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Entrepreneurial personal drive becoming a limit to the company potential, an organisational dynamics prospective from a UK technology start-up case.

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Abstract

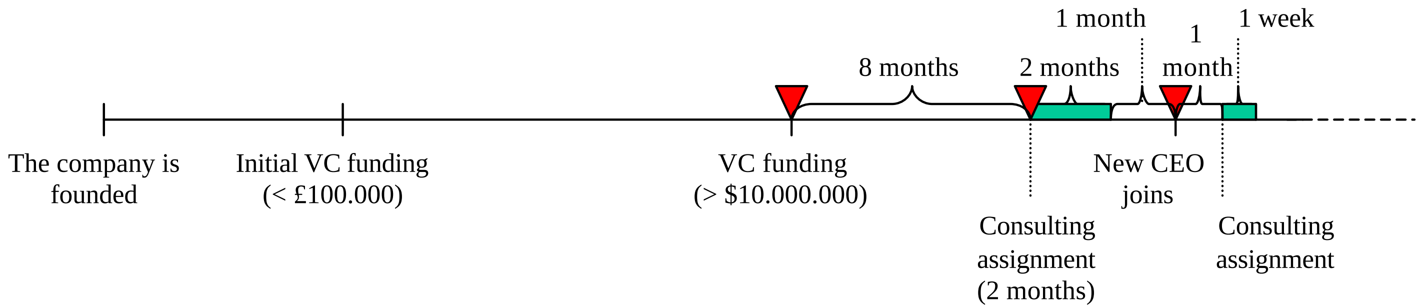
A British technology start-up was failing to achieve sales targets and was suffering of high attrition rates compared to a market physiological rate. This presentation reports on organisational dynamics observed in a UK technology start-up during a consulting assignment. Issues affecting growth and commercial viability of the company were found originating from an over-entrepreneurial attitude in the founders that ignited some dangerous dynamics within the organisation. Missing alignment of leadership and entrepreneurial personalities within stakeholders' interests resulted in a situation in which even positive market potential was failing to deliver. The organisational dynamics resulted in causal loops that were reinforcing, with different delay times, in a negative manner and impeding growth and business development activities. By changing the leadership style with the introduction of a new management, it has been possible to alter the situation by enabling positive personnel expectations, attitudes and behaviours.

Keywords

human_resources, organisational_dynamics, HR, start_up, organisational_growth, leadership, entrepreneurship, attrition.

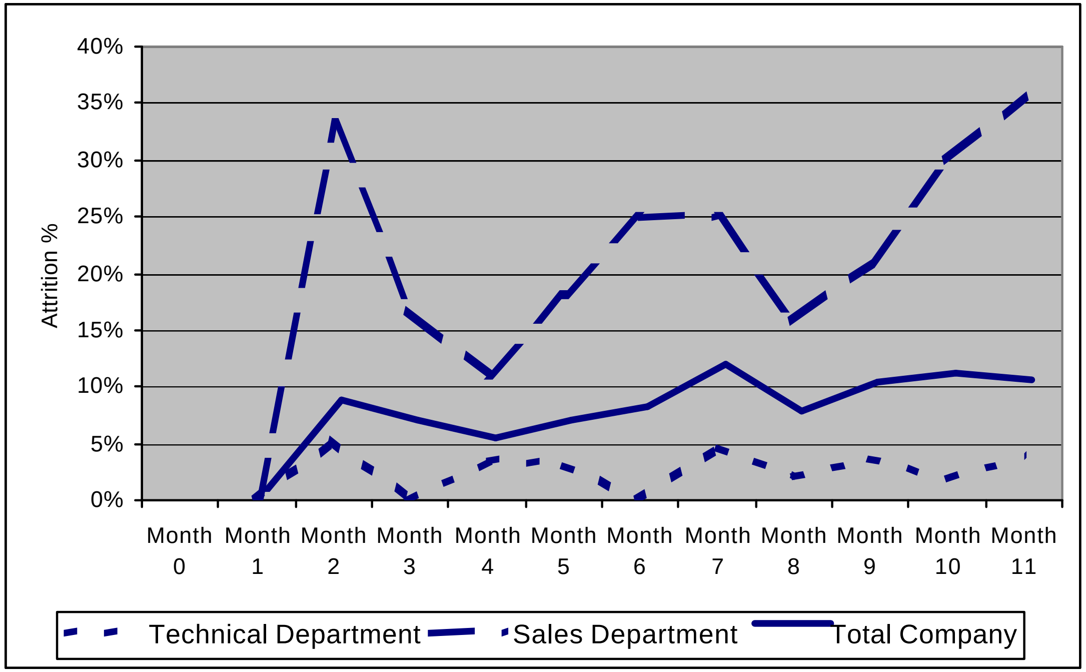
Introduction: history and assignment brief

The history of the company relevant for the scope of this presentation covers the months immediately following the funding the company received from a Venture Capital at the end of year 2000. Up to receiving funding the company was operating within the IT services business in an opportunistic manner by taking a wide range of assignments, some of them linked in a very loose manner with their main, and differentiating, technical capabilities. With funding they received a mandate to structure themselves and to focus their offering around their core technology competencies by developing a defined product (software) offering, branding and a market position.



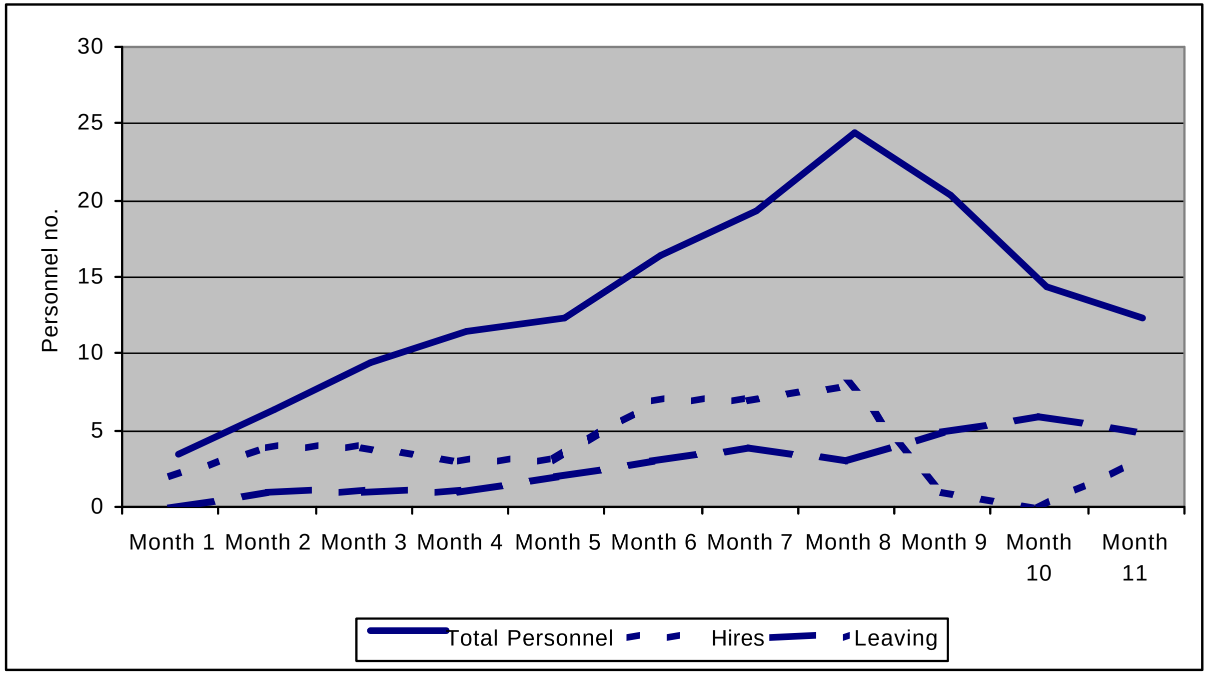
In the early stage of the company growth, roles and responsibilities were mainly hands-on; management and supervision roles were minimal. The founders, assumed the title of directors, covered business development and sales roles with the rest of the employees focused on technical development and delivery. No support function was managed internally but provided by suppliers. With funding came the growth mandate and the need of recruiting personnel and structuring the organisation by departments. In November 2000 an HR manager was hired together with a contracting finance director, and the organisation was split in two departments, sales and technology, both supported by an embryonic personnel department dealing with recruitment. The two founders took responsibility for sales and management respectively, dealing mainly with the team of business developers.

By month 6 from (second) funding the company was still failing to achieve any significant sales and there was little sign of a clear strategy being developed by the two founders; who were also the only directors with decision-making powers within the organisation. Another organisational indicator picked up at board level was a high percentage of attrition in the non-technical departments. The rate was growing steady in value as the sales team grew with an alarming shortness of employment length despite the adverse job market in United Kingdom. Despite the formal request and direct questions to the founders about the company performance, the board was incapable of achieving proper understanding of the situation and a consultant was hired to investigate the situation.



Monthly relative attrition rates by departments and overall organisation.

From funding the firm grew from 15 to nearly 70 employees with a peak of over 80 between month 7 and 8. In 11 months nearly 100 employees were hired of which more than 48% left. During the same period more than 40 people joined the sales team with a leaving rate of nearly 74% percent. Sales personnel numbers are reported in Fig. 1. Leaving personnel numbers keep rising even regardless of hiring freeze and seem to decrease only at month 10 when the new CEO accept his posting.



Personnel by departments in absolute numbers by month.

Because of the recent nature of the described events, attention has been paid to avoid any detail that may lead to the naming of company. While keeping meaningful ratios unchanged, data has been neutralised so to avoid being used for identification and due to confidentiality limitations.

The consulting engagement and the organisational dynamics within the company

The consulting engagement lasted for two months during July and August 2001. The assignment was two fold:

•to analyse the company approach to market and identify what was going wrong with sales strategy;

•to understand what was causing attrition (to be reported to venture capital board members).

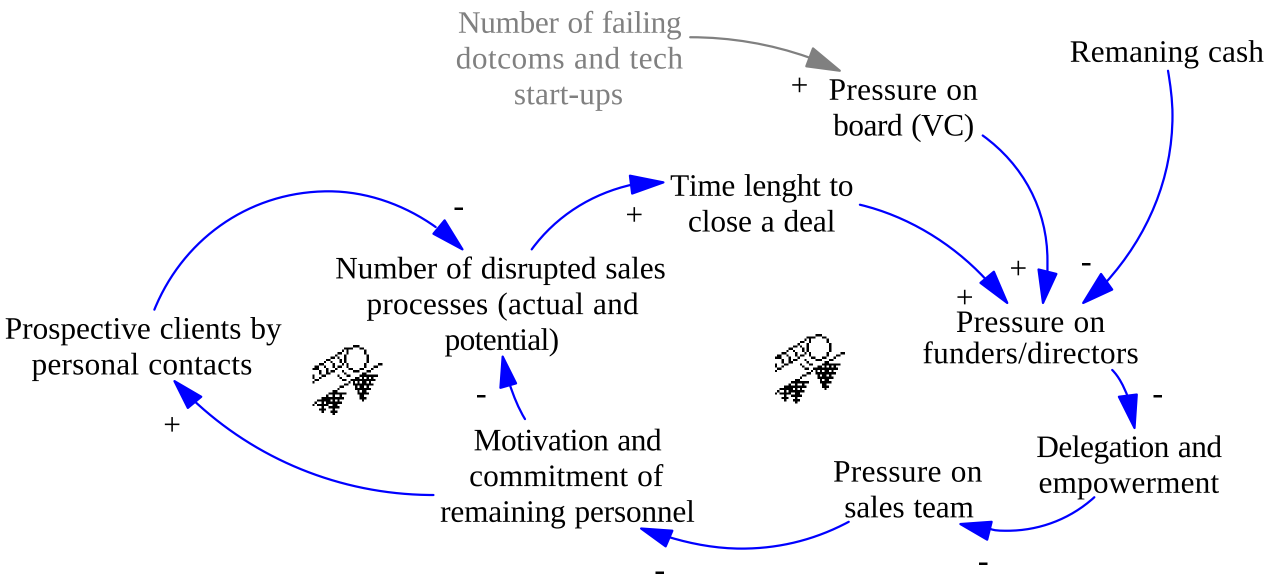
By working as part of the sales team it has been possible to have a close look at the organisation. To understand roles and organisational dynamics it has been possible to gather information by direct interviews and in-the-field observations of the day-by-day company life.

The two founders lead the company in its initial growth stages but were failing to appreciate the fact that with the funding, the company was not their own property anymore and that from that point in time, as company directors, they were meant to represent the interest of investors. They perceived the board as invading and eroding personal power positions. As the company grew, managing it became more complex as they were suffering from lack of management culture and were missing the preparation needed to deal with the development of a structured approach to market. The professional sales people hired were seen as another threat to personal status and being very difficult to control. With the goal of preserving the personal control over the company, the two founders were blocking any contact between the board and employees, limiting and resisting the creation of other director roles and by managing personnel in a way to keep their full discretionarily decision making power. Loose job descriptions and vague personal targets together with lack of formal "grievance" procedures were enabling them to eliminate on the spot all those employees that were complaining because of lack of empowerment or delegation or for the lack of attention to bottom-up feedbacks. The founders exercised their power over the sales team by dismissing spot any employee perceived as a threat to their power or failing to deliver on their personal expectations to be introduced to senior business professionals and to achieve, in a very short time, the major sales needed to prove their position to the demanding board.

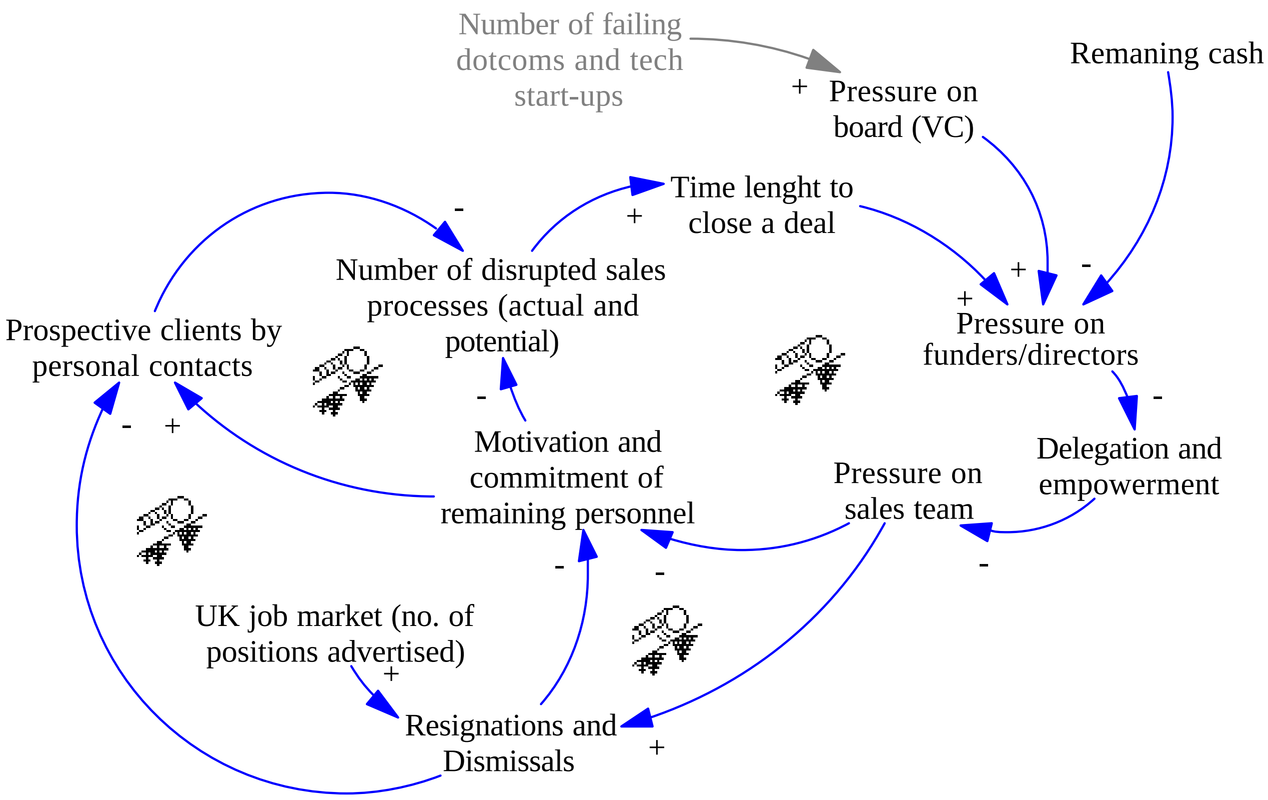
In the company early days, sales were generated by the relationship capabilities of the two founders and mainly achieved by an intense and successful cold-calling activity and ranging between £ 5.000 and £ 50.000 deals. To achieve the £ 1 million + kind of deals needed by the business after funding, the firm needed a much more structured approach to market since their target client were much different from those of the earlier stage. Despite the fact that the founders were missing the needed experience and skills to cope with the expected sales requirements, they were not prepared to delegate the development of value propositions or to allow for the time and resources needed to study the market and to develop marketing collateral and a sales strategy. The pre-sales activity continued to generate a good volume of contacts and leads by cold calling but with very little sales follow up.

- Opportunistic market approach
  - Deal size: £5-75k
    - Sales cycle: 1 to 3 weeks
  - Sales force: founders
    - Organisational approach: accentrated founders effort
    - Targets: founder's network and random cold calling

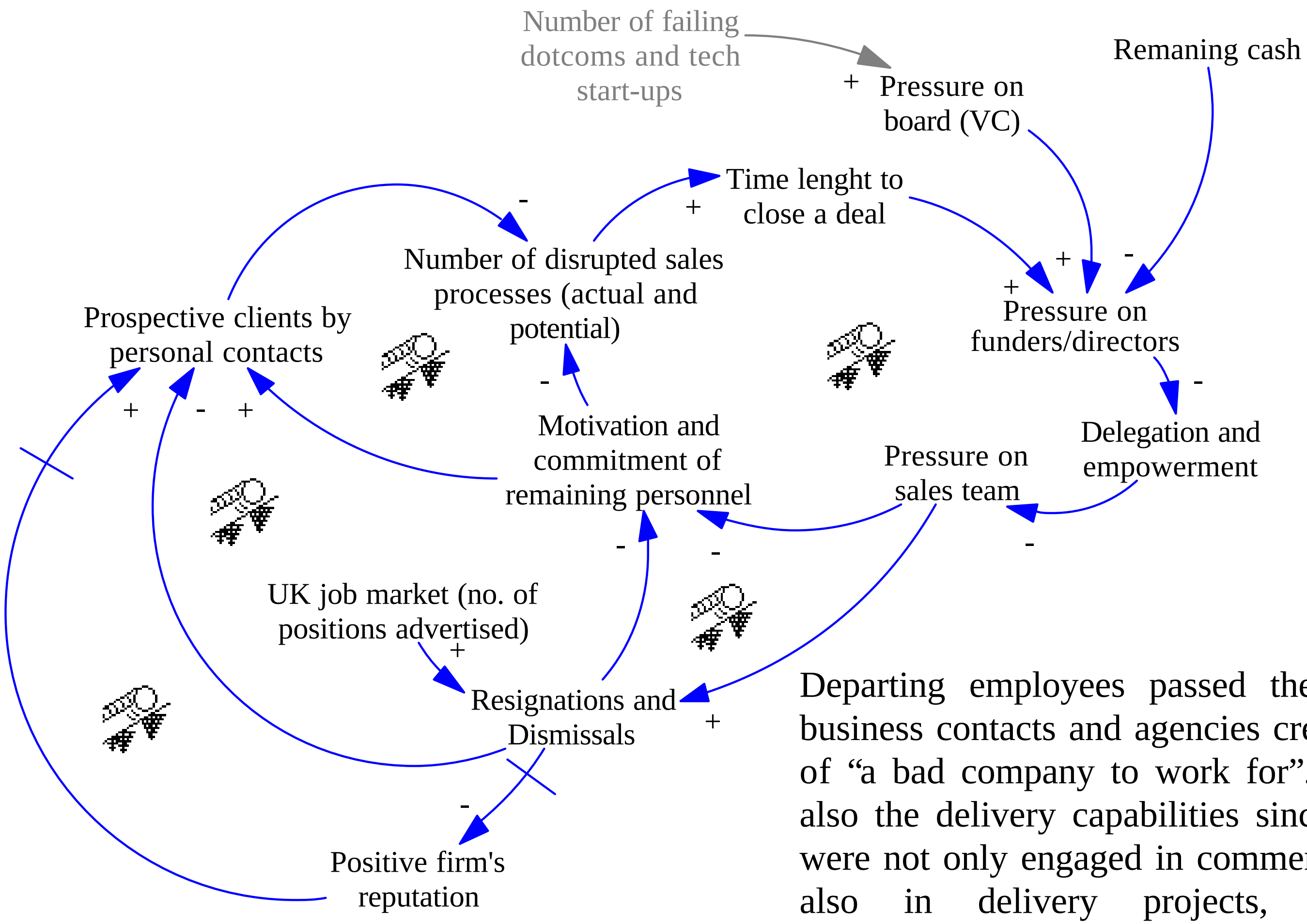
- Structured market approach
  - Deal size: £100k to 1 million
    - Sales cycle: 3 to 24 weeks
  - Sales force: professional dedicated team
    - Organisational approach: team effort
    - Targets: specific vertical and funtional industries



Board members were under pressure from their respective Venture Capital organisations to achieve investment profitability in the midst of the 2001 dot.com burst. This, together with the slipping sales and the cash burst were acting as multipliers for the pressure that was passed on to the founders. They were then passing it, by threatening dismissals to employees with negative effects on commitment and morale. As directors missed to acknowledge the failing sale cycle and the longer time needed to close deals, longer business development times were perceived as lack of capacity and commitment from the sales team. The consequences of these perceptions were mutual distrust and dismissal decisions.

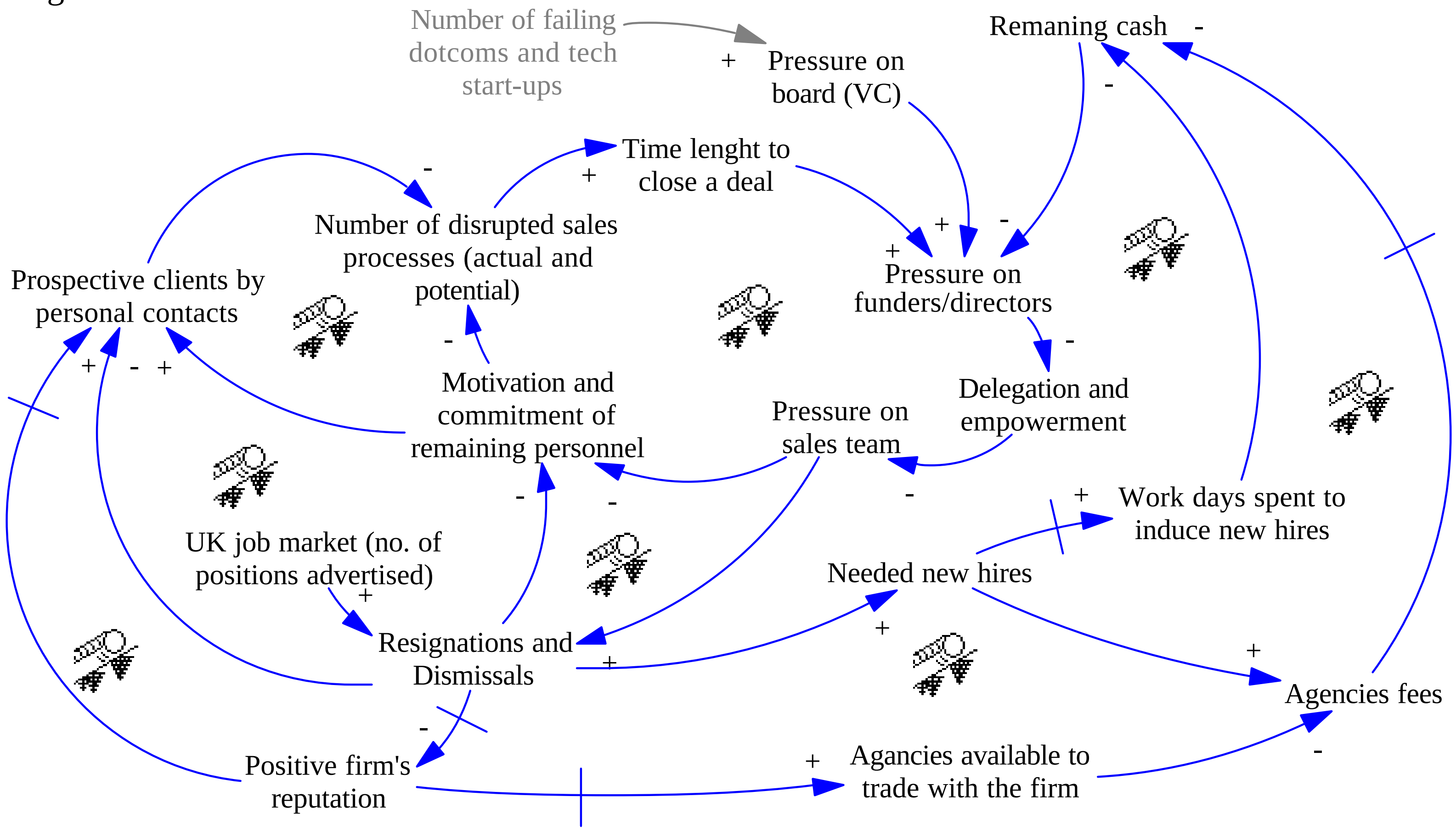


As the pressure on founders was increasing so did the strictness of controls on personnel with further declining empowerment and delegation levels. The higher the level of seniority of sales personnel, the more frequent the discussions, the quicker the exit. Low morale and motivation were also manifested by resignations of those capable of securing alternative jobs determining, together with dismissals, the high attrition rates. The consequences were disrupted sales processes both in actual and potential terms. Actual sales in case of personnel leaving during a delivery project or a negotiation. Potential sales due to the reluctance in committing personal contacts and leveraging personal networks within an arbitrarily managed environment. The more disrupted the sales processes, the longer time taken to close contracts.



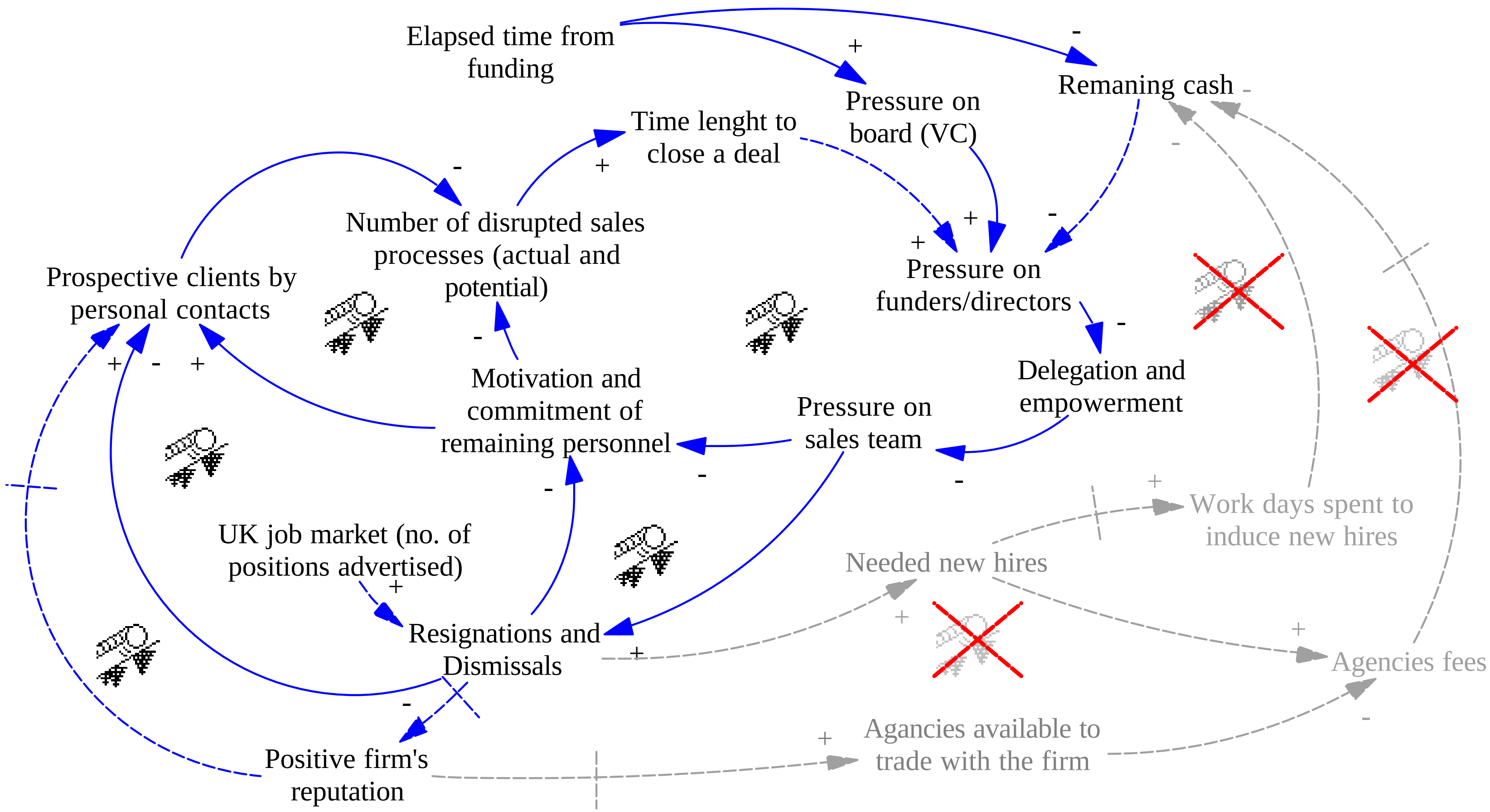
Departing employees passed their experiences to business contacts and agencies creating a reputation of "a bad company to work for". Attrition affected also the delivery capabilities since sales personnel were not only engaged in commercial initiatives but also in delivery projects, managing client requirements as well as expectations. Over time, delivery issues and missing operational policies resulted in a reputation of unreliability and of sloppy delivery, feeding back in a adverse manner on perspective sales.

Recruitment was mostly managed by agencies but hired candidates did not stay long enough for agencies fees to be paid, and together with consistent negative reports from placed candidates, caused the company's reputation to decline substantially even amongst search and selection providers with some of those stopping dealing with the company. The more the new hires, the more the working days invested in assimilation and initial training, the bigger the amount paid for agencies fees.



The hiring freeze

By end of month seven, the two founders stopped any hiring process with the aim of attract less attention onto employee fluctuating numbers and to reduce expenditures.



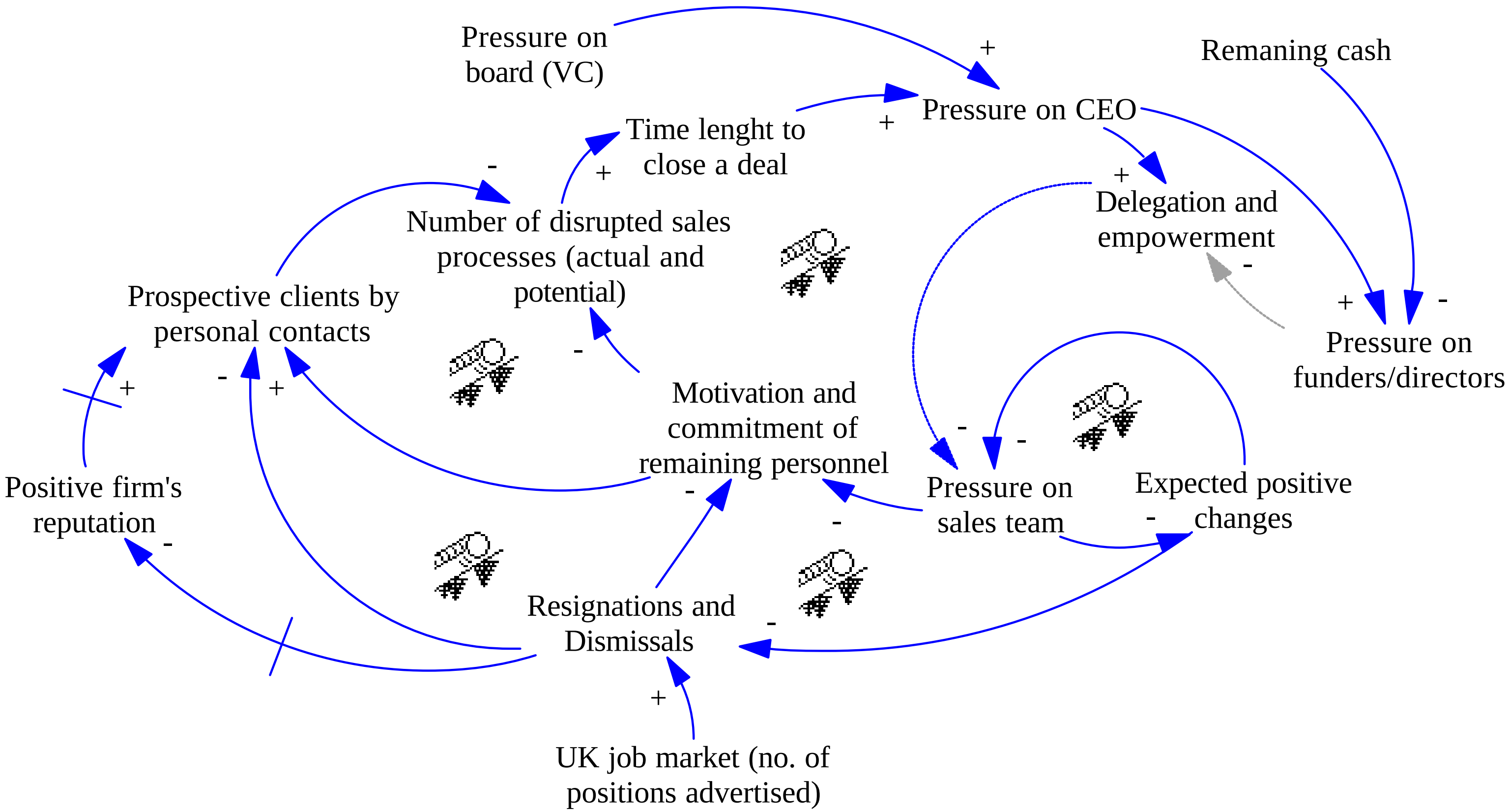
The new CEO.

The two founders did not fully accept the system thinking model as their mental models were conflicting with any suggestion and the need of a change in leadership style proved to be a challenging task. Since the time of funding the VC board members expressed the wish of hiring a CEO with relevant professional experience and to appoint other directors to share the leadership of the company. Until the outcome of the consulting engagement, these requirements were delayed by the two founders but after the presentation the board took direct responsibility in appointing a CEO, an HR manager and a financial director moving the two founders to less managerial roles. Lately one of the two founders has been removed from any direct involvement in the company.

For the remaining personnel the new CEO and the leadership change created the expectations of positive changes in terms of a less arbitrarily managed company and of stopping the daily dismissal threats they were subject under the previous style of management. During month 11 the new CEO took the helm and by implementing a collaborative style of management and by paying attention to relevant suggestions and bottom-up contributions, he developed further the approach to market and the value propositions. These positive changes induced further expectations in terms of improvement in the work environment and reduced considerably attrition by zeroing the dismissals and considerably reducing resignations.

The diminishing pressure on the sales team fed back to the expectations of positive changes and the more the new CEO was managing the company in a collaborative and open manner, the more the sales team were left free, and encouraged, to contribute to improving the approach to market; thus creating a positive reinforcing loop. Senior sales personnel started committing personal contacts and some early relevant perspective sales were developed. Time to close the deal started shortening as the prospects pipeline grew. The closer the first deal, the less the pressure on the CEO, the more empowered the employees, the more expectation for positive changes, the higher the morale, the less disrupted sales processes, the closer (and probable) the deal.

Loops structure under the new leadership style:



Conclusions

This case is a good example of how the wrong kind of leadership may disrupt a good business idea. An unsuitable leadership approach mainly focused on personal power and characterized by lack of trust toward colleagues was acting as the disrupting factor despite commercial potential, cash and resource availability. The personal drive of the entrepreneur together with their lack of self-confidence towards specific management topics (in this very case: marketing and strategy) ended up being the main barrier to business growth. The founders failed to appreciate the change of their roles when they sought and accepted external funding. This was despite the fact that a driving leadership might have been a strong asset for a growing organisation if aligned with stakeholders' interests and if aware of its professional limitations.

The company recently secured a significant (> £1.000.000) deal and took over another technology start-up that close to file for bankruptcy.

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