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GROWING UP, MANAGING UP

Successful start-ups can only become sustainable long-term businesses with the right skills, strategies and vision at the top.
Report: Leo D'Angelo Fisher

Brisbane employment services entrepreneur Tom Strachan has a warning for the founders of growing businesses: beware the dark forces of the "corporatisers".

Strachan, who started labour-hire firm AWX in 2000, admits that he "fell asleep at the wheel" and permitted consultants to persuade him to introduce a level of corporate bureaucracy that he has now vowed to undo.

"As businesses get bigger, the things that make the businesses great – the flat structures, the entrepreneurial spirit, empowering employees to make decisions, the focus on the customer and basically really enjoying what you're doing – get replaced by more rules, more administrators and more layers," Strachan says.

AWX (Australian Workforce Exchange) employs 124 people and its revenue has grown from $48 million in 2009-10 to $155.5 million in 2012-13, placing it at 73 on this year's *BRW* Fast 100. The group comprises several separately branded labour hire, recruitment and consulting businesses for the agribusiness, mining and industrial sectors.

The company debuted on the *BRW* Fast 100 in 2008 and Strachan has featured on the *BRW* Young Rich since 2010, this year with estimated wealth of $25 million.

This personal and corporate success has not mollified Strachan's conviction that AWX has been coerced into the "dark side" of corporatisation. From the beginning, the former stockman-turned-entrepreneur has used trusted mentors to hone his skills as a business owner and chief executive, but as the business has grown, more consultants have been called in, and Strachan doesn't like the impact they've had.

"External advisers tell you, 'you're a big business now, you've got to change the way you do things'," he says.

"They chip away at the things that make you super-successful and you start to believe those things aren't needed any more. That's how you end up corporatising your business and

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strategies and vision at the top.
Report: Leo D'Angelo Fisher

Corey Passey vows to undo a level of corporate bureaucracy he let consultants persuade him to introduce.

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it's a risk for any growing business.

"It's sort of like Stockholm syndrome; you get taken hostage and you don't realise it. They want you to be average, which they call best practice. Instead of focusing on selling, focusing on the customer, you're filling out bloody forms all the time."

Earlier this year, Strachan decided to "cut that backroom shit out" when he overheard one of his sales staff take a call from a long-standing client that had done substantial business with AWX but had recently gone through a rough patch. Strachan was horrified when the staffer told the client she would have to get approval from the credit department before she could re-establish the relationship.

It was, he says, an example of "the back end telling the front end how to do business". Strachan, who owns two-thirds of AWX, has embarked on a program of "reinjecting a 100 per cent sales focus" in the business and reviewing the "layers of management" and processes that have built up with a view to "getting rid of them if the business doesn't need them".

"My aim is to cut the complexity, to have a clear strategy around competitive advantage, to make sure that everyone understands the AWX ethos and vision and to ensure that everyone has the autonomy to make the decisions that will help us achieve our goals," Strachan says.

Minimalist management

A growing business does not always mean a change in management styles and structures. When Mooloolaba, Queensland builder Corey Passey and three business partners started home renovation franchisor Smith & Sons Renovations & Extensions in 2008, the aim was to create a minimalist business model that would not stretch the management responsibilities of the founders.

Smith & Sons has 65 franchisees, split evenly between Australia and New Zealand. But the relationship with the franchisees is managed by eight master franchises in Victoria, NSW, Queensland and New Zealand.

With head office comprising just two of the founders – Passey as chief executive and Leigh Wallis as marketing manager – the business virtually runs itself. "Our role at corporate office is coming up with new ideas and devising marketing concepts. We deal solely with the masters," Passey explains.

"A more complex business structure wouldn't appeal; it's not my style. With the role of the master franchises, we don't need to grow our team as the business grows. It takes very little managing, really, that's why we went down the master franchise route."

That may change if Smith & Sons, ranked 65 in the 2013 Fast 100, succeeds in expanding its concept overseas, starting with the UK in 2015 and later the US. "We'll probably have to restructure the model then because it will be necessary to set up offices in those markets, but for now we really want to concentrate on getting the Aussie market nailed because we believe we've only scratched the surface. We believe there's potential for 200 franchisees," Passey says.

Surviving stage two

The managing director of Brisbane-based business turnaround consultant Vantage Performance, Michael Fingland, says poor management structures are responsible for 80 per cent to 90 per cent of growing businesses hitting the wall. Bloated management hierarchies can be as damaging as too little management.

"A lot of businesses blithely go down the path of adding management layers, thinking that more layers equals strength," Fingland says. "In a lot of turnarounds we're involved with, we end up having to de-layer the business."

More common, however, is the failure of growing businesses to ensure that their management capabilities are equal to the size and growth

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potential of the business. "Owners who focus on top-line revenue and growth often don't focus on their people because they don't see the value in developing their staff – they can't see the immediate benefits of investing in their people and setting up proper organisational structures," Fingland explains.

Successful start-up businesses that comfortably reach the $20 million revenue mark within the first five or six years, Fingland says, often do so on the skills of the owner, but the next stage of growth stalls because the owner hasn't recognised the importance of resourcing the business as it moves from "small" to "medium".

"This is the point when the business gets too big for internal skill levels. Up to [revenue of] $15 million to $20 million, a business can be run on gut feel, there's still a place for intuition, but the biggest challenge for business is getting from $20 million to $50 million; that's when you need to upgrade people skills, develop proper structures and improve communications – and that's where most come unstuck," he says.

A team in transition

The chief executive of Melbourne-based fast-food franchise chain Schnitz Australia Holdings, Andrew Dyduk, recognises that he is at a crucial stage as head of the family-owned business.

"My role, since becoming full-time chief executive in 2010, is definitely changing. We started with very little money and at the beginning I literally had to do it all myself," Dyduk recalls. "Now I'm starting to move to an overseeing role, although I'm still in the process of transitioning from micro-managing to overseeing."

As Schnitz prepares for the company's next stage of growth, Dyduk faces the challenge that many chief executives of growing businesses must contend with: striking a balance between preserving the best features of a start-up business while adopting the systems and processes of a company with big plans for expansion.

Although "quite lean as an organisation" – Schnitz's head office is staffed by 12 people – Dyduk has a management team in place, including brother Tom as operations manager, a human resources manager, a financial controller, a marketing co-ordinator and a franchise development manager.

Keeping the company lean is a priority. "Hierarchy is very much top-of-mind as we build the business," Dyduk says. "We want to maintain the values and environment of a family business. The people who work here almost own their departments. Our team don't feel they're just another cog in a corporate machine; they feel they're contributing and making a difference."

As managers and senior staff take on more responsibility with greater autonomy to make decisions, Dyduk is determined to become a less hands-on chief executive. "I don't wear as many hats now. To be a really good chief executive, you need to see the big picture, you don't need to be touching every decision in the business," he says.

'Build to sell'

The managing director of Melbourne business advisory firm GRG Momentum, Geoff Green, who specialises in entrepreneurial businesses, says it can be difficult for business founders to acknowledge the need to restructure the business for the next stage of growth, which can mean ceding responsibilities or stepping back entirely from the chief executive's role.

"From my experience with early-stage companies, most are run informally . . . and literally consist of a handful of founders and staff.

"The next stage of development for these businesses, which requires putting more formality into company structures, is often a challenge for the founders," says Green, whose experience with emerging companies includes being the founding chief executive of the revamped Bendigo Stock Exchange when the colonial-era stock exchange reopened in 2000 as a small-cap bourse, before closing its doors again in 2012.

Green urges his clients to embody the catchphrase "build to sell" when considering the structure of their businesses. "My advice to clients is: everything you do to build the business today is around selling the business one day. When you make decisions about the structure of the company, bear in mind how that structure will look to a buyer in five years' time and how that will influence their decision to buy or invest."

Green also recommends that growing companies appoint advisory boards to help guide decisions about moving from one growth phase to the next. BRW

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Michael Fingland, Vantage Performance

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