



Scaling Your Business
The Overlooked Impact on Your
Employees

Why are we here today?

- To discuss the following:
 - SCALING is a lifestyle, not an event
 - Elements of SCALING
 - The progression of employees in a SCALING business
 - An event with concealed expenses and high opportunity cost
 - Employee onboarding that will lead to success in your SCALING activities

Why are we here today?

- To discuss the following (continued):
 - Factors that cause employee stagnation that derails SCALING success
 - Management training that creates Leaders
 - Call to Action
 - Take notes
 - Identify things for you
 - Take Intentional, Specific Action!

Scaling is a Lifestyle

- At the beginning of any business, the purpose is defined
 - Provide a product people want
 - Provide a service people want
 - Create a market and provide a product or service that satisfies the newly created market
 - Microsoft software for PCs
 - Apple with the iPhone
 - Federal Express with Overnight Delivery Service



Scaling is a Lifestyle

- Define the business owner's skills and gaps
- Determine how to fill the business owner's gaps
- Unless the business owner wants to be a solopreneur forever, scaling is inevitable.
- This reality needs to be in the forefront of the owner's mind at the beginning.
- Scaling is a lifestyle, not an event



The Elements of Scaling

- The Surprise Explosion
 - The best laid plans can fall short. A good problem!
 - Adjust quickly, do not get “buried”
- Planned “next growth spurt”
- Create a new Business Plan



The Elements of Scaling

- Create a new Business Plan
 - Expense increases in steps
 - Revenue increases in a slope
 - Employees or more employees are needed. Don't forget the managers!
 - Adjust the marketing plan to leverage the new cost structure.!



The Elements of Scaling

- Create a project plan to implement the new Business Plan!
- Create a new cash flow plan. Cash is the life blood of a business
- If experiencing a cash crunch -
 - Increasing Revenue spurns growth
 - Decreasing Expenses that cut capacity restricts growth
 - Cut waste! The savings drop straight to the bottom line



The Elements of Scaling

- May need outside funding if internally generated funds are not available.
 - This needs to be well defined with a logical repayment plan
 - The best - generate cash to pay back the loan at a defined point in time, that includes an option to retain the funds and accelerate the expansion
- Need to advise all employees of the new plan. No one likes surprises.

Progression of Employees while Scaling a business

- Business starts with 1 or 2 people with a vision.
- Business grows beyond the owner's abilities.
 - Owner hires an employee
 - Owner and employee work together
 - Solid business relationship develops.
 - All is good

Progression of Employees while Scaling a business

- Business continues to grow
 - More employees are hired by the owner
 - Owner and employees work together
 - Solid business relationships continue.
 - All is good!

Progression of Employees while Scaling a business

- Business grows where a manager is identified from the group of employees to run the day-to-day operation
 - Business owner steps back to do the work he or she needs to do
 - Less day-to-day contact between employees and owner
 - Owner is probably still hiring employees at this point
 - Since the owner is still involved in the hiring process, he or she is periodically “on the floor” with the new employees.
 - All is good!

Progression of Employees while Scaling a business

- Business continues to grow
 - Additional managers are added for every 6-7 employees added
 - During the continued expansion, the hiring of employees will move to the managers.
 - The owner is more withdrawn from the day-to-day operations

Progression of Employees while Scaling a business

- Business continues to grow
 - **The relationships between the employees hired by the owner and the owner start to weaken.** The bond between these employees and the owner who hired the employees for his or her vision is compromised, through no intention of anyone.
 - The managers who are doing the hiring are not hiring as an owner, they are hiring as a manager. The natural bond of the owner with the new employees is no longer evident.

Progression of Employees while Scaling a business

- **ISSUE:** Owners do not train managers to hire employees with the same sense of “family” as the owner.
 - The managers are not trained to be “leaders” as the owner is, they are existing as managers.
 - The other shortfalls of not being trained leaders start to appear over time in the attitudes of employees.

Progression of Employees while Scaling a business

- **ISSUE (continuing):** Owners do not train managers to hire employees with the same sense of “family” as the owner.
 - The level of engagement by the employees starts to fall and over time, deteriorates to the current statistic – 85% of employees are not fully engaged in their job.
 - They become stagnant instead of engaged.
 - Resignations increase due to stagnation

Progression of Employees while Scaling a business

- **ISSUE (continuing):** Owners do not train managers to hire employees with the same sense of “family” as the owner.
 - Results of increasing Resignations
 - Employee experience is lost that is needed to support the growth of products and services. You cannot buy your experience!
 - The cost of replacing employees which is usually a surprise event



Progression of Employees while Scaling a business

- No one planned for this deterioration to occur
- But it is our responsibility to correct or, better yet, prevent from occurring in the first place.
 - Our most prevalent management style has been replicated throughout the decades
 - It will never change unless there is a new approach that is intentionally initiated.
 - It will not happen by accident
- Before I give you the solution, let's examine the cost of employee resignations.

*Resignations generate a concealed expense event with **High Opportunity Cost***

- **Opportunity Cost** – The lost benefit due to making an alternative choice.
- Why is it hidden?
 - Not a line item on your Income Statement
 - It is included in other line items such as payroll and the impact of decreased productivity, decreased service levels and decreased product knowledge.
- Emergency actions are required to fill a job that was not planned on being lost.
 - Lower productivity to do the vacant job, thus higher cost
 - Likely the replacement activity is paid at a premium rate

*Resignations generate a concealed expense event with **High Opportunity Cost***

- Steps to replace an employee.
 - Write job description
 - Place advertisement for the open job
 - Hire an employment agency to hold initial interviews
 - Receive list of recommendations
 - Hold internal interview number 1
 - Hold internal interview number 2
 - Hold internal interview number 3



*Resignations generate a concealed expense event with **High Opportunity Cost***

- Steps to replace an employee.
 - Consolidate interviewers and select the preferred candidate
 - Make an offer to the candidate
 - Hold an acceptance interview to discuss next steps

*Resignations generate a concealed expense event with **High Opportunity Cost***

- Steps to replace an employee.
 - Day 1 – Introduction and initial training
 - Day 2, 3... – Continued training...
 - Day 4 – Review of progress with measurable KPIs to relay progress to the employee
 - Days and weeks into the future, repeating the above as needed to reach full productivity with quality, creating value.

*Resignations generate a concealed expense event with **High Opportunity Cost***

- Success!!!
- ...but at what cost?
 - Average length of time for the above – 7.5 months
 - Average Cost of the above - \$34,000
 - What have we just done? Calculated the activities, time and cost necessary to respond to losing an employee due to a resignation that we should not have lost in the first place.
 - Employees flee managers, they do not flee companies.

*Resignations generate a concealed expense event with **High Opportunity Cost***

- Average Turnover rate in USA – 9.3%
 - Retirements – 2.3%
 - Self-improvement – 1.7%
 - Lost by the manager – 5.3%
 - 100-member organization cost - \$178,900 per year wasted!
 - 1000-member organization cost - \$1,789,000 per year wasted!
 - Why is this such a surprise when examined? It is buried in the Income Statement.
 - Do you know your employee resignation replacement cost? You cannot afford not to.

Employee on-boarding process that leads to success!

- Another consideration – The unemployment rate
 - The current unemployment rate is below the “full employment” unemployment rate of 4%.
 - Labor markets are going to be tight over the next 3-5 years, with excess employees in only one country – India.
.....See Korn-Ferry Report on Labor Markets.
- It will be harder to find employees during this time.
- This makes it even more important to retain employees in the first place.



Employee on-boarding process that leads to success!

- *Make your organization one where your current employees are referral points that draw new people to you to support future growth!*



Employee on-boarding process that leads to success!

- **Employee Retention starts on Day 1**
 - Explain their piece of the puzzle
 - Explain their involvement in the big picture
 - They need to feel important (or why would they be there?)
 - **Employee Need #1 – To feel part of a team.**

Employee on-boarding process that leads to success!

- Employee Training
 - Explain their piece of the puzzle
 - Explain their role, not their job.
 - Demonstrate, do it with them, let them demonstrate
 - Observe, follow-up, repeat until they can perform their job flawlessly and they are confident that they can.
 - **Employee Need #2 – To feel that they are well trained and will be successful.**

Employee on-boarding process that leads to success!

SETS THE STAGE FOR THE FUTURE!

- Ongoing Approach to Formal Reviews
 - Set the date for the next review at the end of the current review based on need, not the calendar.
 - Space between reviews will grow over time (**not > than 6 months**)
 - Reviews are “reviews” of performance since the last review...not “revelations” of new information.
 - Annual reviews are one of the most detested and mistrusted events in the life of an employee.

Employee on-boarding process that leads to success!

- Long-term Employee Development
 - After the employee is well trained in their initial role, engage in conversation that shows you care about them as individuals as well as employees.
 - Ask “Where would you like to be in 3-5 years?” Schedule another session in a week or so after the “deer in the headlights” response is experienced.

Employee on-boarding process that leads to success!

- Long-term Employee Development
 - Ask the “Where...” question again? Based on the answer create the plan going forward to accomplish the employee’s personal goals while fulfilling the company’s long-term goals.
 - Look for ways to satisfy personal goals.
 - Ask if they would like to do more in the business?
 - **Employee Need #3 – To feel capable of doing more.** This puts a long-term perspective in their minds.

Employee on-boarding process that leads to success!

- **Employee Need #4 – To be compensated fairly.**
 - Not Number 1 long term though at the beginning it is, based on knowing little else experientially about their job.
 - The total job experience will move this lower down the list and...
 - Give them a desire to develop themselves *with you*
 - Money is a short-term motivator
 - Include other methods that have longer lasting value such as gym memberships, etc.

Employee on-boarding process that leads to success!

- **Employee Need #5 – To be appreciated**
 - Must be genuine so it is received as motivational, not **perceived** as manipulative (perception is reality until proven otherwise)
 - It never gets old and is reinforcing over time
 - If personal development continues, the opportunity will continue
 - Meaningful Recognition makes it more than a “Thank You”
 - No lip service, it must be from the heart.



Employee on-boarding process that leads to success!

- The above will also define you as a leader to the employee
 - Remember the \$34,000 number. Better if these funds are spent on new investments, not replacement investments.
 - You will be received as a leader, as opposed to a manager.
 - Employees follow leaders, they obey but also resist managers.
 - Leaders have engagement, managers have opposition.
 - Which would you rather be?

Skills Inventory

Build Depth in your Team

Names/Skills	Skill 1	Skill 2	Skill 3	Skill 4
Emily	A		C	B
Serafina		B		A
Lina	C	A	B	
Jack	B	C		B
Julian	B		A	
	A – Proficient	B - Average	C - Introduced	



Employee on-boarding process that leads to success!

This on-boarding process will ensure that as your business grows through the continual scaling lifecycle, it will not matter who does the hiring or training. *The result will be engaged employees who know that the leadership team supports them as individuals. They will support you!*