
  - ◆ Autonomy
  - ◆ Feedback



# Job Design Strategies

(continued)

- *Flextime* - an arrangement under which employees build their work schedules around a set of “core hours” – such as 11 a.m. to 2 p.m. – but have flexibility about when they start and stop work.
- *Job sharing* - a work arrangement in which two or more people share a single full-time job.

# Job Design Strategies

(concluded)

- *Flexplace* - a work arrangement in which employees work at a place other than the traditional office, such as a satellite branch closer to their homes or, in some cases, at home.
- *Telecommuting* - an arrangement in which employers have employees working from their homes use modern communications equipment to hook up to their workplaces.



# Rewards and Compensation

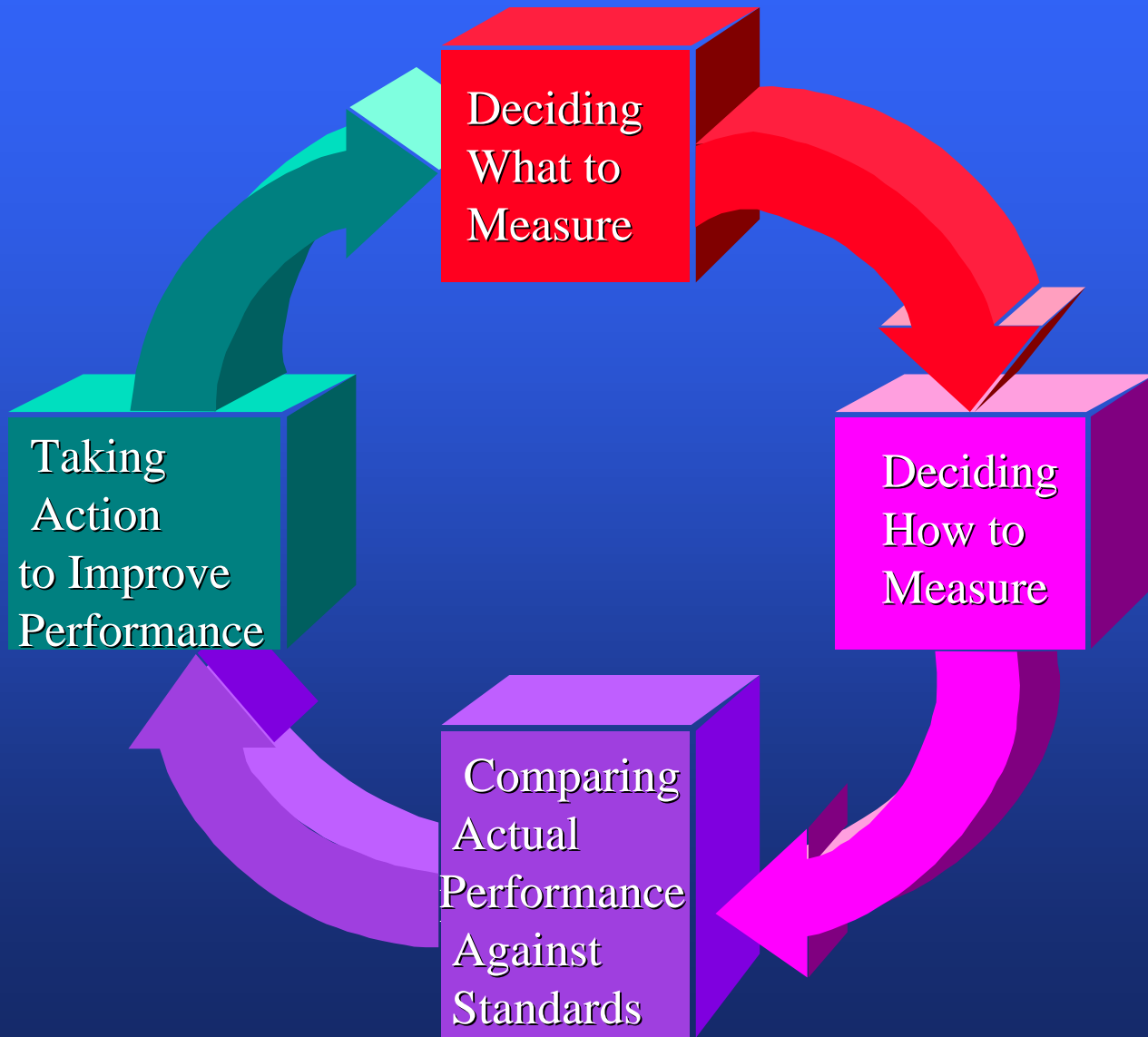
- The key to using rewards to motivate workers is tailoring them to the needs and characteristics of individual workers.
- Money is an effective motivator – up to a point.
  - ◆ Pay-for-performance systems
  - ◆ Stock options



# Rewards and Compensation

- Intangible rewards such as praise, recognition, celebrations, and others can be *very* powerful, yet inexpensive, motivators.
- What kinds of motivators would you rely on if your company's workforce consisted primarily of "Generation Xers?"

# The Feedback Loop



# Guidelines for Successful Performance Appraisals

- Link the employee's performance to the job description.
- Establish meaningful, job-related, observable, measurable, and fair performance criteria.
- Prepare for the appraisal by outlining the key points you want to cover with the employee.
- Invite the employee to provide an evaluation of his own job performance based on the criteria.

# Guidelines for Successful Performance Appraisals

(continued)

- Be specific.
- Keep a record of employees' critical incidents – both positive and negative.
- Discuss the employees' strengths and weaknesses.
- Incorporate employees' goals into the appraisal.
- Keep the evaluation constructive.



# Guidelines for Successful Performance Appraisals

(concluded)

- Focus on behaviors, actions, and results.
- No surprises (for either the employee or the business owner).
- Plan for the future. Smart business owners spend about 20% of a performance appraisal discussing past performance and 80% developing goals, objectives, and a plan for improving performance in the future.

# Family Businesses

- Make up 90% of all U.S. businesses.
- Comprise one-third of the *Fortune 500* companies.
- Unfortunately, only 30% of first-generation businesses survive into the second generation.
- Of those that do survive to the second generation, only 12% make it to the third generation.



# Why is Management Succession So Difficult?

*No management succession plan!*

- ♦ 81% of all business founders intend to pass their companies on to their children.
- ♦ But... 25% of family business owners have no formal management succession plan!



# The Succession Plan

Step 1: Select the successor.

Step 2: Create a survival kit for the successor.

Step 3: Groom the successor.

Step 4: Build an environment of trust and respect.

Step 5: Cope with the financial realities of estate and gift taxes.

# Coping With Estate Taxes

- Buy/Sell agreement
- Lifetime gifting
- Trusts
  - ◆ Bypass trust
  - ◆ Irrevocable life insurance trust
  - ◆ Irrevocable asset trust
  - ◆ Grantor-Retained Annuity Trust (GRAT)
- Estate freeze
- Family Limited Partnership (FLP)

