Battle at the Cottage Gate

This article describes a situation that occurs over and over during the growth of any company. It might seem that, once out of the cottage stage, companies are free of this syndrome, but nothing could be further from the truth. The battle between traditionalists and futurists never ends.

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I sometimes work with companies that are on the verge of leaving the 'cottage stage' and pushing into the great uncertainty of corporate adolescence. This push, and the stress which often goes with it, is one of the seminal periods in the development of any company. By the time I arrive on the scene, battle lines often have formed, and the organization has divided into two camps. The coming battle will present severe challenges for the founders, team, and the company. The prevailing camp will get to decide what the future will hold for all involved

Let me start by defining what I mean by 'cottage stage'. First off, defining a company in terms of its gross revenue is not useful. I've seen organizations generating close to twenty million dollars in gross revenue while still using this paradigm. Secondly, the size of the organization in terms of its client base or human resources is also not a good indicator. I have worked with companies with twenty to thirty major clients and over a hundred employees that are still operating as a cottage business. Finally, the age of a company is an unreliable indicator as well. Once a company slips into what I call 'life-style mode' it enters a period of repressed adolescence that can last through its entire life span.

There are several indicators which are very useful in identifying a company which is still operating within the cottage industry paradigm and facing the complex issues of reinventing itself. The most notable of them are: the evolving nature of leadership, the changing nature of employees, the definition of span of control, the performance and behavior of the founders, the level of professionalism within the corporate culture and the ability of the company to allow its culture to

evolve in order to cope with the increasing burdens that always accompany rapid growth and increased size.

The Evolving Nature of leadership: In the cottage stage, leadership tends to be defined by the founders. For many, because of their own limited management experience, their vision of leadership tends to be based on position and prerogative rather than inspiration and example. This can work during the initial stages.

But, as the company grows, it comes under increasing pressure to bring in more experienced managers. These newcomers tend to pose an immediate threat to the prevailing theory of leadership. In a sense a new coin of the realm begins to compete with the old currency. Employees now face a choice that wasn't available earlier on. On the one hand there are the founders who may continue to insist that they are the leaders and should be followed - often without question. On the other there are managers bringing new, and often highly creative, approaches. Their leadership is based on the proposition of 'do as I do' rather than 'do as I say' - and they lead by example.

Founders are often the most challenged by this evolution in the operative concept of leadership. It takes an exceptional person to give up the security of the 'I own the business so you will do as I say' attitude in favor of the more risky and challenging approach of 'follow me when I need to lead and I will follow you when it is better that you lead' approach. How the founders react to this possibility has a major impact on the future of the company.

The Changing Nature of Employees: As an organization grows, and the pressures to generate higher performance increases, employees will seek out leadership and form allegiances which will empower them to solve new, and far more difficult, problems. New managers may have experience and skill sets that were not present in the original team. Some of them will take leadership roles in areas that have traditionally been seen as the prerogative of the founders - resulting in tensions that are felt company-wide.

Over time, two camps evolve within the company. The first, which I call 'the traditionalists', tends to find the changes unsettling. They often wistfully reminisce about the good old days when the company was more like a family than a business. They are bound together by a network of relationships, some of which are deeply personal. Their approach to the business tends to be conservative and focused on 'growing without major changes in the corporate culture'. As the battle

approaches they will often adopt a Fort Apache the Bronx approach - circling the wagons and defending what they consider to be the pure heart and soul of the company.

On the other side of this developing divide is the new breed of employee whose vision of the company generally extends farther into the future. Their vision involves not only substantial continued growth but an increasingly professionalized environment which includes a professionalization of the management team - a significant and sustained evolution of the corporate culture. These employees tend to lack the emotional connection to the initial stages of a company's growth. They've signed on not because they are true believers in the founders but were attracted to the opportunities that the company has now become able to offer.

The Definition of Span of Control: One of the early indicators of the coming battle is a widening disagreement over the concept of span of control. In traditional, modernist management terms the span of control is a list of those individuals who report directly to a given person. This 'post Fordist' vision is the most common one adopted by founders because, in the initial stages, all roads lead to them. But this vision of organization is fundamentally flawed.

In truth this basic version only works in the most primitive of organizational structures when leadership is based upon prerogative and position. But things get more complicated as the company's operations expand. Informal reporting patterns begin to evolve based upon perceived competence and charisma rather than prerogative and position.

Inevitably informal span of control networks develops. Employees develop strong relationships with individuals they trust and respect and who relate to them in a supportive and empowering way. Pressures build when there is an increasing divergence between these informal and formal relationships.

The Performance and Behavior of the Founders: In the early stages of a company's growth most founders tend to fancy themselves as chief of everything. They have 'final say' on virtually everything that affects the company. Few things are minor enough to escape their attention. But as the company grows this becomes impossible. (Although I have known several founders who have given the impossible a heroic and destructive shot.)

In purely human terms there is gets to be too much to understand and process – too many skills sets to master – too many places and people to be – for the founders to remain master of everything. Additionally, the challenges that a company faces as it grows become both more complex and specialized. Solutions require extensive knowledge and experience in skill areas – skill sets that the founders often do not have.

If the founders try to keep their control, the company will be limited in its growth to the size that that management approach allows. It will grow until the internal pressures threaten to cause an implosion. Most often, founders who cannot bring themselves to let go and delegate will (sometimes unconsciously) work to keep the company a 'manageable size'. If the founders successfully reinvent themselves, the team will expand to include new members with more sophisticated knowledge in key areas – members who will take the lead in their areas.

The Level of Professionalism within the Corporate Culture: When a team first starts out to build a company, there are many areas where they are just 'making it up as they go along'. Many of these are in the 'non-technology' parts of the business of growing a business. Finances can be managed out of the proverbial cigar box. HR is managed by visits to job boards or word-of-mouth searches. Decisions about which business opportunities to pursue are made opportunistically and with an eye towards survival. Little attention tends to be paid to the definition and evolution of a corporate culture – and the attention that is paid tends to be superficial.

There is some point in the evolution of every company that marks the first stage of failure of the viability of these kinds of 'off-the-cuff' strategies. They just don't seem to be working like the used to. Things get more complex and the need to have systems that are robust and effective increases. Also, the impact of the failure of these strategies tends to increase and the founders can spend increasingly time crisis managing.

Professionalization of the team means bringing in new members who have deeper knowledge and experience in running a company (and often little in the technology, product or service that is the company's foundation). Some major areas of professionalization that can cause internal stress are:

proposal development and delivery, capture, red-teaming, sales, HR, financial control and general management. That these new skill set are critical to the growth of any company is not the question. How a company deals with meeting or avoiding these needs is.

The Ability of the Company to Allow it Culture to Evolve: An adult will do poorly in most civilized societies if they have repressed the process of maturing and are still acting like a child. The same is true of a company and its culture. Growth means change - but it also means evolution in along well traveled pathways.

There are two broad paths that present themselves to a company moving out of the cottage stage and into adolescence. One road takes it towards what I call a 'life-style' company – one which meets primarily the needs of the founders leaving the rest of the team to decide whether their needs are being met. Along this road, employees have to accommodate the circumstances desired by the founders or leave in search of greener pastures – and many of the best often do. The second road opens towards growth beyond expectations and focuses on meeting the needs of an expanding team. This choice requires the founders to evolve in ways that allow them to help the expanding team to meet their needs.

Corporate culture most evolve and become more adult-like if a company is going to grow sustainable – a company will insist on that evolution. The issue becomes whether it is going to have the chance.

The Ten Percenters: So how does a company decide between the paths of repressed adolescence on the one hand and maturing adolescence on the other? You probably noticed that I have made extensive references to the role and impact of the attitudes and capacities of the founders, so it will come as no surprise that I believe, at least initially, the future is in their hands. The truth is that the founders make the first choices – choosing a path for their creation. These choices are often best if they are decisions to allow others to take part. Even so, these first steps are only the beginning of the battle. I have seen battles at cottage gates rage on for years - with both sides struggling for supremacy - while massive amounts of damage accrue.

I have watched founders, in reaction to perceived challenges to their supremacy, resort to the nuclear option – become true dictators in their own house. In those cases, the results have been very bad. At other times one or more of them go through an evolutionary leap – reinventing themselves to a new type of leader and putting the status of founder on the shelf. Here progress is made and, over time, the battle may get resolved productively. On more than one occasion I have

seen the newer, more professional team members get fed up and go off on their own – leaving the cottage to the traditionalists. That result puts the company back to square one in the process and the battle lines may tend to reform around the gate.

These battles rage on as long as the issues such as the ones described above are potent and until one or the other side totally abandons the field. Two roads diverge in a leafy wood and the company can only take one. One leads to limits and eternal adolescence until death - the other to a path to possible healthy adulthood. The future is in the hands of the founders and the outlook is not rosy. My experience has been that, by their actions, rather than their words, nine out of ten founder groups drive their company towards the first path.

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