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## The SME trap

Dear Sir or Madam,

*This guest newsletter by Volkmar Völzke, CEO New Pace Consulting AG, deals with the question of how the management of an SME can create a working environment which is both efficient and fun to work in at the same time. The original version of this article first appeared in the magazine "Organisator".*

Most small and medium-sized enterprises – just like people – create their own boundaries around themselves; boundaries which are extremely difficult to leave behind. First and foremost, a change of paradigm is required at the level of senior management.

There is always a huge amount of enthusiasm involved once a company has been founded, while trying to motivate staff is hardly an issue at all during this period. Salaries are often lower than elsewhere, in stark contrast to enthusiasm. In this first phase, it is all about making the company "scalable", i.e. to set up all the necessary structures and processes to ensure growth, effectiveness and efficiency.

Enthusiasm is decreasing. During phase two, which is characterised by decreasing enthusiasm, a further increase in productivity is paramount, and often accompanied by expansion of business into other markets. The major problem here is that the enthusiasm of staff will be on its way down as long as management does not take countermeasures. However, in too many companies nothing of this kind happens at all. Very often one then sees managing directors distraught that despite all efforts their members of staff are "not fully committed" anymore, and that formal process is more important than results aimed for.

It is remarkable that this also happens when the company's executive board openly says to managers and staff members that results would always be more important than formal processes. It looks as if a connection has collapsed that in the beginning had been fully functioning in each new company: namely the relationship between the original intention to achieve something, and the reality as it is perceived by others. Those who have some knowledge of coaching will be familiar with this. Very often people do not reach their full potential because targets and processes are not congruent. This often happens unnoticed.

## **SME in midlife crisis**

As this condition often sets in once a company has reached a certain maturity, it is often called "SME midlife crisis". One flame is still alive and burning, there is pride about what has been achieved, but there is also uneasiness that limits have been reached. For some companies these "own limits" can have serious consequences, namely their disappearance from the market. Before we take a close look at how to leave this condition behind, we will take a look at the next phase in a company's life cycle. Once a company has survived phase two and continues to grow, the optimisation continues in most instances, and efficiency will be increased. Generally the employee's enthusiasm continues to wane until companies are functioning almost perfectly but are devoid of emotions. We call this the "perfection trap." Many major companies have reached this stage.

## **The three major delusions**

The most common cause why people and companies become trapped in a certain state from which they believe they cannot escape (just like companies in "midlife crisis") is a distorted perception of the actual causes of the problems, and an insistence on their usual way of thinking and preferences. This encompasses an enormous field, which is why we, according to our experiences, would like to concentrate on those important myths to be found in SMEs.

1. Both failure and success are the other's fault. This is an attitude that can be found surprisingly often, from the executive level down to the workers on the actual production line. There are numerous circumstances that can be blamed for not progressing any further. The usual suspects are: the market, the competition, the customers ("they only want the lowest price possible" – what a pitiful excuse for not being able to communicate added value!), the owners ("they have no clue about the business"), the past, the political situation, and so on. Very often the same old tiresome slogans are repeated over and over again. Of course, we all know: the more often you claim something, the more you are inclined to believe it.
2. We do not have the right people. Or: our people do not really want to get properly involved. However, as time has shown again and again: the overwhelming majority of employees in a company begin to thrive once management begins to do a few things right. And no, money is not part of the solution. If you are paying more money to an unhappy employee you just end up with a rich unhappy employee.
3. Only facts count. Nothing is further from reality than this. The only thing that will cause people to act are emotions. There have been several surveys that support this. Logic will cause people to start thinking, emotions will make them act! Nevertheless, the management in most companies is trying to get their employees to act by feeding them with figures and dry appeals – a dangerous delusion!

## **What can be done? The three most important measures**

**Responsibility for results.** Probably the most important step to take in most companies is delegating to all employees full responsibility for results. It is important to note here: by responsibility for results we mean a responsibility for what is achieved by certain activities (and this hardly concerns financial results). In contrast to this, employees in most companies are responsible for tasks and projects, but hardly for results. This already starts with job descriptions: endless lists of tasks, but no mention of desired results.

The distinction is fundamental: If you are only responsible for a task then somewhere there must be somebody who has to face the music when it comes to results. And then there is the boss, the other department, the customer, the market, etc. All according to the motto: "we did everything we could but nothing came of it." It is the management's responsibility to change this. The taking over of full responsibility is a conscious decision for each and every one.

Based on our experience, this is a massive step for most SMEs. Once we, as consultants, make it clear to the entire management that there is nobody else who is responsible for the success and the future of the company, there is a deafening silence. Very often nobody had realised the consequences. Of course, it is just so easy to try and find others to blame; and this attitude is very often extremely deep-rooted in a company's culture.

**Security.** Each person has an immense need for security. Insecurity leads to reduced performance. In many organisations there is a culture of insecurity: about the purpose of the work (why do we actually do what we are doing here?), about the future (no clear vision and no strategy), about the actual situation (who in fact are our most important customers?), and so on.

Just the creation of security about these and a number of further issues increases commitment significantly. Important: security needs to be lived. We have often experienced that the management could not guarantee security for the company and its future. This would need to be the first issue to change.

**Emotions.** Enthusiasm is purely emotional. In many companies, communication utterly devoid of emotion is completely obstructing enthusiasm. So it comes as no surprise that employees will "shift down a gear or three" and only perform at half the level (or less) of that they would achieve if full of enthusiasm.

A convincing mission (What do we believe in? Why are we doing what we are doing?), personal and authentic communication, video messages instead of email, a sense of humour and honest recognition of achievements are just a small number of possible measures to turn a company once again into a positive emotional experience for employees (and for customers).

With these three simple bundles of measures, you are already taking a major step in the right direction to fully develop the powers of a company currently stuck in a midlife crisis, and at the same time integrate all employees in this process.

### **Three immediate steps**

We recommend taking the following three steps immediately to lead a company out of the SME trap:

1. The executive board appoints a "future team" of about 8-12 employees and hands over full responsibility for the company's future to this team. No excuses, nobody else to blame! The members of this team carry full responsibility for the positive future of the company (mind you, not for "defining a strategy" as this would be just a task and not a result).
2. The (emotional) corporate purpose is brought to the fore and shared with everybody. Why does this company actually exist? Hint: very often it is helpful to check why the company had once been founded.
3. Any form of leadership and communication, at all levels, must be freed from dust. Emotions top dry facts!

Ultimately it is about getting an SME once again to the point where all companies had once started: to the firm belief that they can deliver something improved to this world, to offer customers a clear added value, to act with enthusiasm and to create an environment in which making an effort is fun. By reflecting on these values and with decisive actions, each and every SME will manage to escape this trap and to dramatically increase commitment. This is a conscious decision, and none other than the executive board should be responsible for this decision.

#### *About the author*

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Kind regards

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