

## ***The Golden Decade Program: A tool for incubating innovation and building a capacity for “creative destruction” within a small business***

By: Attorney Vic Panus

### **The “creative destruction” theory**

Joseph Schumpeter was a mid-20<sup>th</sup> century intellectual and Harvard economist who wrote that the lifeblood of capitalism was a “perennial gale of creative destruction.” He coined that phrase while explaining his economic theory that, in a capitalist economy, radical innovations by up-and-coming entrepreneurs are the collective force that sustains long-term economic growth, even as it destroys the value of established companies that may have previously enjoyed a degree of monopoly power due to various barriers to entry and other factors. Schumpeter’s macroeconomic construct, premised on industrial mutation and constant reinvention, is a useful way of thinking about the transformation privately-owned businesses must undergo in order to, *first*, survive the financial crisis and recession of the last two years – and to, *then*, position themselves to emerge stronger with increased market share in a post-recession world.

Wikipedia explains the idea of creative destruction in the following way: “Companies that once revolutionized and dominated new industries – for example, Xerox in copiers or Polaroid in instant photography – have seen their profits fall and their dominance vanish as

rivals launched improved designs or cut manufacturing costs. Wal-Mart is a recent example of a company that has achieved a strong position in many markets, through its use of new inventory-management, marketing, and personnel-management techniques, using its resulting lower prices to compete with older or smaller companies in the offering of retail consumer products. Just as older behemoths perceived to be juggernauts by their contemporaries (e.g., Montgomery Ward, Kmart, Sears) were eventually undone by nimbler and more innovative competitors, Wal-Mart faces the same threat.”

The destructive part of this process, also known as Schumpeter’s Gale, will always be painful – as one commentator observed, it “hurts like hell in the short-run.” Despite the pain, if game-changing adjustments are allowed to occur in an industry into which an innovator has ventured – without political or bureaucratic interference – the creative part can take place and the long-term benefits of a continually innovating economy will be realized, according to Schumpeter’s theory.

Examples of innovative business strategies that worked at the microeconomic level can be found in every period of economic turmoil. During the Great Depression, Campbell Soup Co. launched new product lines that remain household staples today, including chicken-



noodle soup. In the 1930s, Revlon’s introduction of nail polish proved that consumers will embrace small, affordable luxuries in tough times.

Winners and losers among the nation’s biggest corporations have already emerged from the recent economic upheaval as a result of innovation in the face of a serious financial crisis and great economic turmoil. Some of the early winners included Ford Motor (increased market share in a decimated industry by trumpeting its relative financial strength and self-reliance compared to bailout-seeking and bankruptcy-bound domestic competitors), New York Life (changed its marketing message to emphasize its relative financial strength and leapfrogged from ninth to second in market share among U.S. life insurers), Bed Bath & Beyond (drove debt-strapped competitor Linens ‘n Things into bankruptcy through a ruthless,

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strategic marketing attack funded by a 25% increase in annual advertising outlays), and Panera Bread (cash-rich and debt-free, has reduced its rent costs by up to 20% in a depressed leasing market). One assumes the leaders of these companies grasped what the champion of innovation and entrepreneurship, Joseph Schumpeter, understood, namely, that leap-frogging ahead of the competition in the midst economic chaos usually requires the kind of transformative thinking that accompanies radical innovation.

### **The Golden Decade Program**

Small family-owned and owner-run companies often do not have a board of directors (or board of LLC managers) that includes outside directors. As a result they miss out on the knowledge and experience about business or the specific industry that directors who are otherwise independent of the company can bring with them, not to mention the valuable business contacts and credibility for the company in the business community that well-chosen board members often possess. An alternative to a small company appointing outside directors to a legal board is the establishment of an advisory board, a less formal body with no legal authority. The small business leader and the company can still benefit greatly from the collective knowledge and experience of advisory board members recruited from multiple disciplines, as well as their business contacts and credibility. An even less formal arrangement for supporting the

lone entrepreneur in his or her leadership of the company is a cross-disciplinary team composed of current advisors. The mission of such a working team is often defined to include participation in oversight of the owner's personal financial affairs and management of the business, so that the owner-operator is freed up to develop innovative breakthroughs. A savvy business lawyer can be a valuable addition to an advisory board or the less formal advisory team.

Our firm has developed a protocol for owner-level business transition and exit planning, which has been dubbed The Golden Decade Program. The essence of the program is helping the owner build a multi-disciplinary advisory team. The team is composed of the entrepreneur's spouse and (existing) core business and financial advisors. The company accountant is essential and sometimes the lawyer is the only other professional involved, at least initially. As the team develops into a functioning entity, gaps are filled with new team members, based on identified needs for expertise. The group meets quarterly and works on personal-level and business-level issues related to preparing the business-owning family and the company for emergency business transition, intra-family succession and/or third party sale, depending on written exit objectives developed by the entrepreneurial couple and shared with the other group members.

The alumni of this planning protocol have enjoyed considerable success adapting in a rapidly changing business environment, largely as a result of

being able to view the challenges and opportunities they face through a multi-disciplinary lens. As Professor Schumpeter put it "over the long term, the law of the corporate jungle is clear: mutate or die." This program has proven to be a useful tool for mutation of the owner-managed business.

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