

# **Theory E<sup>2</sup>: Working with Entrepreneurs in Closely-Held Enterprises**

## **I. Close to the Heart**

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Entrepreneurship is needed in the postmodern reality of 21<sup>st</sup> Century life. The “enterprise zone,” which got so much press (at least in the United States) during the 1990s, must be defined in a new way, engaging an entrepreneurial spirit to courageously and effectively address the postmodern challenges of complexity, unpredictability and turbulence.

Organizational psychologists can play an important role in meeting the distinctive challenges associated with entrepreneurial leadership in closely held enterprises. What are these challenges and how might an organizational psychologist help an entrepreneur meet these challenges? Furthermore, what are the unique challenges that the organizational psychologist faces when working with entrepreneurs in closely held enterprises?

### **The Closely Held Enterprise**

Before identifying and describing these challenges, we must indicate what a “closely held enterprise” is – given that this is not yet a commonly used term. We propose that there are four types of organizations that fit in this category:

*Type One/The Family-Owned Business:* single person ownership, immediate family ownership, extended family ownership, corporate stock held exclusively by family members (for example, a large family-owned insurance company, a major automobile dealership, a high-status restaurant chain).

*Type Two/Small Businesses:* revenues of less than \$5 million per year (for example, a small independent grocery store, a family-owned auto repair shop, a specialty food mail-order business).

*Type Three/Professional Practices:* independent firms that are owned and operated by professionals who usually are licensed to provide highly specialized and technical services (for example, dentistry, veterinary medicine, accounting, architecture, clinical psychology, organizational consulting, and coaching.)

*Type Four/Focused and Independent Nonprofit Organizations:* often small, usually governed by a small, carefully chosen group of like-minded people (often founders). Created for a specific purpose. Providing needed services in a selective niche (for example, shelter for homeless families or battered women, environmental action group to save a specific species, high status public policy think tank).

There are many ways in which these four organizational types differ from one another; furthermore, these four types are usually treated as separate and distinct entities. We propose, however, that these four types share many characteristics and that they often face many of the same challenges.

## **The Challenges of Enterprise**

What is it that these four types of closely held enterprise hold in common and what are the challenges faced by entrepreneurs who lead these enterprises? We have identified seven fundamental issues that are embedded in and shared by most closely held enterprises. Each of these seven issues, in turn, poses one or more challenges for the entrepreneur who leads the enterprise and suggests one or more opportunities for effective psychological practices.

### **1. Diffuse Roles/Responsibilities/Boundaries**

The traditional boundaries to be found in the carefully constructed bureaucracies of corporations, governmental agencies and other large organizations are often absent in closely

held enterprises. Nepotism often reigns (especially in family-run businesses), with family members working for other family members. Furthermore, there is often an esprit de corps in the closely held enterprise that leads every employee to lend a hand in whatever way will help the organization. As one of the members of a closely held enterprise with whom we consult recently noted: "Everyone does a little of everything . . . and we can never seem to get totally away from our work."

Using more technical language, the closely held enterprise is one in which there typically is a high level of *integration*, but a low level of *differentiation* among functions. Classical organizational theory suggests that an organization initially begins (like any system) with low levels of differentiation among functions. There is not much division of labor. Everyone does everything when an organization is young. However, as most organizations grow larger or older there is increasing differentiation. Each person does a specific job and there is ever-increasing differentiation of roles, language, and even organizational culture. We often describe this today as the tendency for organizations to create "silos".

While the creation of silos is an effective and expected response to the growth of any organization, silos can create their own unique challenges if coordination and collaboration between these silos begins to suffer. This is where integration enters the picture. As an organization becomes increasingly differentiated, it must create an increasingly large and powerful set of integrating functions. These functions include management, intra-organizational communication channels (for example, telephone, email and intranet systems), and a unifying vision, mission or set of values.

It is important to note that many closely held enterprises do not follow this traditional and often normative model of organizational effectiveness. These enterprises often do not differentiate. Everyone continues to lend a hand in all aspects of the enterprise, even as this enterprise grows larger and older. As a result, there is less need for formal integration among differentiated functions in these unique organizations. The informal and powerful integrative

forces that existed when the enterprise was begun remain in force throughout the life of the organization. This is both an asset and liability for the enterprise and for the entrepreneurs who lead this enterprise.

What is the entrepreneurial challenge when roles remain diffuse? Typically, we find that the lack of boundaries and differentiation can lead to *burnout*. In closely held enterprises, burnout results neither from a lack of recognition for the work one does nor from a more general psychological alienation from the organization where one is employed. (These sources of burnout are more common in corporate life or in government.) Burnout in closely held enterprises is more likely to come from working too many hours, assuming too many responsibilities and finding no time away from the job – even when at home with “the family.”

The key factor is *pacing*. The entrepreneur can't do everything, be everywhere, or achieve every goal at one time. While the solution to the problem of burnout seems obvious – quit working so hard – it is remarkable how often in consulting sessions, it all comes down to this one basic issue: “How do I, as an entrepreneur, serving in a leadership role in a closely held enterprise, find time for my family, for my personal restoration and for moments of reflection on the enterprise that I am leading?”

## **2. Tacit (Informal and Obvious) Intentions**

A second major theme is voiced by many entrepreneurs in closely held enterprises: the intentions of the enterprise (Mission, Vision, Values, Purpose) are very important – but are not often discussed or even articulated. Why is this void the case and what are the implications?

First, there is often very little conversation about intentions, because (as we mentioned above) there is little time to discuss these matters, given the time pressure felt by everyone working in the enterprise. They are all working on behalf of the mission of the enterprise, even if they are not sure what this mission is!

Second, in many closely held enterprises, the intentions are obvious – everyone is working on behalf of these intentions every moment of every working day. Most people working in a dentist office know what they are there for: dental health (and the reduction of anxiety associated with the patient’s coming to “see the dentist”). The intentions are similarly obvious to the staff of a law office, employees in a family-run grocery store, crew members on a fishing boat, or volunteers at a woman’s shelter. As one of our clients commented: “If you want to know what our business is, just look around you . . . Why do you even ask?”

There is a third reason for the intentions of a closely held enterprise being important, but rarely discussed. This third reason is inherent in the name: the power in the organization is held closely by a small number of people. There is not much room for other people to influence the intentions of the enterprise, so why even bother talking about these intentions? “Everyone around here knows who’s in charge and who calls the tune – so why even talk about what we value or where we are going in the future.”

What are the implications of a lack of formal intentions in closely held enterprises? First, there tends to be high levels of commitment in the organization – that’s why there is not much need for explicit intentions or for formal mechanisms of integration. Everyone pitches in and provides direct, tangible service to the organization; therefore, there is not much need for conversation about the intentions or for careful monitoring of the alignment of an employee’s work with the formal mission, vision, values or purposes of the organization.

On the other hand, there are low levels of clarity regarding the achievement of specific goals and objectives, and little clarity regarding how one’s own personal performance is measured with reference to a specific set of goals or objectives. Everyone is a bit on edge, waiting for an informed (but often biased) assessment by the entrepreneurial leaders regarding how “well” the enterprise is “performing.” One of my graduate students in the past owned a small business that processes coffee beans for distribution to high-end coffee shops. Every morning, when he walked into his office he could smell the beans being processed and immediately

knew if the coffee is “good” or “bad.” He knew intuitively – but can you imagine how his employees felt while waiting for his daily assessment?

The entrepreneurial challenge associated with this issue of inexplicit intentions is a bit complex and even contradictory – a dilemma. On the one hand, it seems obvious that the entrepreneur should be more explicit about the intentions of the enterprise that she leads. She needs to articulate the mission, vision, values and purposes in a way that employees (and other stakeholders) can understand and in a way that enables other people, independently, to assess achievement of specific goals and objectives.

On the other hand, it is critical that the entrepreneur does not become too attached to an explicit set of intentions. Haile Sellassie, the legendary king of Ethiopia (kingdoms are closely held enterprises!) once indicated in a moment of remarkable candor that he never wanted anything he said to be written down, for he might change his mind! Like Sellassie, the entrepreneur has to remain “fleet of foot” and expedient. She must always be thinking out of the box (“thinking the unthinkable”) and open to new opportunities that may stretch the mission or vision of the enterprise (while remaining true to its fundamental values). I live in a New England community where many residents make their living going out to sea. They will readily shift focus (and tackle) if they find that their primary commodity isn’t there to be harvested. This is a delicate balancing act – between clarity and flexibility. As psychologists, we can provide important assistance in helping the entrepreneur find this balance in their closely held enterprise.

### **3. Informal Performance Criteria and Review**

The first two issues facing the entrepreneur – diffuse roles and informal intentions – inevitably culminate in a third issue. In many closely held enterprises, there are high levels of informal control but low levels of formal evaluation and review. People working in the closely held enterprise don’t know how their performance is being evaluated. Their “boss” is likely to tell

them: “I can’t tell you exactly when we are doing it right, but I know when we’re doing the right thing.” Our coffee bean entrepreneur comes to mind.

This lack of clarity regarding performance can lead to burnout on the part of those who work with the entrepreneur. We see this in the frequent turnover of staff in many human service agencies and in many professional practices. There will be a few “old-timers” who have been there many years, know the “ropes” and know that their job is secure (even if they are not very productive) and, most importantly, can “read” the moods, nonverbal evaluations and brief, cryptic comments of their boss regarding “how things are going.”

Newer employees will burnout because they try hard and believe ardently in the entrepreneur or in the broader enterprise. They identify a mission, vision and purpose for the enterprise, but typically see this mission, vision or purpose embodied in the entrepreneur rather than in any formal statement of mission, vision. They also see the values of the enterprise embodied in the entrepreneur. The problem is that they don’t know how to translate this into their own decisions and actions. They can’t really be “just like the boss,” given that they don’t own or tightly control the enterprise. Plus, they are meant to be working on behalf of the entrepreneur, to complement rather than replicate her performance. So what is the employee to do and how is he to receive feedback regarding how he is doing?

The entrepreneurial challenge, in this case, is rather straightforward (though not easily achieved by many entrepreneurs). The entrepreneur must identify appropriate goals and objectives for her employees and, most importantly, identify appropriate levels of accountability. This is where flexibility and expedience comes to the end of the line – the specific performance of employees in the enterprise. Every employee should be given clear guidelines regarding what is expected of them in the organization and how specifically they are to be evaluated and for what they are to be rewarded (with regard to continuing employment, compensation and potential career advancement). Organizational psychologists

can be of valuable assistance in helping entrepreneurs establish and communicate these guidelines.

#### **4. Intensive (Face-To-Face) Communication**

The fourth issue for organizational psychologists concerns the “feeling” of the organization—the culture of the enterprise. Typically, a closely held enterprise is one in which there is frequent, direct communication among those who work in this enterprise. The entrepreneur typically does not sit in an office at some distant location. She is right there with the employees. Furthermore, with the low levels of differentiation and lack of explicit intentions, people in the organization must constantly talk with one another to make sure that everyone is “on the same page.” One of our clients recently stated it this way: “We are always bumping into each other . . . so we don’t really need to worry much about keeping informed about what each of us is doing.”

The story, however, doesn’t end here. While there are high levels of interaction, there are often low levels of consistency or predictability with regard to the patterns of this interaction in closely held enterprises. There are many rules and regulations that tend to dictate how employees relate to one another in corporate life, large organizations and other bureaucratized institutions. Formal reporting relationships are respected and end-runs are discouraged. This is often not the case in closely held enterprises. Employees typically do not hesitate to go directly to the “boss” with a complaint or request, often bypassing the person to whom they formally report. Members of a closely held enterprise are also inclined to form informal teams to get a job done, these teams being constituted for a specific purpose with informal leadership roles shifting depending on the nature of the task. Everyone pitches in to set up tables for an upcoming meeting and one of the employees with the biggest muscles or clearest sense of seating arrangements “takes charge.” Five minutes later someone else is in charge. She will handle the decorations on the tables or will ensure that each table has water, pens, paper, etc. All of this occurs with very little negotiation or posturing.



In this instance, the entrepreneurial challenge is one of finding coherence and continuity in the midst of the informality and flexibility – reminding one of the challenge that is associated with our second issue (tacit intentions). In a closely held enterprise, one finds coherence and continuity, not in the rules and regulations of the organization, but instead in the distinctive stories that each member of the enterprise can tell regarding the organization and her role in the organization. As psychologists working with leaders in closely held enterprises we are constantly in the business of eliciting and listening to stories – this is what holds the enterprise together and provides members of the enterprise with guidance regarding how to work with one another. Story telling is much more valuable in closely held enterprises than are attempts to artificially imposed rules and regulations. Some sociologists identify this approach as the discovery of “natural helping networks.” These networks often operate very effectively in closely held enterprises, and must be honored and supported, rather than being bypassed by some external version of how an “effective organization *should* run.”

## **5. Powerful Role of Leader**

At the heart of the matter in closely held enterprises is the central, integrative force in this organization – namely, the entrepreneurial leader or cluster of leaders. Typically, the closely-held enterprise is highly dependent on this leader or cluster of leaders: “I don’t know what we’d do if she wasn’t here.” “He is the ‘life blood’ of this organization.”

Usually, there are high levels of loyalty to the leader or cluster of leaders. Furthermore, there typically are low levels of independence from the leader on the part of those who are working in the enterprise. This can be a further source of burnout on the part of both the leader and follower. The leader is ambivalent about the dependency of her staff. “I wish they would make up their own minds sometimes, rather than always coming to me for my advice.” Yet, this entrepreneur never quite lets her staff off of a very short leash and can be very critical if a mistaken action is taken without consulting her. There is often a demoralizing “I-told-you-so” response from the entrepreneur.

We will have much more to say about entrepreneurial leadership in a later essay.

## **6. The Fear Factor**

Entrepreneurs who hold their enterprise close to their heart may sacrifice something very large in exchange for this control. In many cases, they sacrifice the capacity to generate outside funds. They may seek out venture capital (VCs), if they are a for-profit organization, but often are not very attractive to the VCs because they are so tightly controlled and dependent on the ongoing inspiration and leadership of one or two people. (Venture capitalists typically want to be able to exert their own influence, which means the entrepreneur has to give up partial ownership of that which is close to her heart.) If the closely held enterprise is nonprofit, then typically this enterprise limits the scope of its fund-raising efforts in its focus on a specific niche (e.g. shelter for battered women).

More importantly, there is a powerful psychological force in operation. For a variety of reasons, most entrepreneurs feel like they are living on the edge of financial insolvency. Just as doting parents are often irrationally concerned about the safety of their children (John Irving captured this fear beautifully in *The World According to Garp* – the fear of the “under-toad”), the entrepreneur is constantly in angst regarding the welfare of her cherished enterprise. There is never enough financial security. There is always the search for another dollar or a new funding source: “We never seem to have quite enough money . . . or maybe we just keep raising the bar in terms of our financial expectations. . . . how much is enough money? . . . one dollar more than we now have!”

There is also the complex interplay between three fundamental emotions: anticipation of regret, fear of loss and hope for gain. The behavioral economists provide compelling evidence that we are motivated first and foremost to avoid regret. We don’t want to say later that we had the opportunity, but failed to take advantage. To quote Marlon Brando (On the Waterfront): “I could have been a contender!” Or we seek to avoid regret associated with a decision that we did make that turned out to be the wrong decision, made at the wrong time.

Apparently, we worry more about regret than we do about the actual loss of something (such as money, time or energy). The hope for gain sits at the bottom of the list. We worry more about loss than we hope for gain – and regret trumps both loss and gain. For the entrepreneur who leads a closely-held enterprise, these motivational dynamics must be particularly strong – for they usually have to take primary responsibility for lost opportunities, mistaken decisions or loss of money, time or energy. Conversely, the gains that are made often have many parents. And as an effective, motivating leader, we encourage this sharing of credit for a success.

Thus, there are both rational and irrational sources of fear about the financial status of a closely held enterprise, as well as fear about making the wrong decision. These organizations are, in fact, often under-capitalized, yet as the behavioral economists point out the fears frequently extend beyond the legitimate concerns. In the most effectively run enterprises, there is a high level of patience on the part of the entrepreneur regarding long-term financial goals and an enduring commitment to achieving these goals. However, there is also an accompanying low level of financial stability in many of these enterprises – which makes the long term strategizing particularly difficult. The dominant desire to avoid regret and loss makes long term strategizing even more challenging.

At the heart of the entrepreneurial challenge associated with this issue is the capacity (and willingness) of the entrepreneur to live with financial insecurity and hold the desire to avoid regret at bay. When asked what she does as an organizational psychologist, a colleague of ours who works primarily with entrepreneurs indicates that she helps people work on the problems that “wake them up at 3 o’clock in the morning.” These “wake-up” problems are often both financial and emotional in nature for the entrepreneur in a closely held enterprise. The psychologist is there to help her entrepreneurial client differentiate between the realistic and unrealistic fears and between those financial matters that are in their hands (internal locus of control) and those that are out of their hands (external local of control).

## 7. Multiple and Unacknowledged Motives

There is a final issue that is commonly found among entrepreneurs who lead closely held enterprises. In many ways, this is the most important of the issues we have identified; yet, it is also often the most elusive and readily dismissed by busy, results-oriented entrepreneurs. This is the issue of motivation: Why is the entrepreneur engaged in this enterprise? Why does she put in so many hours doing this work? Why doesn't she get a "real" job, working for someone else, so that there will be less pressure? Why does she care so deeply about the survival and ultimate success of this fledgling enterprise? As one of our clients recently noted: "I'm not sure why I work so hard and what I want to get out of this organization . . . Or maybe I do know, but don't want to face the real reasons."

This quotation suggests that not only is motivation an elusive issue, it is also an issue that can be threatening or even offensive for many entrepreneurs. One of our colleagues was working with a small group of men and women who serve as chief executives of niche nonprofit organizations. He asked them to identify what difference it would make if their organization went out of business tomorrow. Our colleague asked this question in order to help his clients identify the underlying reason for their good, hard work. The reaction he got to this question was stunning. The chief executives immediately reacted with great anger, indicating that they didn't appreciate someone suggesting that their organization might be expendable or "worthless." They have dedicated their lives to these closely held nonprofit enterprises and don't want someone coming in to suggest that their enterprise could go away tomorrow. They asked our colleague to leave their meeting and never come back again! Clearly, these chief executives were highly motivated and committed to their work; but they all misunderstood what our colleague was asking and refused to explore their own motives.

What are the motives for most entrepreneurs? Do they go beyond the avoidance of regret, as the behavioral economists suggest? Do they rise above the minimal level (survival) or even the intermediate level (job security, compensation, safe working conditions)? For the successful entrepreneur who leads a closely-held enterprise there must be other key motivators. If the

entrepreneur had been interested in job security or compensation, she would probably work for a large corporation or government agency. Rather, the key motivators are often a sense of achievement (often mixed with a competitive spirit), the need for autonomy (often mixed with counter-dependency), the need for a creative outlet (often mixed with a desire to stand out in a crowd), and (using Maslow's term) a desire for self-actualization. These motives are often difficult for an entrepreneur to articulate and are often not met in the short-run by specific activities or accomplishments.

The capacity and willingness of an entrepreneur to be clear about their fundamental motivations is important and inherent in the primary entrepreneurial challenge associated with this issue – this challenge being the ongoing planning of career by the entrepreneur. Clarity about motivation is important because the entrepreneur must *frequently* make decisions about the direction in which she wants her enterprise to move. She must decide if any potential move is aligned not only with the long term strategic roadmap of the enterprise, but also with her own fundamental reasons for being an entrepreneur and for holding this specific enterprise close to her heart. Quite often the entrepreneur “knows” when something is “right” or “wrong” in terms of her own interests and fundamental commitments, but will need assistance in articulating her motives.

It is also important that the entrepreneur remain flexible with regard to her motives. She must be capable and willing to identify and engage shifting personal aspirations and career interests, for these shifts may portend strategic changes in the direction of her enterprise. It is not uncommon for a successful entrepreneur to have relatively low capacity with regard to stable levels of interest in specific tasks or assignments, while holding a core set of values and motives that remain constant over time and location.