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Taking a Company to the Next Level

A Look at How Entrepreneurs Turned Their Businesses Into Market Leaders

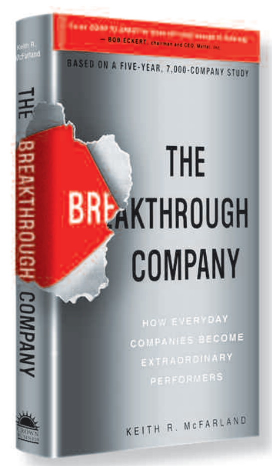
Review by Stephen Wolter

THE BREAKTHROUGH COMPANY

by Keith R. McFarland

Crown Business, $27.50

For nearly a decade, Keith McFarland was frustrated by the fact that he could never find a book that adequately described the steps a company could take to solve the problems involved when moving beyond the entrepreneurial stages of business toward something bigger. In the mid-1990s he had just become chairman of a Los Angeles-based company that had twice been named to *Inc.* magazine's Inc. 500 list of the fastest-growing privately held companies in the United States. He felt his company was at a turning point that would soon determine whether it would reach its full potential for exponential growth, or if it would stagnate. Wouldn't be nice, he thought, if there was a book describing the experiences of entrepreneurs who had led their companies to whole new levels of success?



About the same time that he assumed his position as chairman, McFarland met Peter Drucker, the man who essentially defined the science of business management in the 20th century, and he discussed his dilemma — why couldn't he find a decent book that would serve as a road map for taking his company past the confines of its entrepreneurial stage? Drucker's reply was simple: "Because you haven't written it yet."

Fast-forward to 2002, when McFarland was one of two keynote speakers addressing a conference composed of CEOs. The other speaker on the bill was Jim Collins, author of *Good to Great*, arguably the most successful business book of this decade. At the conference McFarland pointed out to Collins that all the companies described in *Good to Great* were large organizations, with average sales figures of $32 billion. But, again, McFarland was concerned about all those companies that wanted to break away from the early stages of business development. Where was the book for them?

The book, Collins advised, could be done using the same research methods he employed when writing *Good to Great*. After receiving encouragement from two of the most respected voices in the field, McFarland was finally inspired enough to set out and discover for himself how a company moved from startup to full-blown success. He wasn't interested in the General Electrics, Dells or Wal-Marts of the business world — those companies and others in their economic strata had been analyzed countless times. What McFarland wanted were real-life examples of the businesses that had broken through the entrepreneurial stage of development and, if they weren't raking in tens of billions of dollars annually, were at least successful on a large scale. In doing so, he finally found that book he had been looking for all those years — his own. And even though he claims that *The Breakthrough Company* is not a recipe for creating successful companies, he still offers plenty of advice on how a company moves from one level of accomplishment to the next.

Finding the Breakthrough Companies

In order to describe the lessons learned from the experiences of the breakthrough companies, McFarland had to first identify which companies qualified as true breakthroughs. "What does it take to build a breakthrough company," he writes, "to move from chasing markets to actually influencing them?"

McFarland details the methodology — both in an early chapter of the book and in three appendices at the book's end — that he and his research team used to identify the breakthrough companies. Out of an original list of 7,000 possible candidates, McFarland ultimately settled on nine for purposes of discussion in his book. The 7,000 names in the database were gathered from years of Inc. 500 data, going back to 1982 when the list began. Growth rate, profitability and size were calculated for every single company that had appeared on the list, and then each company was ranked according to long-term financial performance.

But McFarland wasn't content to just let numbers provide the key to determining which companies he would study in greater depth, and he writes that he "ruled out the sort of ivory-tower research that is disconnected from the real issues faced by real business." Instead, he and his team spent five years with the top 52 companies that seemed best-suited to earn the title of "breakthrough." Dozens of employees at each company were interviewed — more than 1,400 in all. Discussions were held on topics such as the problems each company faced, relationships with customers, potential for growth and how companies stacked up against the competition. These field studies, as McFarland labels them, lasted anywhere from 90 days to three years.

Narrowing the focus of the research, McFarland settled on a range of annual revenue in which he felt the breakthrough companies should fall. At the low end, he eliminated companies with revenues of less than $250 million, as he wanted to make sure the final list included companies that had faced numerous obstacles in the entrepreneurial stage but now were big enough to have genuinely broken through those early stages of development. On the high end, he set a revenue cap of $2 billion. This would ensure that companies were not so large (a Microsoft for example) that the breakthrough characteristics of a successful company were now too far removed to identify.

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There is much more in the way of research that McFarland describes in the book, and he does so in even greater length in the previously mentioned appendices. But suffice it to say, when all the data was sifted, compiled and organized, nine companies stood out as superior examples of what it takes to break away from the entrepreneurial origins of a business. And that's when, according to McFarland, the real research began — "some old-fashioned shoe-leather reporting," as he puts it. Off went his research team to all corners of the country, logging hundreds of hours of additional interviews at the nine companies.

The Nine

Of the companies that made the breakthrough list, McFarland writes that what impressed him and his team the most was not the similarities they shared, but the differences they displayed. The companies were located in all sections of the country, from New York to California, Minnesota to Florida, in cities both large and relatively small. They were, as McFarland puts it, high-tech, low-tech and no-tech, with everything in between.

But one thing that they had in common was a remarkable level of success. McFarland cites revenue figures of the nine companies from the days of their first appearance on the Inc. 500 list. The median revenue of the nine grew from $14.4 million from the time they were first noticed by *Inc.* to more than $700 million when McFarland conducted his research. The cumulative revenue increased over a 15-year period from $298 million to $6.6 billion, and by the end of 2006, the total combined revenues of the nine companies had grown to $7.5 billion. McFarland also notes that the nine were outperforming their competitors by a profit factor of three to one. "A person looking for a blueprint for long-term profitable growth would be hard pressed to find nine better examples," he writes.

For the record, here are the nine companies that made the breakthrough list:

- ADTRAN (Huntsville, Ala.) — a maker of networking equipment
- Chico's FAS (Fort Myers, Fla.) — a designer of apparel for middle-aged women
- Express Personnel (Oklahoma City, Okla.) — a network of staffing franchises
- Fastenal (Winona, Minn.) — a distributor of industrial products
- Intuit (Mountainview, Calif.) — a producer of software
- Paychex (Rochester, N.Y.) — a payroll processing company

- Polaris (Medina, Minn.) — a manufacturer of ATVs and snowmobiles
- SAS (Cary, N.C.) — an analytical software and services company
- The Staubach Company (Dallas, Texas) — a real estate company focused on tenants.

Obviously McFarland is correct in emphasizing the differences in these nine breakthrough companies. In an age when so much attention is placed on high-tech businesses, these nine companies represent real diversity. But McFarland is quick to point out that the nine companies also shared certain characteristics, and these were the same characteristics that helped propel the companies out of their entrepreneurial stages. It's these characteristics that he devotes the majority of his book to, and along the way he includes stories illustrating how the nine companies are sterling examples of embracing the ideas and practices that lead to a breakthrough.

Characteristics of Success

McFarland follows a tried-and-true formula in the business-book genre of dedicating single chapters to each broad point he is trying to make — in this case, the characteristics of success he found surfacing again and again in the breakthrough companies. There are eight such chapters discussing the various characteristics, and McFarland does an admirable job of weaving in company tales — of both success and failure — to illustrate his points. If storytelling is the best way to communicate a message, then McFarland is on the right track here, as he includes many first-rate examples of how the nine breakthrough companies dealt with growth and setbacks. These stories are often told in voices of the companies' various leaders or other high-ranking employees, and they carry the weight of real-world experience.

By way of example, one characteristic of breakthrough success that McFarland consistently finds in the nine companies is something he calls "crowning the company." Simply stated, this means putting the interests of the firm above all other interests. The "crown," as it were, must be given to the company as a whole, not to a single individual, such as the founder or current CEO. Too many company leaders, McFarland writes, after achieving some level of success, make this success all about themselves. It's one reason why some companies never break through the entrepreneurial barrier.

McFarland describes The Staubach Company of Dallas, Texas, as an organization that truly grasps the concept of crowning the company. The name Staubach may be familiar to many readers, even if they have never heard of the company, which was founded by the former NFL quarterback and pro football Hall of Famer Roger Staubach. Although Staubach had an illustrious career as a star athlete in both college, where he won the Heisman Trophy in 1963, and in professional football, where he quarterbacked the Dallas Cowboys to two Super Bowl victories, McFarland notes that Staubach's offices are conspicuously absent of practically anything related to his football career. "It's because we're building something here that is bigger than Roger Staubach," the former quarterback says.

Staubach's emphasis on his company, rather than on personal gratification, is evident when McFarland describes Staubach's actions during a time when the company was set for major growth. Greg O'Brien, who joined the company in 1993 and was named its CEO in 2007, says Staubach realized that even with the star power attached to his name, the company would grow to only a certain level unless he brought in the best real estate brokers he could find. To attract this kind of talent, Staubach granted his brokers an equity stake in the company while developing a common set of values that emphasized teamwork. His strategy worked, and company revenue has grown from $20 million in 1993 to more than $400 million in 2006.

The separate elements that can elevate a company from an optimistic fledgling to a major player in its market might seem obvious enough when a reader comes across it in a book such as this one. Of course, as McFarland points out, there are plenty of companies that never advance past their entrepreneurial stages and simply fail. Other companies will never become dominant forces in their respective markets and either stay small or get absorbed by larger competitors. Whether or not companies like these fail to obtain breakthrough status because they lack the characteristics of success found in the businesses McFarland examined or for reasons beyond the scope of McFarland's research can certainly be debated. But it's hard to ignore the evidence he lays out when telling the stories of the nine model companies.

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Some of the other characteristics of success that McFarland writes about include how an entrepreneurial company needs to take risks as it grows — "upping the ante," as he calls it. Another characteristic addresses the issue of how, as small companies grow, they need to maintain the qualities that made them successful because they were small, such as low costs, giving customers what they want, and quick reaction times to internal and external problems. McFarland also examines how breakthrough companies are the ones that develop a healthy network of sources outside their firms that will help lift them to the next level of success. And perhaps the most important characteristic of all is how building company character is essential to its success. Character differs from values, McFarland writes, in that values are what companies purport to believe, while character is how people in an organization actually act.

While each company he examined had its own special character, he found that they all shared four characteristics: they gave people (employees and customers) a fair deal; they believed in the people they interacted with; they were miserly in a strategic way; and their word really counted.

Surprise, Surprise

One distinguishing aspect of *The Breakthrough Company* is McFarland's willingness to share some of the surprising results he and his team found while conducting their research. He writes that this was the most enjoyable part of his five-year study and believes that some of these surprises are significant contributors to a breakthrough company's success.

As mentioned earlier, the need to take risks on occasion is one of the characteristics that contributes to a company's rise above the entrepreneurial stage. It might logically be assumed that entrepreneurs, who are willing to invest what is often a life's savings into a business, are by nature risk takers. Wrong assumption, according to McFarland. He writes that his team's analysis of more than 250 CEOs indicated a range across the entire spectrum when it came to approaching risks. Some leaders were quite receptive to taking a big chance, others less so and some not at all. And if developing brand-new, never-before-seen products is an indication of risk, McFarland found that 71 percent of new companies are actually imitating already existing services or products — not the stuff of a gambling personality.

McFarland includes a list of surprises at the end of each chapter as it pertains to the subject at hand. He labels these surprises "grapefruit squirts," a somewhat clunky term that most likely won't grow on the reader, but business book authors do have a tendency to search for catchphrases and McFarland is no different. In any case, his lists of surprises account for some of the most intriguing parts of the book. Take for example that every breakthrough company McFarland investigated shared at least one story of how a single individual — oftentimes several levels down from the CEO — recognized a need for change and pursued this change until senior management took notice. Or how many company leaders viewed adverse times as opportunities for making their companies stronger. Many breakthrough leaders worried more about keeping their companies sharp and focused during the good times than during the bad.

It's these types of insights that McFarland deftly blends into this guidebook of organizational change that make it a valuable addition to the library of business literature. The fact that he is able to include such information in the form of stories told by business leaders renders it both entertaining and accessible. McFarland also includes a fair number of informative charts and illustrations in the book that are unobtrusive and straightforward.

McFarland delivers something of a surprise himself in the book's concluding section, where he writes, "When I started this project, I didn't intend to write a book." Of course, even the casual reader will recall that in the book's introduction McFarland reflects on the fact that both Peter Drucker and Jim Collins had urged him to write just such a book. Maybe it's a sense of modesty on McFarland's part, but nevertheless, his book was written, and it should hold special interest for those business leaders who really want to consider whether there are consistent traits in those successful companies that survive and flourish long after the entrepreneurial days are past.

The author: Keith R. McFarland was named an associate dean of the Business School at Pepperdine University at the age of 26. Following that, he served as the CEO for two technology companies before he founded McFarland Strategy Partners. McFarland is a regular contributor to *Inc.* magazine, and he writes a column for the online version of *BusinessWeek*.

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