



Business Mentors

The Entrepreneurial Journey

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Peter's Principle is a well-known business theory regarding employee promotion, personal growth and competence. The theory states that employees can be promoted to the level of their incompetence. This means competent performing employees can and frequently are promoted, only to become incapable of successful performance at this next level. The result is that you have turned a successful situation into a failure. Of course, this won't be immediately evident as you are investing training, coaching and management time in an attempted to help make this employee a success. Failure to succeed carries negative connotations for the company, coworkers and the employee. Sadly, moving this previously successful employee back to his/her prior position seldom works. These hurdles are frequently too difficult to overcome and now you are faced with filling two positions.

We think there should be a Peter's Principle for entrepreneurial companies and their owners. Entrepreneurial companies commonly experience four to five stages of development. Peter's Principle occurs when a company advances from one stage to another without the necessary components of success in place. Organizational growth can be like the evolution of a caterpillar to a butterfly — if there is less than perfect growth, you might have a butterfly with only one wing. A common experience for many entrepreneurs is to grow their companies to the level of their incompetence. We all have limitations, strengths and weaknesses, however, we are frequently blind to our own shortcomings. Sometimes, the most important information we can possess is not what we already know, but what we don't know. If we are blinded or overconfident about our business acumen, it could be because of pride or a lack of interest in things we don't do well. Perhaps we are enamored with sales at the expense of profits or customer service. Thus the challenge — we focus, obsess and pursue what we do best, frequently leaving behind the important principles necessary for the stable growth of our business to the next level.

In your entrepreneurial journey, you can move one or even several business levels without completing all the necessary ingredients of good business practices. However, there is a price to pay for these moves and it is frequently seen in falling profits, sales, employee morale, and in compromising personal time and satisfaction.

In our theory of the entrepreneurial evolution, business owners can and frequently do grow their company to the level of their own weaknesses. During your organizational development, have you neglected some basic principles?



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Following are some classic examples of businesses that have neglected the basic components required for sustainable and healthy growth:

- Organizational strength lies in marketing and sales, but sales are pushed until production reaches its capacity to be efficient. The result is falling job profitability, deteriorating communication and lower customer satisfaction levels. Frequently, employee morale is next.
- Growth requires new levels of financing and cash flow. Pushing sales without a cash flow plan can become a fatal oversight. Even profitable growth can become a problem as the profits disappear into accounts receivables or equipment purchases. It is commonly known that bankers loan money when you aren't in urgent need. Unfortunately, entrepreneurs don't borrow money until there is an absolute need. This creates a challenge as the banks see the need as potential risk in their loan portfolio. The price for this growth results in unhappy vendors and time spent on unproductive activities, arranging supplies, payroll and other basic operating expenses. Ultimately, creditability with suppliers, bankers and employees can cause the demise of the over-aggressive entrepreneur.
- Many companies have learned the tough lesson of growing their overhead without consistent marketing. The ultimate result is experiencing a slowdown in sales due to weather or other market conditions. At this point, the overhead usually has to be cut in order to weather the cash deficit.
- Frequently, aggressive marketing leads to increased sales. If this occurs without an investment in training, it could lead to an inability to deliver a quality product. Customer service, efficiency and employee morale could suffer.

If you find that you have grown your business, yet have fundamental weaknesses that need to be addressed, or you simply want to avoid fatal problems as your company grows, what steps can you take?

- Build your company on sound foundations. Every element of your structure is important. Don't grow without learning your deficiencies — both personal and corporate. Perform a self-assessment and be humble in understanding your weaknesses. Either hire to your weaknesses or take steps to turn your weaknesses into strengths.
- Hire experts to mentor your growth and shore up your weaker foundations.



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- Learn about more complex principles of team building, branding, outstanding customer service and employee buy-in.
- Study the marketplace. Realize that change will take place. Learn to personally change and improve yourself.

Your business is a vehicle that allows you to realize your personal goals. Your entrepreneurial journey should be a fun trip. Has it been filled with land mines and difficulties or has it been an enjoyable experience? You have one life to live — find joy in every day. You have the ability to create a business that gives value and meaning.

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