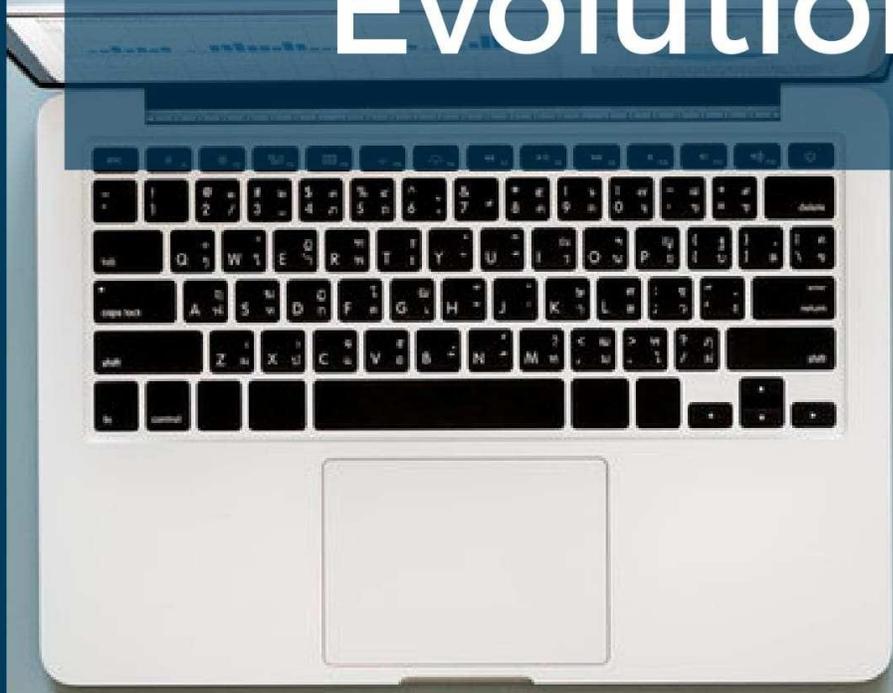


# White Paper



# Business Evolution



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Most business cultures follow a predictable path as the business progresses and grows. In addition to the business culture, the role of a business leader must also develop or the business gets stuck.

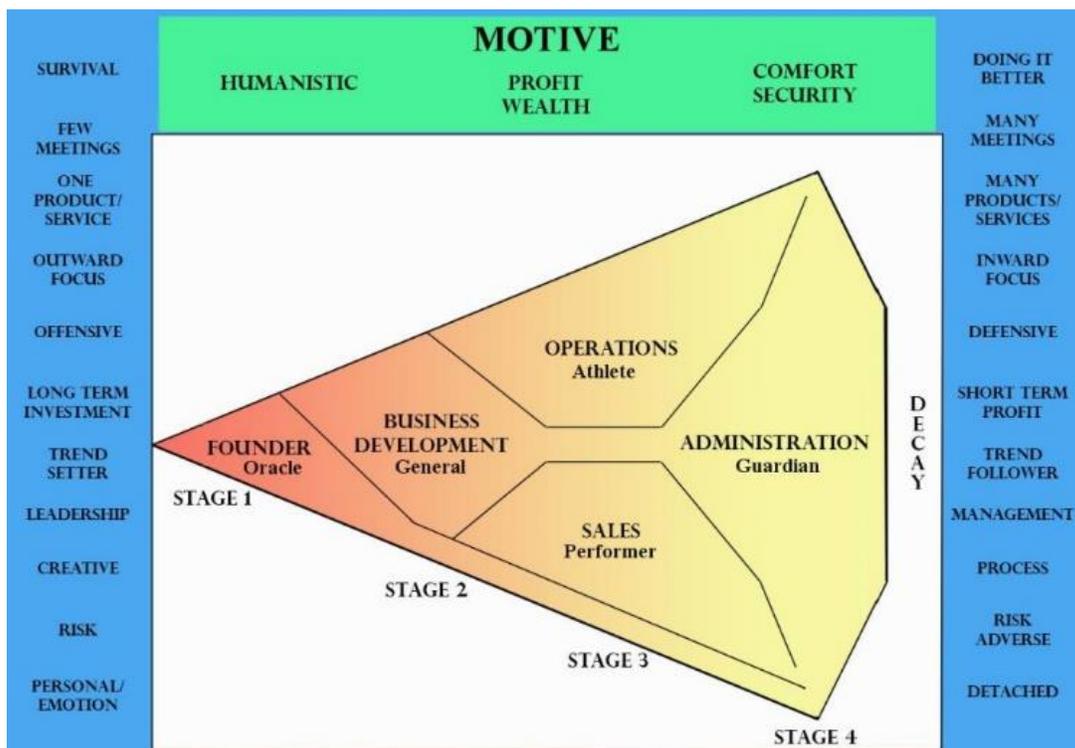
Sometimes the founder adjusts his style or adds partners who have the skills the company needs as it evolves.

This paper looks at the changing culture and leadership requirements a typical company passes through to see how a typical business develops.

With respect to culture, the following table looks at the priorities of a business from start-up to maturity.

The role of the leader has to evolve as the company progresses through four distinct stages. However, in most cases the leader is not very good at evolving and a new leader has to replace the old leader to continue on its path.

There are 4 distinct stage along the evolutionary journey that are represented in the follow illustration.



## Stage 1: The Oracles



Stage 1 encompasses the pre-start-up and early start-up period of a business. A company is started by a founder who is essentially the idea person behind the business. I refer to this person as the “oracle.”

In classical antiquity, an Oracle is a person who can see and predict the future. The Oracle of a business is the charismatic and often eccentric person that plays a major role during stage 1 of the business development cycle. He is often ineffective on his own since he is technically focused and lacks the essential

business acumen to convert his ideas into a thriving business.

The Oracle is often not motivated by material comforts but tends to be more motivated by the process of idea generation itself. They like to create a new product or service in response to a recognized problem in order to contribute to society. In contrast, a business founded with the sole purpose of making money rarely makes any significant contributions to the marketplace.

The most valued attribute of the Oracle is their vision and ability to get others to see it too. Oracles frequently started out at larger corporations where their creativity was stifled. They often leave corporate life to start their own business because their previous boss would not listen to their ideas.

The Oracles of McDonald's were Richard and Maurice McDonald. They had the vision that the car culture was coming and built a

drive-in carhop restaurant to serve food quickly. They invented the flat top grill and replaced glasses, napkins, and silverware with paper cups, paper bags, and wrappers. They experimented with menu items and finally settled on nine of their most popular items. All their burgers were topped the same way to decrease the time between orders so they could deliver your meal as fast as possible.

Being idea guys, they got bored when they didn't see any more ways to improve. They did not have the passion or the skills for expansion. Businesses in stage 1 often have one product or service. Survival is the name of the game for these companies. Many businesses remain stuck at this point since it takes a different type of leader to move past stage 1. Moving from one stage to the next is like changing gears in an automobile with a manual transmission; it requires a conscious effort and you may

lose a little momentum during the change.

### The Generals



For a business to advance from stage 1 (Oracle) to stage 2 (General), the business requires that the role of the Oracle be supported or replaced by a business development person. I refer to this new leader as the “General.” In our McDonald's example above, it was a guy by the name of Ray Kroc who was the general.

Ray Kroc bought the business from the McDonald brothers and took McDonald's from stage 1 to stage 2. This cycle continues to repeat itself over and over for any business that continues to grow and evolve past basic survival mode.

Thomas Edison was an Oracle. By himself, Edison invented many things. However, he was not capable of growing his inventions into a really profitable business. Edison didn't have the desire or skills to take his ideas beyond a stage 1 business and was always looking for funds to continue his research. It took the likes of JP Morgan, a General, to take Edison's ideas and turn them into the company we know today as GE.

Sometimes the Oracle acquires the skills of the General, such as with the case of Henry Ford and JD Rockefeller. However, this is less common in more modern times.

Frequently, the Oracle and General get paired up early in a company's lifecycle based on the perceived strength and weaknesses of the founders. For example, Stephen Wozniak was the Oracle and Steve Jobs was the General for Apple. Bill Hewlett was the Oracle and David Packard was the General

for the Hewlett-Packard Company. Paul Allen was the Oracle and Bill Gates was the General for Microsoft. You get the picture.

For many stage 1 businesses, the Oracle sells either all or most of their business after they reach the limit of their skills. The business is then acquired by the General.

For the General, expansion is the name of the game. For the General, their mission is clear and urgent. They like being in charge and making decisions. The General is often accused of being authoritarian and not consulting others before making a decision. They have little patience for planning and administrative tasks. The business General, like their military counterpart, have undying loyalty from their followers based on their “take no prisoners” attitude.

However, while Generals are charismatic leaders, they are so

focused on moving forward there is no time for any kind of succession planning. When business Generals die or move on, their businesses often collapse without their leadership. No one is there to pick up the flag after they are gone.

Generals are motivated by a single goal and hard-wired to excel during periods of crisis. However, when the objective is achieved, they fail to recognize or rise to subsequent challenges. At this point, stage 2 has often gone as far as it can go and the General needs to be replaced to move to stage 3.

### The Athletes and Performers

For a business to advance from stage 2 (General) to stage 3 (Athletes & Performers), the business undergoes a substantial shift from being on the offensive and growth-oriented to becoming more defensive and focused on process improvement through business

segmentation. The business segmentation associated with stage 3 sets up the business for shared leadership and management by creating multiple divisions.

In stage 3, true leadership begins to migrate more towards management. At stage 3, humanistic motives are being replaced by profit and wealth motives. Rank is introduced; there are workers, supervisor, managers, and vice presidents. The culture is changed from one of unity for a single purpose to becoming more about individualism.



On one side of the organization is the operations department, which is focused inwardly. I call the people who work in the

operations department the “**athletes.**” As in sports, business athletes are focused on doing one thing better than anyone else. Within the operations department, there are engineering athletes, manufacturing athletes, human resource athletes, and so on.

On the other side of the organization are the sales and marketing department. I call the people who work in the sales and marketing department “**performers.**” As with theater or screen performers, business performers are outwardly focused and focused on their audience.

Athletes share many traits of Generals and often take over a division using General type skills by improving production and increasing specialization. However, Athletes are more introverted than Generals. Athletes enjoy the actual work, are obsessed with measuring progress, and do not like spending time talking in

meetings. They like to make decisions and act quickly. However, they recognize they are not visionaries and focus on execution. The chief Athlete is the President.

Performers are naturally more extroverted and often come from sales. Performers are



convincing and enthusiastic communicators, feel more affinity towards the customer, and see their coworkers as obstacles to serving the customer. They love to keep score and are very competitive. Performers are often frustrated by the company's lack of expansion and feel there is way too much paperwork. The chief Performer is the CEO.

In stage 3, Athletes and Performers take over for the general.

Henry Ford was a good example of a general that hung on too long and was surpassed by General Motors, a business that successfully transitioned to stage 3.

### The Guardians



When a business advances from stage 3 to stage 4, the business transformation is nearly complete. During stage 4, company decay can often begin to set in as the administration of

the business is placed in the hands of a “guardian.”

The primary motives of the business guardian are comfort and security. Unity towards a purpose is absent and replaced with self-interest. The layered class structures fail to understand each other; leaders and followers grow more distant. Workers doubt their leaders have any clear vision and are no longer willing to dedicate themselves to the company's mission.

Workers are in it for the money and generally are just going through the motions. Internal harmony breaks down and the guardian increasingly seeks unfamiliar solutions to problems he does not fully understand.

The board of directors are indebted to the leadership and conform rather than challenge leadership.

Guardians spend most of their time in meetings trying to understand what has or will go

wrong. They believe tighter control will solve their problems, making matters even worse. They are more concerned with how Wall Street or the investors see the company than the customer.

Stage 4 companies become so inept in the industry they are challenged by start-ups and are frequent targets of acquisition by competitors. Finally, the culture of a business in stage 4 is one of inaction and has achieved the same level of bureaucracy as our government.

The entire evolution of a business can be seen in the life cycle of Xerox.

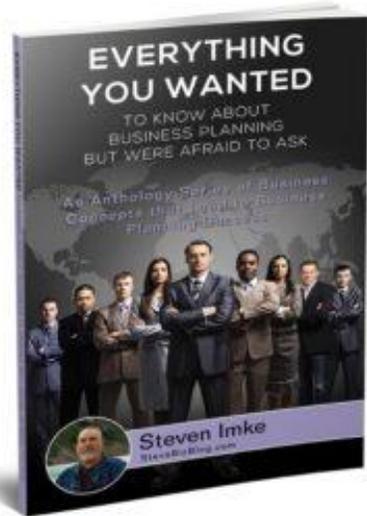
- **Stage 1 (Oracle)** - Chester Carlson invented copier technology and was the oracle. He spent nine years trying to sell the technology with no real progress.
- **Stage 2 (General)** - The company moved to stage 2

when Wilson Haloid, the general, took charge and funded research to turn the idea into the product we know as xerography.

- **Stage 3 (Athlete & Performer)** - Enter Horace Becker, the athlete that managed engineering and manufacturing which turned xerography into a reliable product. Horace was succeeded by Joe Wilson, the performer that changed the model from selling to leasing, growing the company to be so large Xerox became a virtual monopoly.
- **Stage 4 (Guardian)** - Anti-trust suits were filed. Afraid to act, Xerox was taken over by lawyers and Xerox evolved into a bureaucratic culture under Peter McColough, the guardian.

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