

How to build an organization

To define the people you need, consider your vision, your strategy for financing the company, and your operational plans.

In business, it is people, people, and people, and because people make decisions, a company can be no better than its key people. This article, the fifth in the Business Engineering series, presents an organizational philosophy that expands on the philosophy of relationship discussed earlier (see *Laser Focus World*, April '95, p. 59). We will also get into some how-to details in anticipation of what you might encounter as you build your own organization

People are intrinsically good, but they rarely perform to their full potential. If a company can provide an enabling opportunity for people to stretch toward their aspirations, they blossom, perform miracles, and provide the company with the ultimate competitive advantage in return. That statement may sound naive, but every assumption is a self-fulfilling prophecy. You have to believe it can happen, then make it happen. Anyone at New Focus will vouch for the fact that this philosophy really works.

We used to trade loyalty for job security — we dedicated ourselves to the company because it promised us stability and long-term employment. In today's business environment, people gain job security by developing marketable skills, and they dedicate themselves to the company because it's the place where they get their psychic reward. They are really working for themselves more than for the company. All of us want to be happy and feel good about ourselves. We strive for excellence in our work to reinforce a positive self-image, which makes us happy, and to avoid letting down the people around us.

We want to feel we are special people who can make a difference. So we want to learn, grow, and take on more responsibilities. Before we can develop a sense of ownership in our work, we must consider it important and have a say in picking what we do and how we do it. Taking that one step further, the company must be willing to adjust the job to meet an employee's long-term career objectives. When that synergy exists, you have a true win-win situation. You want to develop your organizational strategy based on this understanding.

expect them to play a key role. An organization typically takes on the personality of the leaders. Since the founders' philosophy defines the company culture, and everything else follows logically from that, the die is cast from the very beginning. Studies indicate that the rate of success increases with the number of founders, up to the optimum number of four to five. Compare the expertise of the founders with the expertise needed to achieve the objectives stated in your business plan. Make sure the founding group covers all the bases and has the capability to cope as

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What makes people succeed or fail on the job? People are more likely to succeed when they are excited about a project and feel responsible. Mutual confidence and trust are the key ingredients. If an employee does not trust your judgment, he or she won't believe the project is worth owning. And if you don't have confidence in your employees' ability, you won't leave them alone to develop a sense of ownership. In either case, failure is built in.

In building an organization, you need to find qualified people that share your goals, your value system, and your ethical standards. Go slow. Trust your instinct. You wouldn't want to wake up in a nightmare with unhappy people around you making you unhappy.

The founding stage

Founders are special people. A sense of ownership makes them feel responsible. Others respect the founders and

the company grows. If necessary, let somebody else take the lead.

Convincing the first person to join you is the most difficult. It takes foresight to be the first to take the plunge. In most businesses, you have to make products and sell them. So the first two people should have those two skills. Frank Leucke was my first partner at New Focus. We had a simple handshake agreement: he promised to make anything I could sell, and I promised to sell anything he could make. It worked!

What kind of personality should you look for? A positive, enthusiastic person with lots of energy and a can-do attitude, for there are going to be a lot of ups and downs. A positive attitude is contagious. A negative attitude is a black hole. A single negative person can bring down the enthusiasm of an entire organization.

Where can you find qualified founders? You can get a nice start by recruiting the best people in the industry. Even

if they turn you down, they'll most likely recommend someone who is qualified. "A's" usually recommend "A's." "B's" recommend "C's."

You can eliminate a big uncertainty by hiring people who have worked well together in the past, so long as they meet the required professional criteria. But don't hire them merely out of convenience — that would be the wrong reason; it's so easy to be event driven when it comes to building an organization. I didn't know any of the other New Focus people previously, whereas Iris Medical founders all knew each other well.

Look out for wrong job definitions. One common mistake is to get a top salesman to be your vice president of marketing. He may not be good at managing, and sales is very different from marketing. Sales people want to close every sale coming their way; marketing people are strategic and would even avoid some sales. There are other instances of mistaken identity to guard against, too: an MBA degree doesn't guarantee business smarts, an accountant is not necessarily a financial wizard, nor is a strategist always an implementer, a scientist an engineer, a manager a leader, or a talker a doer.

Another common problem is the transition of a big-company person trying to function effectively in a small-company environment. Small companies have little of the infrastructure support that exists in big companies. You may not offer the environment that allows that person to succeed. Furthermore, that person may not have the experience to know there's a cheaper way of getting the job done.

Another common mistake is a 50:50 ownership split. That sounds fair enough in the beginning because the roles you and your cofounder play seem equally important. But what about five years out, when one of you is managing the entire company and the other is managing only a small part of it? Ownership should be based on future roles. Typical ownership after first-round venture-capital financing might look something like this: CEO, 4%-10%; vice president of marketing, 2%-6%; vice president of finance, 1%-2%; key engineering manager, .25%-1%. The issue of ownership hits the pocketbook, but it's easier to address up front when the stakes are smaller.

To manage a company, you must be able to face up to tough problems. Make sure to clarify big issues up front, including your long-term objectives and your exit strategy. You will avoid built-in conflicts by establishing

clear expectations, and remember that honesty is the best policy. People who don't agree with your objectives won't join you, which means you will have fewer problems later.

Enjoy the founding stage. You'll en-

Tips on hiring

Hiring and firing are the most difficult managerial situations you face. People don't change. It is far more time-consuming and painful to make changes later than to hire the right person in the first place. Hiring is a defensive game. When in doubt, keep looking. At New Focus, we build in organizational flexibility by looking for aptitude and attitude more than for specific skills.

Be well prepared before a hiring interview. Consider the existing group: its strengths, and weaknesses, and flexibility. Then review the resume. Look for the specific skills you need and a pattern of success that fits the requirements for this job. Consider differences in working environments that have caused the candidate to succeed or fail.

During the interview, pay particular attention to attitude and personality; an effective team can always outperform a prima donna superstar. Keep the first interview short, so it doesn't turn into a selling exercise. Clarify the resume, challenge your biases, look for self-consistency, and answer questions for the candidate. Beyond that, words only water down your intuition, which is working overtime, measuring the person with respect to thousands of parameters you couldn't even identify, much less quantify.

Trust your intuition, but keep an open mind. Check references to clarify any concerns. Superficial dialog with the people giving references yields only misleading feedback. Be specific and ask those people to challenge your observations. You'll be surprised how much you learn.

At this point, you know intuitively what's the right decision, but it's easy to let your ego make you do the wrong thing. You may want to have a second interview for both parties to get final clarification, sign up the person only if you have full confidence in his or her ability to do

the job. If you hire when you have doubts, you are hiring a person to fail!

Once new people are on board, they must be fully on board. Trust them implicitly. Provide them with the information and the tools they need and let them do the job. This is the only way they can succeed. What happens if you lose confidence in them? You start looking over their shoulders and second-guessing them. From their point of view, their work becomes your work — they lose all sense of ownership, commitment, and enthusiasm. Your distrust becomes a self-fulfilling prophecy that will cause them to fail.

You may want to give a failing employee another chance by changing the job responsibilities, your expectations, or the reporting. But if you can't restore mutual trust and confidence, the relationship should end — a difficult decision. Rather than feeling guilty or assigning blame, both parties must keep in mind that relationships don't always work. It's really better for some individuals to have a fresh start working for someone else who has confidence in them. Be supportive and compassionate to help these people find their own solutions. It's well worth going the extra mile.

The last word

There's also a message here for those of you looking for jobs or taking on a project: trust your instincts. Never work for a person or organization you don't have full confidence in just because you need a job. Once you have a job, never take on projects you don't believe in. Chances are your intuition is right, and if you go forward you're setting yourself up to fail. You're wasting valuable time. Finding the right job is the secret to success.

counter few personnel problems because these are exciting times. There is so much to do. Everything is new and you know you're making an impact. just be sure you don't establish precedents that won't work with other people as the company grows.

The incubation stage

You now have to add people beyond the immediate founding group. To define the people you need, consider your vision, your strategy for financing the company, and your operational plans. Your business plan can help you foresee and understand your personnel requirements.

Venture capitalists usually want to see a fairly complete team before they invest. Their approach is sound when the business is ready to take off, but during the incubation stage it's costly, and you'll have a hard time attracting qualified people. Unless your story is compelling, it's hard to convince people with good jobs to leave them and take a big plunge. In the Bay Area, we get around this problem by hiring temporary professionals until we can justify the cost of a full-time qualified person. This strategy avoids using up an important title and also gives us a chance to evaluate the person for a permanent position.

In our low-risk model, the founders must take an interest in all aspects of the company's operations and be willing to fill in for vacant positions during the incubation stage. You must be prepared to serve as the marketing and sales person — if your products sell into a technical customer base, you won't be able to hire anyone more effective than yourself. This willingness builds flexibility and efficiency into the organization, and it also fosters equality. When you're unwilling to perform a function, your body language conveys to the organization that you don't place a high value on that function.

What you don't know, you'll learn; continuous learning is necessary for successful companies in this rapidly changing world. Consultants can come in to teach you, and you can also draw upon the expertise of your Board of Directors. They are invaluable mentors because over time they develop a deep understanding of the company, and because you won't be able to "hire" this senior level of people any other way.

Operation is simple in the beginning. You can even toss receipts in a shoe box to keep track of expenses. At New Focus, we got by with an easy accounting software package for about six months. Most of us don't really like administrative details, and we can make better use of our time doing things other people cannot do. A capable administrator can significantly extend what you can accomplish. An accountant can help you set up the books professionally, then help the administrator maintain them over time. But make sure the administrator merits your trust, has the ability to manage projects, and has potential for growth. Encourage training along the way. This person is invaluable because he or she will know the history of the company and will develop an intuitive understanding of your actions and the company culture.

The growth stage

Now you have to add people more rapidly as sales grow. Look at each hire as an opportunity to optimize the organization by shifting responsibilities. Set your standards high and never settle for second best (see "Tips on hiring").

In my first business, recruiting qualified people was very difficult if not impossible. Big companies offered job security and growth opportunities, so they had the first picks. But now small companies can attract the finest people because people want to get broad exposure to all aspects of a business. This trend presents an important strategic benefit that will allow you to compete toe-to-toe with big companies. The right company culture is a big attraction.

What are the qualities to look for? Project-management skills, an innate respect for people, a pinch of humility, and of course the positive personality described earlier. Mutual respect is the foundation of teamwork, and you can't afford personality conflicts. Make sure the people you hire have a strong leaning toward learning and self-improvement. At this stage, the founders must learn "letting go." As others learn your skills, they free you to do more. That's the basis of growth and operational efficiency, and it's in keeping with the modern management theory of flat learning organizations. You take on the role of coaching more

than supervising, and others follow suit. Here you are giving up personal control for growth of the organization.

Every person you add is a major step function in overall capabilities. Make sure the person is willing to chip in to share the load. This model is very efficient; you don't have a complete team, but the job gets done anyway. A lean organization enjoys a competitive advantage. To this date, New Focus doesn't have vice presidents of marketing or finance, but everything is running smoothly.

A personal note

If something goes wrong in a company, invariably our reaction is to say, "It's not my fault" and "Let me fix it." I have learned to challenge myself and hold back when I respond that way. I try to see the company's problem as a reflection of my own behavior. I look to see whether I've clearly defined and communicated tasks, allocated adequate resources, and given the project enough moral support. Sometimes a project simply can't gather critical momentum because people perceive a lack of support from my body language. But if I jump in to take charge, then the organization never develops an ever-expanding ability to solve problems.

At New Focus, we add people with extreme care, and we practice everything I describe in this article. It really works! People assume responsibilities and free me to reflect on issues. I become more relaxed in the way I work and feel less need to "fix it" to prove myself. My body language conveys to people that I trust their competence, and they gain more self-confidence to take on more responsibilities. Answers are never simple when comes to people working together, but I do know a precious positive feedback loop is occurring at New Focus. I see my role as a teacher and a guardian of our culture. That's what gives me pleasure and makes me want to go to work. □