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Synthesis

Founders: Keep the Mindset; Change the Modus Operandi

What Entrepreneurial Chinese Companies Can Learn from MNCs

EgonZehnder

Many founder-led companies pride themselves on being the alternative to multinational corporations (MNCs). They are more agile, often purpose-driven and their culture allows for fast failures and pivots. But this entrepreneurial spirit and scrappiness that has fueled tremendous growth in the short term may not sustain these private companies in the future. The question that looms for founder-led companies is how long can this unstructured – and ungoverned – approach to management be successful?

In a series of dinners Egon Zehnder hosted with top executives in China, we asked what founder-led companies need to do to ensure they can thrive over the long-term and what these entrepreneurial companies can learn from MNCs.

Trapped Between Trust and Transformation

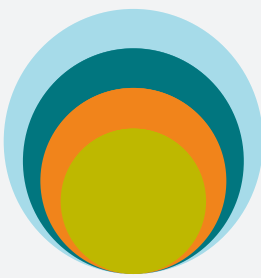
Many founders are aware that their companies need to make major changes to their firms' operations and processes to survive, but they are afraid they have more to lose than to gain from implementing change. They opt to ride on the assurances of how far their current structures – and people – have gotten them. These positive attributes include:

- **An inspiring vision and purpose.** Founder-led companies are by nature infused with the vision and values of their leader. He or she defines the purpose, the culture and the processes of the corporation. In a time where organizational purpose is attractive to employees, many gravitate to these types of companies, drawn in by a founder's passion and a shared ambition. Founders are articulate about their stories, and employees feel engaged in meaningful work. "Your purpose is not to increase the share price by a certain percentage. That's not what everyone gets up every day to do," said one HR leader in attendance.
- **A flat leadership structure.** Few key decision-makers means companies can be very responsive to changes in the marketplace. An executive in attendance who joined a private company after previously working for an MNC, observed that her current company has only a handful of key leaders, which makes the entire decision-making process easy and fast.
- **A fail-fast culture** The cultures in these firms are consumer-centric, prioritizing "more, better, faster" for their customers, which encourages employees to take risks but fail quickly so the company can pivot just as fast.

None of those qualities needs to change—they are the heart of the company. However, there are some areas in which founder-led companies need to evolve.

What Needs to Change and Why

Typical Characteristics of Founder-Led Companies



Culture

- Founder led, most founders are purposeful
- Founders beliefs are well communicated
- Speed is driven by founders ambition and determination, and is rewarded by China's scale

Organization

- Top Down decision making mostly
- But top leaders are curious fast learners, and change their decision quickly when they see better ways of doing things
- Organization structure also changes regularly

Teams

- The team alignment comes from listening to the 'Boss'
- Internal competition is common
- KPI achievements is driven by Fear & Insecurity
- Younghui is a flagship exception

Individual

- 'Sink' or 'Swim'
- Development is mainly through stretching assignment/job scope
- Retention is not always the top priority, fast turnover and fast recruitment
- But there are exceptions and they are innovative; locals are also learning from MNCs

While some reluctance to change remains, there are several major areas within their companies that founders in China need to evaluate to determine if they are exhibiting the following elements.

- **A culture of continuous leadership development.** With the multitude of changes happening in the marketplace, founder-led companies must embrace continuous learning and development for the full leadership team. Founders must also ask themselves how much they need to invest in their own leadership development and work to change their mindsets to continue leading the business.

- **An open mind on talent.** Founders place a high degree of trust in those who helped them get the company to where it is today, and the original team often feels a strong sense of loyalty to the founder. This loyalty can compromise growth and cause several complications, requiring companies to embrace leading practices in talent refreshment and feedback. Founders must embrace talent from outside of just the original team, including from MNCs, and also integrate these employees into the organization.

  Founders are unlikely to replace original team members even if they do not have the skills sets the company needs to grow. One founder we spoke summed up the talent issue: "I put my whole life into this business. I know my team who grew up with me is not as sophisticated as those teams at MNCs, but my team built this success with me. They know enough to operate. But I also have issues with people I bring in from MNCs. They are polished and seem to know professionally what to do, but they think everything is wrong with my company. I'm worried if I change, my company will break and all the people who know how to operate will leave."

- **A culture that respects feedback.** Founders must also ensure they are able to receive feedback from throughout the company. Egon Zehnder's study of 400 CEOs of public and private companies across 11 countries found that feedback is essential to leadership, with 31 percent of CEOs saying ongoing developmental feedback from direct reports, boss and peers was what prepared them most to lead a company. Many founders turn to a board, whether it's a formalized governance structure or an advisory board, for a diverse set of insights.

- **A sustainable organizational structure.** Founder-led companies should also explore other leadership structures. To foster innovation and enhance competitiveness, companies must break out of the hierarchical decision-making process and organizational structure and ensure good ideas can flow both ways.

  It's especially important to determine whether the leadership team is willing to disrupt itself. Many private companies fall into the trap of operating by the same rules they used when the business began without a plan to continuously evolve. It puts these disruptive companies on a path to being disrupted. For example, if your company uses only a single metric, such as free cash flow, to measure success, you leave out other key indicators, including return on investment and market share dynamics, which could compromise the business.

- **The right motivation.** The sink or swim culture of many founder-led companies causes incentives to come mostly in the form of fear, KPIs and high compensation packages. Companies must examine other ways of inspiring teams and individuals or risk losing them and having the burden of cost and time of replacing them, such as work-life balance, formalized leadership or development programs and a clearly articulated company vision that invites employees to connect with the mission.

If your company is grappling with these challenges, it is time to revaluate how you make some alterations to ensure your company is geared for long-term sustainability and continued growth.

Learning From MNCs

While some founders continue to believe their companies are the antithesis of MNCs, we wanted to debunk some of the following misconceptions about MNCs and note some leading practices that founders should consider adopting:

Founder self-development. MNCs often prioritize ongoing learning for CEOs which allows them to create change within the organizations with more ease. Chinese business founders are generally curious, and embrace gaining new knowledge and being well informed about new trends, but this is not enough. In Egon Zehnder's CEO survey, 79 percent of chief executives agreed with this statement: "As CEO, I need the capacity to transform myself as well as my organization."

Founders need to deeply explore themselves while learning the tools to recognize, influence, and motivate the high potential in others. They need to grow in self-awareness while discerning more clearly their sense of vision, acknowledging the impact of their habits and behaviors, and enabling them to drive their own growth as well as their organizations' transformational change.

- **A board won't kill your culture.** Many founders – both in China and other parts of the world – are loathe to have a board of directors, viewing it as a killer of innovation and a slowing down of progress. While MNCs have formalized governance structures (they must for legal reasons), founder-led companies could benefit from employing an advisory board if they are not prepared for a more formal board of directors. An advisory board provides a sounding board for strategy for the founder, and he or she can receive guidance and new perspectives from experienced executives. One former MNC executive who is now working for a financial services start-up company that is preparing to go public noted at our event that "Good governance ensures ideas will be listened to and pieced together to have real impact on business."

- **Slower decision-making isn't always bad.** Entrepreneurial companies pride themselves on quick adaptations and decision-making, while MNCs typically have specific protocol and chains of command for sign off. While you do not want to bog down your decision-making process, having more input on major decisions (perhaps from your newly added advisory board), such as M&A, a shift in strategy or in talent management can save the company time and money in the long term if due diligence is done up front.
- **Learning on the job comes at a price.** Founder-led companies typically take a "learn by doing" approach to employee development, which embraces making changes and taking risks in real time. Unfortunately, this approach is focused on a particular role and does not lead to a career path, which is problematic as most employees do not want to hold the same job until retirement. If they do not find fulfilment, they leave the company. In contrast, MNCs have robust training and development programs that range from recruiting and training university graduates to ongoing development programs for executives.

  Founder-led companies must invest in formal training and development programs. Keep in mind that you are not just looking for the talent you need to fill open positions today, but the talent you will need years down the line. What does the talent profile of your organization look like five years from now? Can you train current employees to learn new skills to fit these roles or do you need to seek talent externally?

Be Entrepreneurial About Change

Founders can recall how scary the early days of starting a company are. It's a major risk, it's stressful, and the work seems never-ending. Now that founders have built their companies to a level of success, they must return to that leap of faith moment when making changes within their companies. There will be fearful moments, but without an eye toward the future and implementing some of the best practices from MNCs, these companies may be unable to weather future disruption from their fellow founders.

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