



READINGS IN GLOBAL ORGANIZATION DESIGN

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A METHOD FOR TRAINING CEOS OF SMALL, GROWING ENTREPRENEURIAL ORGANIZATIONS

by Atilio A. Penna, Ph.D

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The unique characteristics of a small enterprise entrepreneurial CEO is the subject of Atilio A. Penna's article "A Method for Training CEOs of Small, Growing Entrepreneurial Organizations." Penna has consulted for many years with small entrepreneurial organizations in Argentina. He describes in his article how adding levels of work and human capability concepts to his systematic approach improves diagnosis of root causes of issues, design of his interventions, and finally the overall effectiveness of his support to entrepreneurial CEOs attempting to grow their small organizations from stratum II to stratum III. Penna also maintains that requisite concepts are more complicated in the entrepreneurial organizations since the CEO often occupies several roles simultaneously—chair of the board, CEO, and operative employee. In addition, the growth of the organization requires that the entrepreneurial CEO operate at progressively higher levels of complexity (often the limiting factor of first-generation entrepreneurs), and Penna proposes a process to assist in that development.

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Organization Design, Levels of Work & Human Capability

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A Method for Training CEOs of Small, Growing Entrepreneurial Organizations

Atilio A. Penna, Ph.D

WHAT'S IMPORTANT

- CEOs of entrepreneurial, fast-growing organizations greatly benefit by understanding the levels of work approach to managerial leadership.
- Working with a requisite organization (RO) consultant helps an entrepreneur to apply his or her full current potential capability in growing the firm.
- RO helps to decide when growth in operations requires another managerial level be put in place, and when more formal systems should be established.

The essential is invisible to the eyes.

Saint-Exupery, A. *The Little Prince*¹

Elliott Jaques said, “Atilio, focus on the transition.” Just these five words suffice to highlight a truly significant event in the latest years of my practice, words that illuminated the following ten years of my professional performance, both in consulting work and in the attempt to conceptualize the change and growth processes that entrepreneurs face and which lead them to fully effect the transition from the current level to the next.

In that sultry and rainy winter night in Buenos Aires, the heat that anticipated a difficult summer was only comparable to the intensity of the discussion in which Dr. Elliott Jaques urged me to challenge his ideas and contrast them with mine, in the framework of joint reflection on observed experiences with the entrepreneurs and their organizations.

Only the passing of time, renewed experience, and subsequent conceptualization work with my colleagues enabled me to give full value to the formidable quantum change that this encounter with Jaques triggered in my professional development.

Jaques’s straightforward, vital, and generous attitude—and his encouragement to debate his ideas—surprised me and took me aback at first. But it became a phenomenal drive for fully appreciating the two long hours that our work in common lasted. The experiences, concepts, doubts, and emotions expressed by Elliott Jaques in that meeting enriched my practice for many years to come.

Used to the quiet of psychoanalytic practice, trained in economic, administrative, and sociological analysis, being an informed practitioner of the concepts and proposals of requisite organization—the presence, the voice, and the debate with Jaques were an invitation to acquire confidence and hope in my own ideas and experience.

My later work, both at work with my clients and their managers and with my colleagues in teaching, research, and consulting, were nourished in varying degrees by that dramatic turn Jaques proposed to me almost 15 years before.²

1 De Saint- Exupéry, A. *The Little Prince*. Originally published in 1943. Fort Washington, PA, Harvest Books 2000.

2 One of the products of this process was the Theory of Organizational Transition, created in 2001 and 2002 with Dr. Emeric Solymossy. Solymossy, E. and Penna, A. (2001) *Sustainable Growth for the Small Business: Theory of Organizational Transition* Second USASBE/SBIDA Joint Annual National Conference. Florida, USA. <http://www.workcomplexity.com>.

In the text that follows, I will be sharing with you the present state of these practices for the assistance to growing entrepreneurs. An extended fully referenced version of this article, both in English and in Spanish, enriched with video recorded material of testimonials from Argentinean entrepreneurs, is available on the GO Society website. In addition to presenting the method, this article aims to open a debate on concepts and practices that support constructing a method for improving the assistance given to entrepreneurs to resolve the problems they confront in their roles of e-CEOs and of their SEOs (described below), which often create risky situations for small companies.

Objective

The objective of this article is to present the details and the results of a method used for assisting entrepreneurial CEOs (e-CEOs) in solving the problems they face as rapid company growth forces major changes in their work and that of their subordinates.

This method has been proven effective in:

1. facilitating the application of the entrepreneur's current potential capability to his or her performance as e-CEO,
2. solving problems created by increases in operations that require adding levels to the structure of the small entrepreneurial organization (SEO),
3. enhancing the degree of formalization of the organizational structure, and
4. contributing to the long-term sustainability of small companies, even under conditions of significant contextual crises.

The Nature of the Problem

Sustained growth of a small company increases the complexity of their operations, in both the vertical and horizontal dimensions of the organizational structure, within relatively short periods of time.

Such changes in size and complexity are a challenge for the entrepreneur, who must face problems that are new to him or her and that persist in time, and for whose solution he or she lacks the necessary experience and tools. The entrepreneur is aware that his or her knowledge, skills, and experience no longer suffice for

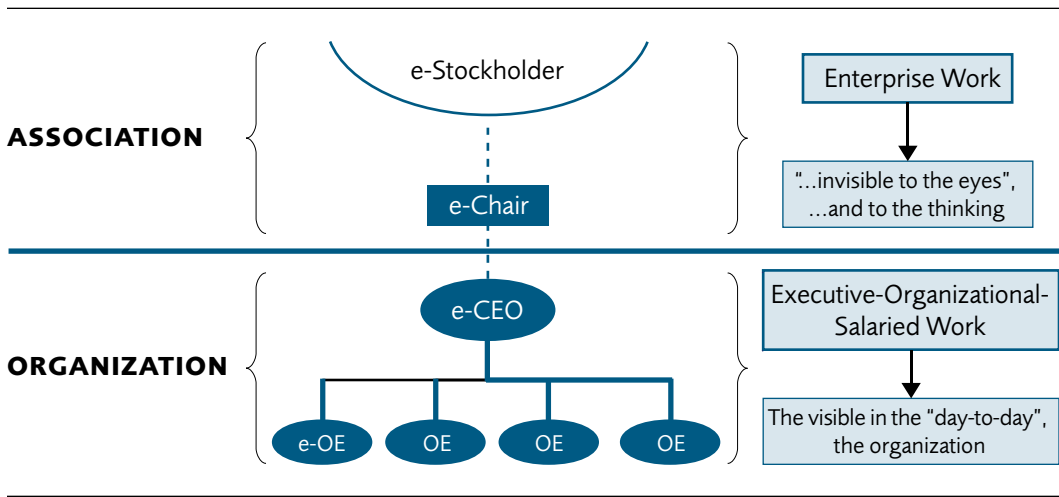


FIGURE 2.4.1: TWO TYPES OF WORK IN A SMALL ENTREPRENEURIAL ORGANIZATION

managing the business he or she has created, and which is now undergoing changes both in size and in complexity.

“I could get up to here quite well, but now I feel at the end of the rope and I do not know how to go on. I am not sure if I want to have such a large business as I have now, but on the other hand it feels to me like a sin not to take full advantage of what I have built together with my people. I do not want to shrink my business, but on the other hand I fear I may be going over my head if I continue as I am doing now.” These are the words of Mr. “E,” 42, married, one newborn child, founder and owner of a successful food service business in Argentina. This verbatim quotation could have come from numerous entrepreneurs who approach my consultation in the same conditions: the very success of their entrepreneurial projects led them to face challenges they are unable to solve, and less so by themselves!

Some consultants suggest that entrepreneurs take certain training courses and get advice from specialized professionals who can provide solutions for the new problems that they now confront. This approach, though valid and necessary, is in my experience insufficient. The new problems are complex and their solutions require progressive, sequential, and parallel mid- and long-term actions.

In order to obtain and stabilize the new organization required by the current volume of operations and thus achieve business sustainability, e-CEOs have to move through the present stratum of complexity in which they are operating to the next

Organization structured on the basis of persons

Functionally Structured Organization

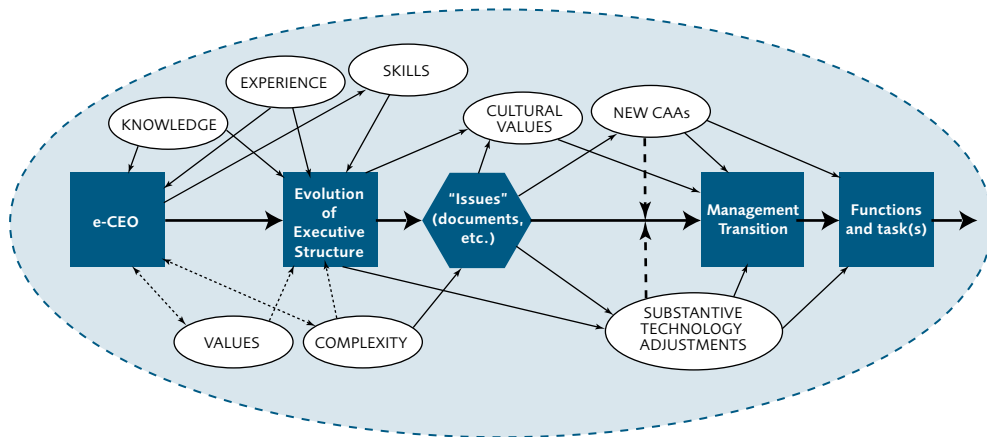
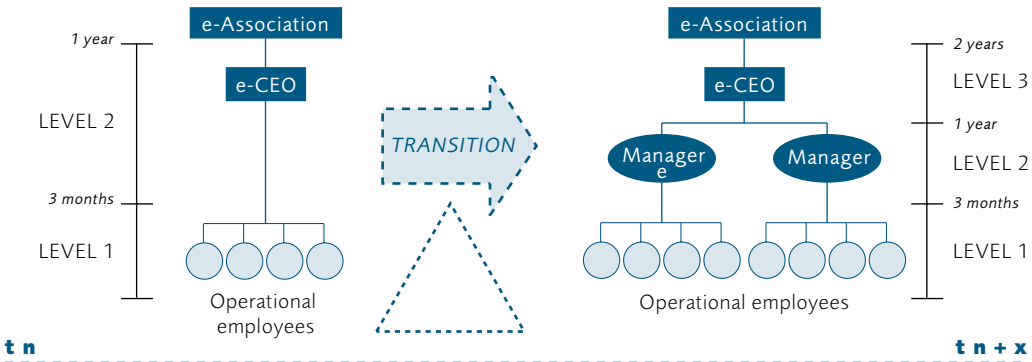


FIGURE 2.4.2 TRANSITION OF A LEVEL II ORGANIZATION TOWARDS A LEVEL III ORGANIZATION IN A SMALL ENTREPRENEURIAL ORGANIZATION, FROM AN ORGANIZATION STRUCTURED ON THE BASIS OF PERSONS TO A FUNCTIONALLY STRUCTURED ORGANIZATION

one above. This transition requires a series of parallel processes that involve not only the entrepreneur, but affect the whole organization as well.

Entrepreneurs should undertake integral training and development to obtain and build the new work skills they require. To use them properly, however, they also require the support of a process of systematic reflection on the characteristics and requirements of the new role to increase their comprehension of the distinction between executive and enterprise work.

	Factor	1990	→	2000	2001	→	2006
1	Volume of operations*	100/2	→	1100/18	1200/20	→	4000/50
2	CAC stratum of e-CEO	II	→	II	III	→	III
3	Quantity of levels in the organization	2	→	2	2	→	3
4	Quantity of managers (including e-CEO)	1	→	1	2	→	6
5	Degree of organizational formalization**	Pre-historical	→	Low	Low / Medium	→	Medium / High

(*) Expressed as total billing amount at constant prices and total of employees in the organization, assigning 100 to the 1990 total billing amount.

(**) This concept will be described in detail in point 5 G, which deals with evolution of the SEO's executive structure.

FIGURE 2.4.3: RESULTS ACHIEVED BY THIS METHOD IN AN ARGENTINE SERVICE COMPANY

It is crucial in this process to differentiate both kinds of work, as the entrepreneurs are normally engaged in both of them simultaneously and make short-term decisions that involve both, often with insufficient awareness of the future consequences in each. Figure 2.4.1 illustrates these two types of work.

Entrepreneurs who are used to action must now build new habits of reading, reflection, evaluation, and strategic analysis and discussion sessions before and while re-designing their organizations. At the same time, the transition of some existing subordinates from one stratum to another is facilitated, and also new employees are brought in to provide the required work capabilities in the strata left vacant by the vertical movement of both the CEO and some of his or her subordinates.

New methods, tools and information, communication, control, and management systems must be adapted and created to support the new roles created in the organization. Figure 2.4.2 illustrates succinctly the processes described for both dimensions: the e-CEO and the organization. Even though this was the result of joint work with Emeric Solymossy eight years after my encounter with Jaques, surely the seed of Jaques's five words was present in its conception.

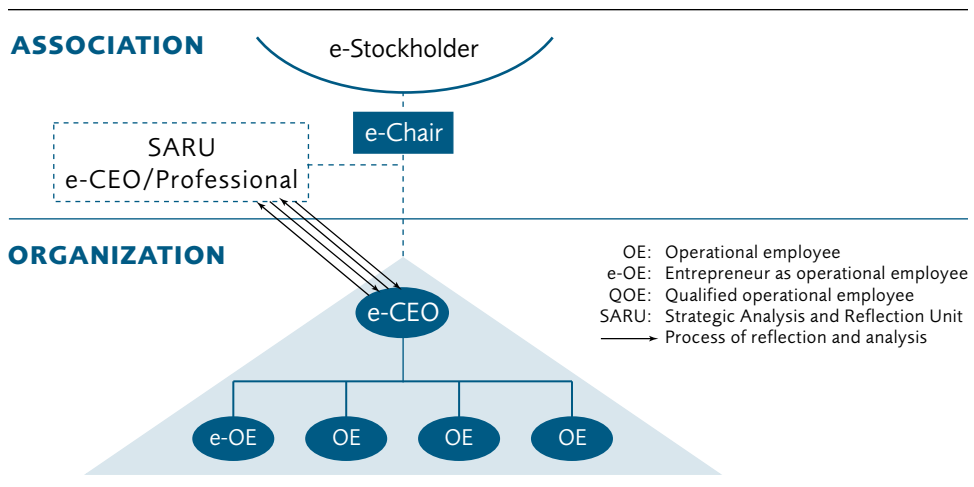


FIGURE 2.4.4: ENTREPRENEUR-CEO'S REFLECTION PROCESS

Results Obtained

The method presented facilitates the application of the CEO's capability by creating conditions for reflective and systematic practice in a simple and effective manner. It also facilitates the evolution of the executive structure (EEE) by:

1. increasing formalization,
2. increasing operational standardization,
3. adding one level to the organization,
4. developing and incorporating the current capabilities required by the new situation, and
5. facilitating the transition of an operational structure organized upon the knowledge that people possess to a functionally organized structure.

This last concept will be elaborated upon in the section that deals with the concept of the evolution of the executive structure of the small entrepreneurial organization (SEO).

Figure 2.4.3 shows results achieved by applying this method in an Argentine service company, and gives an example of the above.

Materials available on the internet, quoted in the web version of this article, provide access to testimonies from two business owners who effected the level transition mentioned in the figure above. Along with other efforts in the fields of study,

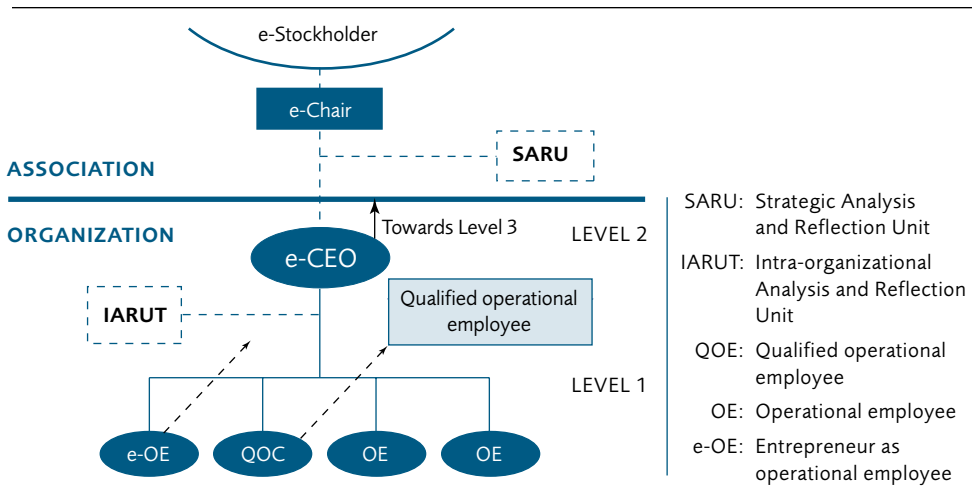


FIGURE 2.4.5: ENTERPRISE STRUCTURES AND INTRA-ORGANIZATIONAL ANALYSIS AND REFLECTION UNIT TEAMS (IARUTS)

training, and research both on the above mentioned theoretical developments and on the method presented in this paper, they contribute to surmount the confusion that comes from conceiving the SEO as a less evolved stage on the way to the final objective of becoming a large organization, without regarding the SEO as an object for study on its own, distinct and unique. While most SEOs never become large companies, many can achieve long-term sustainability through effective organizational design, right staffing, requisite remuneration and the wise use of capital, technological, and symbolic resources.

We will now turn to exploring how SEO growth distorts the designed organizational structure.

A Description of the Method for CEOs and SEOs Consultant-supported Development Process

Let us summarize the proposed method.

A) The intervention begins when the entrepreneur requests help to deal with his or her company's growing pains. The consultant begins to assist the entrepreneur by setting up a Strategic Analysis and Reflection Unit (SARU) (These are really "CEO and consultant personal development and strategy and management system plan-

ning sessions.”) The SARU has two functions:

1. It facilitates the development of the entrepreneur’s (e-CEO) skilled knowledge from that which served him or her well at stratum II to the skilled knowledge now required at stratum III.
2. It supports the evolution of the executive structure (EEE) from two to three levels by splitting out and raising the level of communication, information and control.

Figure 2.4.4 shows the location of the SARU we are proposing.

B) Consultant proposes an agreement on the time, space, and nature of the work to be done in common in the SARU. The responsibilities of each part are defined, as well as the content and the forms of the assistance that the consultant will provide to the e-CEO and the Small Growing Entrepreneurial Organization (SGEO). Another, more experienced consultant will in turn assist this consultant.

C) Once the agreement is made, the work on the e-CEO’s problems starts, focusing on his or her own task, that of his or her subordinates and on the emotional consequences of such tasks. The consultant introduces writing and reading as working habits for the e-CEO and later for all employees in the SGEO. At the same time, the e-CEO acquires the practice of systematic reflection in the SARU. Recently, Mintzberg has highlighted the great value of reflection for the development of managerial abilities.³

D) The consultant and e-CEO plan agendas for their periodic strategic coaching sessions. These will include the e-CEO’s leadership and organizational issues, along with both education in managerial work concepts, ways, methods, and practices inherent to strata II and III, and applying these to the current problem analysis and solution.

In the same manner, the consultant uses problem analysis to assist the e-CEO. This facilitates the inclusion of new instruments and procedures in the systems of information, control, recording, and management of the SGEO. The e-CEO can thus continue to work in stratum III—with the employees in the now restructured managerial stratum II, and operational employees in stratum I—keeping the internal processes and the outputs of the SGEO both under control and within quality standards.

³ Mintzberg, H. *Managers Not MBAs*, Chapter 9: The Development of Managerial Education, Berrett-Koehler Publishers, 2004.

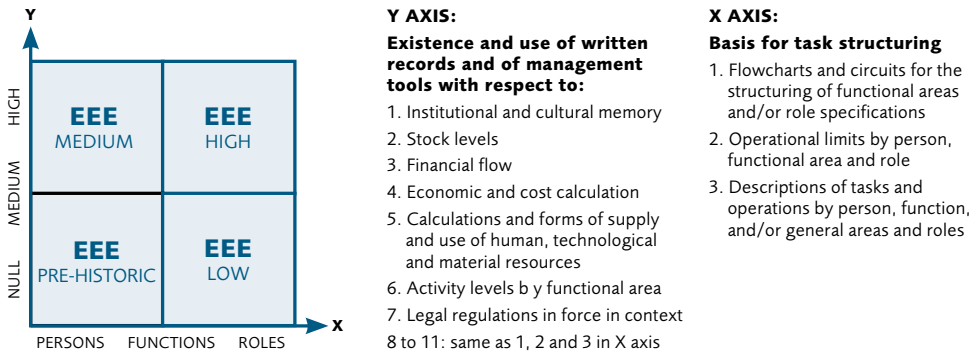


FIGURE 2.4.6: THE EXECUTIVE STRUCTURE'S DEGREE OF EVOLUTION (EEE) IN A SMALL ENTREPRENEURIAL ORGANIZATION (SEO)

E) The consultant's approach in supporting e-CEOs must necessarily be multi-disciplinary. In my practice, in addition to Jaques's levels concepts, I use concepts and methods from:⁴

- Accounting and administration tools initiated by Luca Paccioli;
- Wilfred Bion's basic assumptions groups; and
- Max Weber's types of authority.

As a result of this task, the e-CEO produces and installs in the SGEO the instruments mentioned in item D). The consultant should include, either at the request of the e-CEO or on personal initiative, other persons in strata I, II or III, whether in employment or not. This inclusion in the SGEO and/or in the SARU should be carefully managed to safeguard the proper integration of the SGEO's new capabilities into the social and work systems.

F) As the work advances and gradually materializes the objects and processes of C), D), and E), the e-CEO works in his company employing practices of direct assistance, thus integrating the new capabilities of staff in strata I and II, with the support of stratum III capabilities from outside the company, in such a way as to make possible and to effect the generation of direct delegated outputs.

The work processes described in items A) through F) require no less than two calendar years, during which the e-CEO and the consultant work face-to-face, at

⁴ Bion, W., *Experiences in Groups*, London, Tavistock Publishers, 1948. Paccioli, L. *Trattato di partita doppia*, Venice, 1494. Weber, M. *Economy and Society*, G. Roth & R. Wüthrich, 1968.

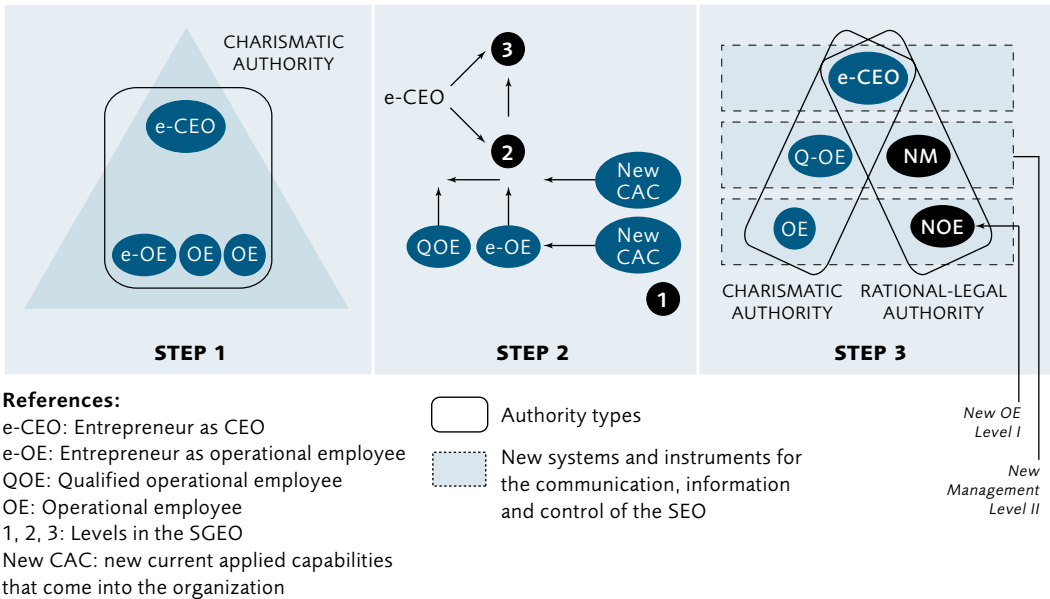


FIGURE 2.4.7: DOMINATION TYPE CHANGE PROCESS (THROUGH THE INCLUSION OF NEW CACS AND WORK METHODS)

a systematic rate of one hour per week. Including other persons, as described in item E), may exceptionally require additional meetings, both in the SARU and in the SGEO. To this end, the e-CEO creates and includes other Analysis and Reflection Units in the organization (Intra-organizational Analysis and Reflection Unit Teams or IARUT) integrated, for example, by the stratum III e-CEO, the stratum II Manager and/or the consultant, as shown in Figure 2.4.5.

Consulting assistance to the e-CEO in his or her association leadership role does not usually exceed 130 hours over 25 to 28 months. During this time, the consultant supports the e-CEO to periodically reflect and evaluate the work and achievements to date. This includes not only operational and financial results for the organization, but also the e-CEO's personal progress in learning the new required knowledge and skills for his or her role and the EEE of the SGEO. Many clients, commenting on their experience with this method, report that despite 10-20 years in business they have seldom, if ever, practiced careful evaluation of each year's business results and the progress toward their goals. The absence of this culture of achievement and merit recognition plays havoc with the construction of a positive view of achievement, and

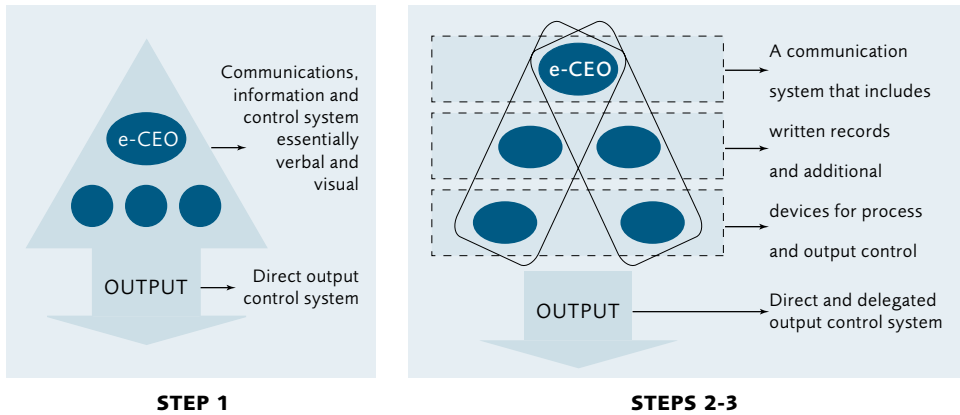


FIGURE 2.4.8: EXPANSION PROCESS OF OUTPUT TYPES AND EVOLUTION OF THE EXECUTIVE STRUCTURE

has a strong impact on the organization and its members.

Additionally, this process supports advances in the practical comprehension of the distinct nature of enterprise work (e-stockholder and e-director) and executive work (e-CEO).

G) The consultant assisting the e-CEO must understand and recognize the limits of the proposed method, which consist of achieving:

1. Transitioning the e-CEO's work from stratum II to III, attaining a new stability in applying his or her capability to the new stratum III role.
2. Evolving the executive structure (EEE) of the SGEO to the EEE High (see Figure 2.4.6⁵).
3. Restructuring the level II company into a three-level, requisitely structured organization that produces direct, assisted, and delegated outputs with a uniform degree of quality by means of controlled and economical internal processes.

In this article, I have presented the problems in this sequence to explain the method. The full application of this method, however, requires an approach that is integral, parallel, asynchronic and systematic, dealing primarily with the resolution of the problems posed by the e-CEO in the SARU.

H) Finally, the company's social system also changes towards a mixed type of au-

5 The statistical validation of the concept of Evolution of the Executive Structure (EEE) effected from 2002 to 2004 in 42 small companies in the Rosario area, Argentina, served to consolidate and adjust the first verifications on the importance of writing and of the crucial nature of the transition from level 2 to 3 levels in the SGEO.

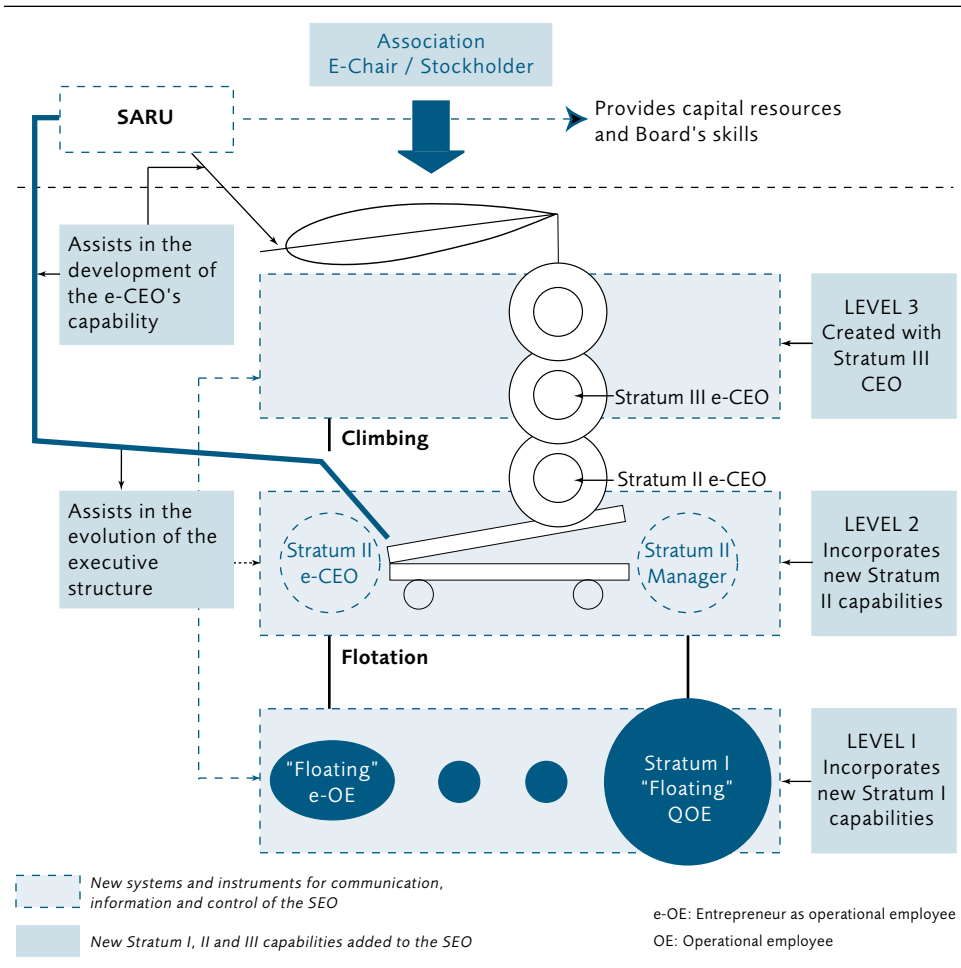


FIGURE 2.4.9 A METHOD FOR ASSISTING THE ENTREPRENEUR-CEO AND THE SMALL GROWING ENTREPRENEURIAL ORGANIZATION

thority. It moves from the *charismatic* authority inherent to the level II entrepreneurial organization to one more appropriate to a level III organization, incorporating the *rational-legal* authority. The latter talent is usually recruited from the outside. (See Figures 2.4.7 and 2.4.8)

The e-CEO's transition between strata has two stages. The first or "flotation" stage occurs when the person leaves behind the operational tasks that demand a lower capability and a lower application of discretion. Here, the e-CEO "drops ballast" and

risers with relative ease by using the abilities he or she recovers, applying them to more complex tasks.

During this first stage, the analyses of the use of time and values—both for the e-CEO and for the new roles of stratum II managers—are the core elements used in the SARU.

In the second or “climbing” stage, the e-CEO starts gathering new knowledge, skills and experience while still going through the uncertainties of learning-by-doing. This stage is more arduous and uncertain for the e-CEO. The instruments and tools used in it for implementing the new behaviors are created concurrently with the climbing process. This double parallel process, performed both by the e-CEO and the SGEO (EEE) and some of its members is illustrated in Figure 2.4.9.

In the second stage, the dominant need is to ensure the operation of all internal processes, and the quality and quantity of required outputs.

The emotional implications of the new tasks must be discussed in the SARU, and to complement this work with creating and operating the other Intra-organizational analysis and Reflection Unit Teams, and the essential incorporation of new capability at Strata I and II.

The method we have just presented is not a closed one; it is constantly fine-tuned and enriched. In our judgment, however, its current degree of development supports its use as a tool to help the consultant comprehend the phenomena and difficulties brought about by the growth of SGEOs, and to operate on them.

ABOUT THE AUTHOR

Atilio Penna is recognized because of his conceptual and practical contributions to the field of small and medium business in Argentina. Those contributions, which include “the Organizational Transition Theory,” have been published in the US, UK, and South Africa, and are being used by professionals in Latin America.

He has a 30-year trajectory as coach of entrepreneurs, giving them support to achieve a sustainable growth for their companies. Dr. Penna focuses his work on the development of entrepreneurs’ capabilities, improvement of their business structures, and building new tools and instruments that allow them to manage their organizations in a more efficient way.

This long and solid experience has added to his work as teacher and researcher making Dr Penna a well-known expert in the field of small growing business.



GO Global Organization Design Society

GO SOCIETY PURPOSE AND VALUES STATEMENT

To support the organizing of work in a responsible, fair and healthy manner in which people are led in a way that enables them to exercise their capabilities.

The Society believes this requires applying a systems framework* emerging from reflective inquiry in which levels of work and capability are the initial paradigm and growth in human awareness is the essential process.

The benefits are organizational effectiveness, fulfilled people and organizations designed for value-creation, sustainability and social well-being.

* Note: inspired by the work of Wilfred Brown and Elliott Jaques

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The GO Society fulfills its purpose by:

- Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.
- Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources. The GO Society supports the learning and development of current and future practitioners by holding world conferences and professional development workshops, publishing books and a journal, and maintaining a resource-rich web site with related articles, monographs, books, videos, blogs, discussion groups, and surveys.

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