The Making of a Professional Company

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1. Introduction

There have been many writings on the topics of internationalization and globalization. It seems that technological advancement, particularly in the area of telecommunication, has united different economies into a global one. For business executives, the positive side of globalization is clearly that the markets expand many folds. The products they make can now be sold to every corner of the globe, not only in the native country. There is also a negative side, however. It is that they have to compete against players from all over the world. For example, in the past, *Ford's* main competitors in the United States markets are *Chrysler* and *GM*. Today, the competitors include *Nissan*, *Toyota* and *Honda* from Japan; *Hyundai* from Korea; and several more brands from Europe.

Regardless of size, every company will sooner or later compete against global players. In the beginning a small company may find that it is the only player, or one of a few players in the market since its products or services are highly innovative in the marketplace and there is very limited substitutes. The innovative edge allows the company to expand its market shares and grow internally. However, over time, competitors will inevitably imitate and eventually compete for the same markets. At such time, the company will have no choice but to find ways to maintain its competitive edge, if it wants to remain in existence. Clearly, there are several ways to maintain competitive advantages, such as innovate to deliver new products or services to the markets. However, at the organizational level, the company must also take an important and fundamental path in order to sustain competitiveness. It must transform itself into a

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professional company from an entrepreneurial position. Competitiveness will then derive from increased productivity and efficiency.

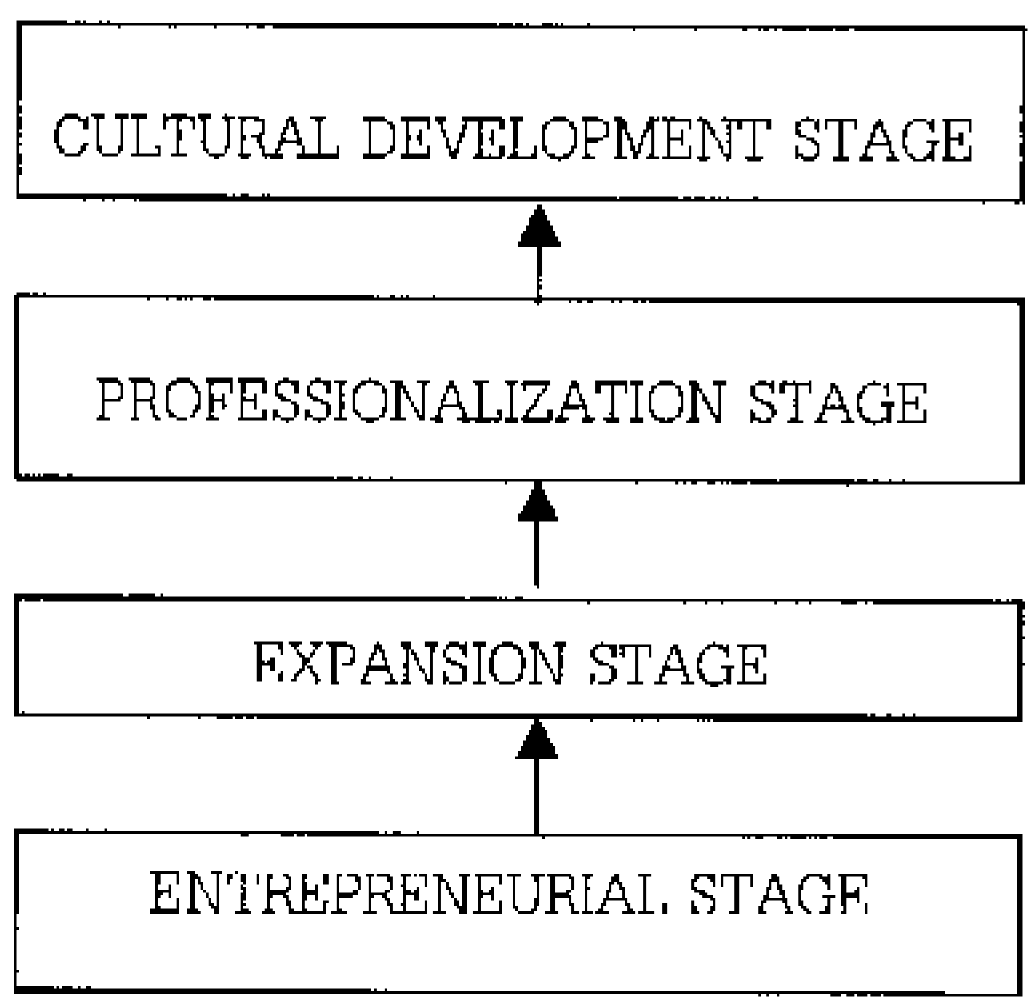
This paper examines the organizational development process through which a company must move. Furthermore, it discusses the vital issues that company executives must take into consideration if they want to make the organizational transformation successfully.

2. The Organizational Development Process

Diagram 1 illustrates a typical process of the organizational development (Flamholtz, 1986). Most companies tend to start out small in the beginning, the Entrepreneurial Stage. For example, William Hewlett and David Packard founded Hewlett-Packard Company in 1937 with only US$500 in capital. If a company's founders can manage to establish a foothold in the marketplace that company would expand, hence the Expansion Stage. The entrepreneurial structure is viable in the Expansion Stage to a certain extent. Eventually, a company must professionalize. If it does not, expansion will slow down and finally stop. At that point, several critical problems (which will be discussed later) will occur. After a company is professionalized, it will have to move into the final Stage. This is where cultures are formed and the company becomes institutionalized.

At each stage of the development process a company possesses unique characteristics which must be examined and understood.

Diagram 1: Organizational Development Process



3. The Entrepreneurial Stage

Typically, the Entrepreneurial Stage is the stage where an individual or groups of individuals recognize unmet needs in a market segment or niche. Moreover, they have the capability to deliver products or services to fulfill such needs. For example, Thailand Carpet Public Company Limited was founded over 30 years ago. At that time Thailand economy was growing steadily. The Company's founders recognized that as per capita income grew there was demand for more luxurious products. In real estate particularly, there was growing demand for high quality housing as well as luxurious interior decorative products. There was no carpet manufacturer at the time. Carpets and rugs were imported from foreign countries and import tariff made prices extremely high. Therefore, since the founders possessed carpet production know-how, they decided to set up a manufacturing facility locally.

In this stage, investment in new ventures tends to be small. As mentioned earlier, Hewlett-Packard Company started out with only US$500. Similarly, Thailand Carpet Public Company Limited was started with capital investment of merely Baht 5,000,000. The capital went into a plot of land outside Bangkok with a small and simple factory constructed. All the machinery purchased was in small scale and very few units.

In this stage most companies are often managed by shareholders. The technical experts handled the factory while the marketers took charge of sales and marketing. Finance and administration functions were kept simple since the investment was small. Though many entrepreneurial ventures may possess organization charts, job description is often unclear in practice. The policy of 'everyone helps out with everything' is common.

4. Expansion Stage

After an entrepreneurial venture has successfully established its foothold in the marketplace for a period of time, it would gradually progress into the Expansion Stage. In this stage the company's revenue increases drastically, compared with the previous stage. This is a result of increasing acceptance of new products in the markets. In addition, to accommodate sales growth, the workforce of a company must also expand. Generally, the founding entrepreneurs will make effort to recruit new employees for all functions of the organization. Though they try to hire the most suitable candidates possible for the company, there may not be systematic recruiting process in place at this stage. Essentially, time and effort are spent on delivering products to markets instead of building and systematizing the organization.

As the venture moves through the Expansion Stage, there is also a need for more financial resources. As demand for new products grows, production capacity as well as workforce expansions become necessary. The company's founders may have an option of taking out loans from the bank on behalf of the company. Alternatively, they or new partners can inject money into the company in the form of capital increase.

An interesting point to observe is that as an entrepreneurial venture enters the Expansion Stage, the founders as well as the employees are in high spirit. The new products are well received by the markets. Sales are growing rapidly. Everyone feels that his efforts are being rewarded thus become even more motivated.

Another distinctive characteristic of ventures in this stage is the lagging behind of operational systems. Operational systems are systems that company sets up internally to facilitate day-to-day business operations. They include accounting, billing, inventory, payroll, and production systems, etc. In the Expansion Stage, the companies' operational systems have undoubtedly grown, along with overall growth of the company. However, it is common to find that growth of the operational systems lags behind companies' expansion. This is for the obvious reason that in the Expansion Stage, everyone focuses on producing and delivering goods to the customers and brings in revenue. They overlook systems development. Such lags eventually results in serious bottleneck problems.

The organizational transition from the Expansion to Professional Stages is necessary for survival and future prosperity of most, if not all, companies in the globally competitive economy. It is not possible to specify a timetable as to when is the right time to proceed into the Professionalization Stage. It is also difficult to use revenue levels as benchmarks to indicate when transition should take place. The situation is unique for each company. There are, however, certain symptoms that are indicative of the need to make changes. These symptoms, resulting from bottleneck, are as follow.

- ***Employees feel over-worked.*** As mentioned earlier that in the beginning of the Expansion Stage everyone was enthusiastic, excited and in high spirit. Employees are motivated by the growing success of the ventures, measured by drastic increase in revenue. However, over time, they have to work longer hours to service the markets.

They begin to feel that the more they do, the more there is to be done. This eventually leads to fatigue and exhaustion.

- ***Employees lose focus on what they are supposed to be doing***. They feel like they are doing everything. In a new venture, the concept of 'everyone is helping with everything' is acceptable. A secretary can, among other things, service customers when sales people are not around. Similarly, the company's managing director may end up supervising in the manufacturing floor if there was a rush on a customer's orders. However, the problem associated with these practices is that often time the same tasks are unknowingly performed repeatedly by the same people since no one knows the limit of his responsibility. These unproductive practices occur more frequently and eventually become normal practices if the venture continues to expand without structural development into the Professionalization Stage.

- ***There is a lack of coordination among employees***. This symptom is related to the previous one. As a venture expands, the complexity and coordination needed in completing tasks expand with it. Therefore, since employees are confused about what they are supposed to be doing, coordination breaks down. Consequently, things do not get done on time.

- ***Managers spend most of their time solving immediate problems and very little time planning long-term***. At the fundamental level, a good manager's job can be divided into two functions. First, he must handle routine business and solve day-to-day problems. Second, he must make plans and prepare his company for the future. In this case, however, managers spend most of their time solving day-to-day problems because the days are chaotic. They have no time to plan for long-term objectives. They end up running companies on day-to-day basis.

These symptoms described above reflect serious bottleneck. The *ad hoc* basis of operations that was admissible during the earlier stage is no longer applicable here. Making day-to-day adjustments as the companies move along is no longer a viable practice. Companies experiencing these symptoms have grown beyond what the existing organizational structures can accommodate. It becomes critical at this point that the management leads the companies into the Professionalization Stage.

5. Professionalization Stage

In the process of organizational development, clear vision, formalized organizational structure, business strategic planning, measurement and control characterize companies in the Professionalization Stage.

- ***Vision***

A company's direction must be guided by its' vision. A vision begins as an undeveloped image of future accomplishments in the minds of company's founders. Without vision leaders cannot effectively unite members of organizations and lead them in one direction towards a specific end point. In turn, this will result in the loss of competitive advantage. There is an old proverb that says: "*Where there is no vision, the people perish*" (Jones, 1996)

A vision is more than a plan. It is also more than financial returns for the shareholders. It is a noble, meaningful and ideal image that company leaders see and make commitment to achieve in the future. For example, the aeronautic company, Boeing, founded by William E. Boeing in 1915, holds the vision of 'being pioneers and on the leading edge of aeronautics'3 (Collins and Porras, 1994). Similarly, Johnson and Johnson, a pharmaceutical company, exists to 'alleviate pain and disease' (Collins and Porras, 1994).

It is common that most entrepreneurs have vision from the very beginning which motivate them to enter into their ventures. However, in the Professionalization Stage, companies' leaders and entrepreneurs must show their commitment to their visions through actions. They must also transmit their visions to all their employees so that everyone can progress collectively in the same direction and towards the same end.

- ***Organization Structure***

It can be argued that in every company, new or old, there is an organization chart in place in one form or another. However, having an organization chart full of boxes connected to one another by lines is one thing, performing day-to-day according to the chart is an entirely different matter.

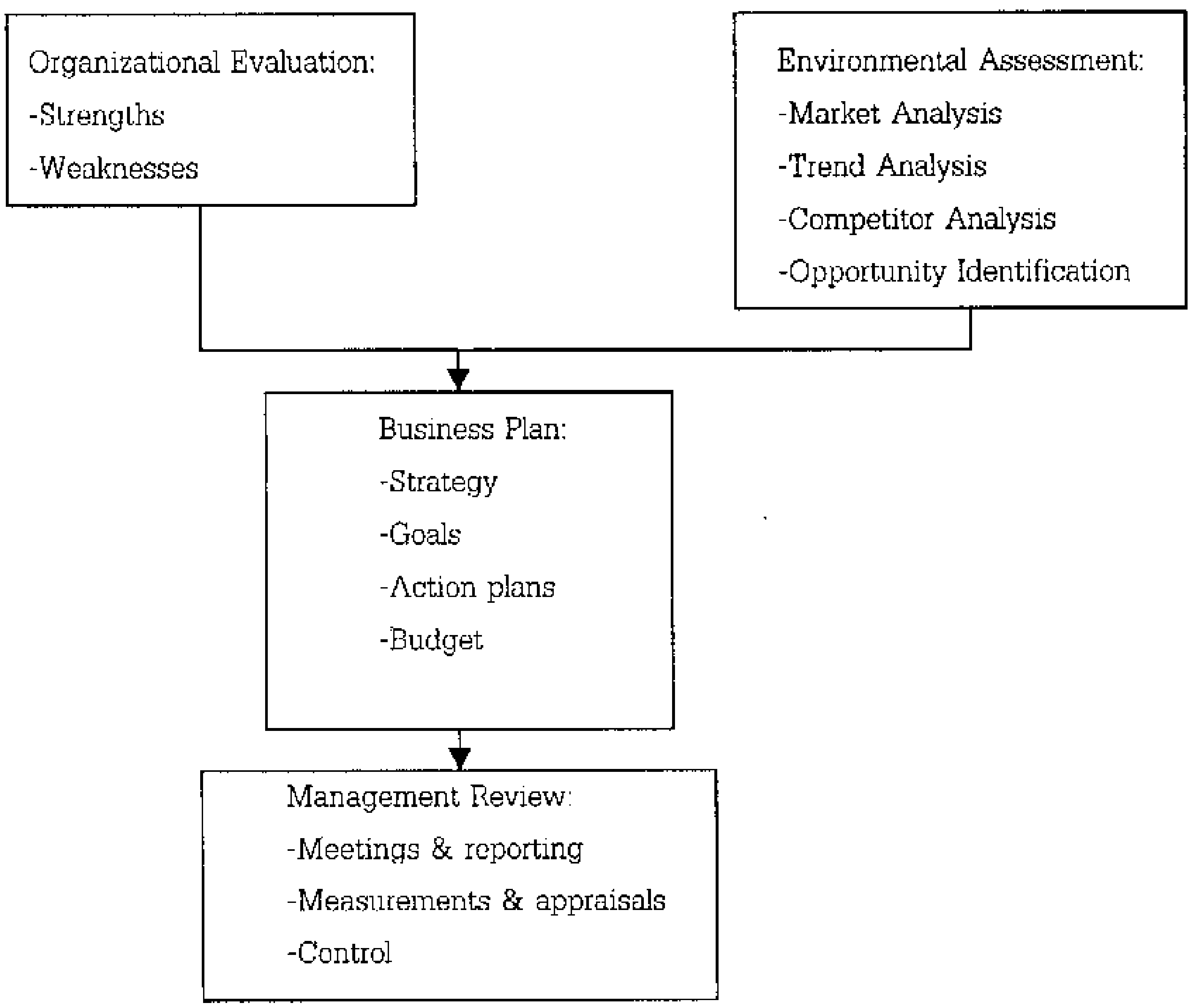
An organization structure is more than a chart. It must include the roles and responsibilities of every function within the chart. Every employee needs to know exactly what he has been hired to do. It is acceptable that a secretary may temporary replace a salesperson in servicing a customer when that salesperson is absent. However, she must recognize that this is not her regular responsibility. She is extending a temporary help.

Clearly defined roles and responsibilities help minimize repeated work that is unproductive.

- ***Business Strategic Planning***

As mentioned earlier, new ventures are often concerned with meeting deadlines and emphasize little on strategic planning. In the Professionalization Stage, strategic planning is vital. The CEO and department heads (marketing, manufacturing, finance, and so on) must perform strategic planning. Some companies establish a strategic team especially for this function. Diagram 2 identifies the important elements in strategic planning process (Flamholtz, 1986)

Diagram 2: Business Strategic Planning Process



- ***Organizational Evaluation***

Organizational evaluation is an internal process. Top executives must look inside their companies to find out where their strengths and weaknesses are. For example, a new venture, after making internal evaluation, may find that its strength is in innovativeness. It has a strong R & D department and hence capable of delivering innovative products to the markets quickly. On the other hand, it may not be able to manufacture products at low costs due to its small scale of production.

- ***Environmental Assessment***

Environmental assessment is an external process. Company executives must analyze and understand the market. They must observe consumers' needs, market size, market growth rate, new government regulations, and so on. Moreover, due to its dynamics, they must continuously track changes in the market characteristics and find trends.

Competitors, too, must be monitored closely. In the global economy where environments can change abruptly, failure to understand competitors can lead to disastrous results. For example, introduction of new products by competitors as well as increases in their numbers can strongly affect the companies' revenue and profit.

Regarding opportunity identification, company executives must recognize that environmental changes can lead to new opportunities. For example, Thailand in recent years has become a center for automobile assembly. This is due to its geographic location, availability or resources and government supports. Furthermore, the government has issued a policy that forces automobile assemblers to utilize at least 60% local content in the assembling process. This policy opens up opportunity for expansion in local automobile parts industry.

- ***Business Plan***

Business plans are formulated after organizational evaluation and environmental assessment is performed. A company's strategy can be defined as the grand plan that integrates its major goals, policies, and action sequences into a cohesive whole. Goals, as parts of the strategy, are the specifics that a company wants to achieve by certain time. Action plans are the activities that the company must perform in order to arrive at its goals.

Lastly, budget is extremely important. Budget is simply the business plan quantified into financial terms. It would be easy if companies have unlimited financial resources to exploit in implementing their strategies. However, there is not a company that is so fortunate. Financial resources are always limited. Therefore, the management must always clarify and prioritize which action plans to take and when they are to be taken so to achieve certain goals with given resources.

A business plan can be drawn up for one or several years. Generally, companies that are far-sighted tend to set up a 5-year plan as a guideline so that a 'big picture' can be seen. Then, a yearly plan is spelled out in more detail.

6. Management Review

Management review is a critical function in a professionalized organization. In the Entrepreneurial Stage and Expansion Stage a company focuses on delivering the innovated products to the customers. In the Professionalization Stage, management review serves to evaluate how well the company is performing. Some areas in which top management must evaluate include (1) customer satisfaction, (2) performance and productivity of the work force, (3) productivity and efficiency of machines, (4) effectiveness in the uses of fund, (5) direction towards which the company progresses, and so on.

Meeting is the time when the CEO and department heads come together to report and review the areas mentioned above. After all, every strategy, goal and action plan cannot be set up and fixed over a long period. As the environment changes, these elements and others must be frequently fine-tuned.

One of the most important issues to be addressed frequently is employees' performance and productivity. As companies evolve from one stage to another, internal environment, job descriptions as well as the ways of doing things change. Relationships among staffs also become more formal. Some may adapt well to these changes while others may need guidance in adapting. Top management must be aware of these occurrences and provide support so that optimal performance and productivity can be drawn from the employees.

In addition, top executives must measure and appraise their employees. Though with guidance, some employees may not be able to adapt and perform in the professionalized environment. Unfortunately, these employees must be released from the companies. In professionalized companies, there is no room for complacency. Everyone must strive for excellence. Rewards go to, not those who work hard, but those who work productively and contribute significantly to companies. Top management cannot maintain employees who do not perform well. On the other hand, they must promote those who do.

Control is an integral and essential part of management review. All the meetings, reporting, and measurements will be meaningless without good control systems. Measurement and appraisal mechanisms give top management the view on what is happening. However, they do not enforce what *should be* happening. This is in fact the function of control. Effective control systems influence employees' behaviors towards the appropriate ways. For example, if absenteeism rate is high in a company, there must be a control system that deters employees from absence. Some companies have observed establish 'zero absence bonus' for employees who are never late to come to work and do not miss even one day of work for a whole year. Many factories also set up incentive schemes for divisions that can keep defective rates of their throughputs down below some quantified levels. At the same time, divisions that show high defective rates are punished.

There are several control systems that can be installed in different divisions and departments in order to encourage optimal performance and productivity. Most of them are goal-oriented. That is, employees are rewarded when they fulfill certain quantifiable goals and punished when they do not.

7. Cultural Development Stage

In the Professionalization Stage, many changes made are physical and tangible. For example, companies' rules and regulations are written up as handbooks as a part of control systems. Meetings are set up periodically for reviewing purposes. Computer systems are installed for the purpose of collecting data for market and trend analyses.

In the Cultural Development Stage, top management will have to make a different kind of change. Changes made here are implicit and intangible. Yet, they can have a strong impact on companies. They can even determine success or failure of the companies.

Developing a company's culture implies building beliefs, values and attitudes that govern the behavior of members of the companies. The culture of a company reflects what it stands for in its products. There is no single 'best' culture for all the companies. Each company in each industry and country is different. For example, Japanese companies tend to value seniority and authority management highly. On the other hand, American organizations focus on performance regardless of age. They also emphasize participative management.

The means of developing corporate culture involves top executives directly. They are individuals who must transmit their values, beliefs and attitudes to the members of their organizations. Transmission of culture can be in several ways. Many companies hold training programs for new employees, with old employees also re-entering these programs from time to time. The essence of these short programs in to inform employees what the companies stand for. Which beliefs and values they should hold precious and which they should disregard. Many companies also provide written ideologies for their employees so that they can understand and hold them in high regards.

Perhaps the most important means of transmitting and sharing culture is through real actions. Top executives must transmit their values and beliefs through actions as well as words. It is not enough for them to 'preach' these elements. They must 'live' and 'act out' their values, beliefs and attitudes.

By employing the means mentioned above, top executives can unite everyone together under the same culture. All employees will hold the same beliefs, values and attitudes that are necessary to help company weather through the cycle of changes in the global economy.

8. Conclusion

I sincerely hope that the preceding pages have shed some light on the importance and means of making organizational changes. The wheel of globalization is turning and even gaining momentum. Therefore, for survival and success, it is necessary that organizations make fundamental changes. To continuously develop innovative products and deliver them to the marketplace is certainly effective. However, this strategy cannot be sustained in the long-term if the internal structure and systems are not compatible. Companies cannot just *grow*. It must *evolve*. When a company's sales, production capacity and workforce increase, it is growing. However, it has to evolve by changing and adjusting its structures and systems to accommodate internal growth as well as the dynamic environment. That is, it must develop into the professionalized company. A company must have long-term vision and strategies to follow that vision. It must have reviewing and controlling systems at all levels that can measure, evaluate and influence employees' behavior. And finally, it must institutionalize culture that can propel and motivate every member to perform optimally and in the same direction for future success.

Reference

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