GUIDE TO MANAGING GROWTH

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GUIDE TO MANAGING GROWTH

Turning success into even bigger success

Rupert Merson

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1 Introduction

MANY NEW OR successful businesses seek to grow, but the achievement of growth can be problematic and requires thoughtful and skilful management, not least because of the many questions it raises. What do we mean by growth? What kind of growth is desirable? How does a business change as it grows? How should owners and managers deal with this change? Is there an optimum rate of growth? Can a business grow too quickly? To what extent can and should managers control the rate of growth in a business? What are the real costs of growth: not just the financial costs, but the personal costs, particularly to those on the inside of the organisation? What are the enablers of growth, and are there levers that managers can pull that will help the business grow further and faster? Is growth itself an inevitable concomitant of success or can you have success without it? Is growth even desirable? What are the barriers to growth? Do the answers to these questions change from industry to industry, from country to country and culture to culture?

Part of the problem when thinking about growth is that those involved have to get used to thinking about organisations as transient things in a permanent state of flux. Many ambitious, younger managers will have experienced walking into a new organisation and quickly forming a view of what is wrong with the place. "When I'm in charge I'll sort out this and correct that and fire him and promote her – and everything will then be fine." But once they are in charge many of these individuals realise that management is not that simple; that problems change even as you attempt to solve them; and that next year's problem is complicated by rather than resolved by last year's solution.

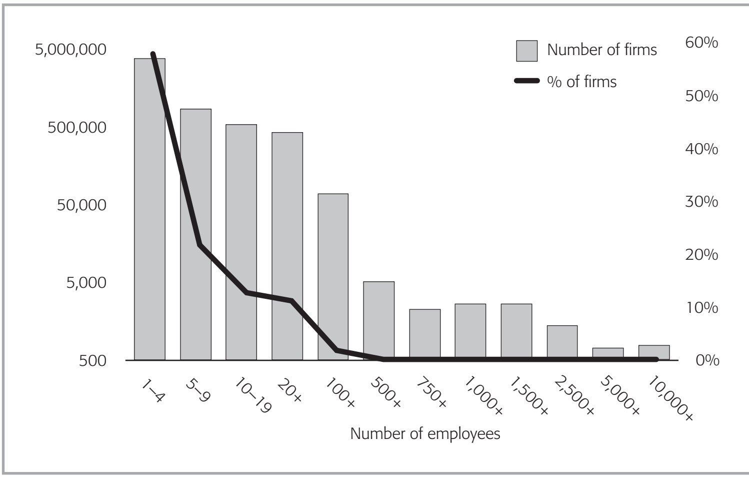
The management of change is never easy, and in a growing business change can be both fast and complex. Even if growth is a consequence of success, it brings organisational challenges that threaten the success that caused it. In order to sustain growth it is important to realise that what worked last year will not necessarily work next year; an organisation that wants to manage growth successfully needs to change things that are not yet broken.

Change inside an organisation is compounded by changes outside it. Indeed, growth in a business itself often triggers change in a market and industry, which in turn demands further change in the business. Growth may attract competitors, competing technologies and regulators, as well as customers from different markets with different expectations.

Growth gives rise to problems for businesses of all sizes. Different divisions in a big business evolve at different speeds and may be at different stages of their evolution, each with its own problems – with the additional problem for the organisation as a whole that the plans of the divisions be satisfactorily reconciled with each other. Mergers, joint ventures and acquisitions – different routes for getting big – bring other challenges, not least with integration. Small businesses have different sorts of growth challenges as they seek to establish credibility as well as culture, brand and identity, develop secure lines of supply and sustainable relationships with customers and financiers, and manage the changing relationship between owners and managers. An established business in one country investing in a small venture in another needs to acknowledge not just the legal and cultural differences between the two countries, but also the differences between managing a large, corporate business and a small entrepreneurial firm.

Businesses that fail to manage growth become its victims. Some businesses go bust, not for lack of potential, but because they fail to manage the consequences of the growth they have achieved. Growth has many implications for a business, not least the financial pressures it can bring.

Summarised like this it is amazing that any business bothers growing at all. Indeed, most do not. Figure 1.1 shows that, of just over 5m businesses registered in the United States as having any employees



Source: US Census Bureau

FIG 1.1 Number of firms categorised by number of employees, United States, 2002

throughout 2002, almost 2,800,000 (almost 56%) had fewer than five. As a percentage of all businesses, those with more than 500 employees scarcely register on the graph. Of course, there are thousands of small businesses around the world, many of which no doubt provide satisfactory returns to those who run them, who have no wish for the business to grow.

However, for every business that is content with its current size, there are many with ambitions to grow. This book is for them. It argues that businesses that anticipate and manage the challenges of growth give themselves the best chance of ensuring growth is secure and sustainable. It draws on the thinking of academics and business people as well as the experience of those working in business in its aim to help managers in their pursuit of growth. It covers all the aspects involved – strategy, performance measurement and management, people management, sales and marketing, finance – and it takes into account differences in business size, sector and location.

2 Stages of growth

WHEN BUSINESSES GROW they do not just get bigger. They also change to become qualitatively and quantitatively different. The change involves many dimensions and many stages in what is a never-ending journey.

Leadership versus management

As a first step towards conceptualising the stages businesses pass through as they grow it is useful to consider the difference between those who start new businesses and those who run big ones. Abraham Zaleznik, emeritus professor of leadership at Harvard Business School, in 1977 was one of the earliest management writers to have drawn a distinction between creative, inspirational and enthusiastic types, and organised, disciplined, sensible managerial types, using the labels "leader" for the former and "manager" for the latter (see Figure 2.1). It is a distinction that has also been usefully applied to entrepreneurs and other members of the management team of new businesses.

Most businesses start high on leadership and low on management. (John Kotter uses the matrix shown in Figure 2.1 to contrast leadership and management in his 1996 book *Leading Change*.) If they are to stand a chance of developing into something that is remotely sustainable, they will need more of the qualities of energy, inspiration and creativity. A business in its early stages will thus move from 1 to 2 if it is to evolve, dominated by individuals with qualities of leadership. Organisation, management and governance in these early stages are as much to do with force of personality as anything else. The

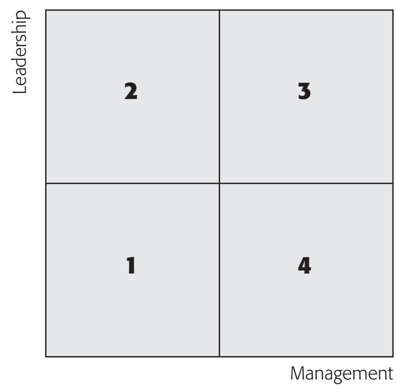


FIG 2.1 The leadership/management matrix

organisation hardly exists at all, and the business is wholly identified with its founders and owners.

But things change. As Jeremy Newman, former CEO of BDO International, wrote in "Leadership and Management", in the *Journal of Business Growth and Profitability*, in 1997:

> *New businesses are started by entrepreneurs who, through some combination of wisdom and luck, create and implement a successful business strategy. The business expands and profits grow and with this comes the need to hire professional managers. So people are recruited and promoted to manage, to cope with the growing bureaucracy and to prevent things getting out of control. And so the organisation grows and management grows to cope with it.*

The introduction of "management" heralds reporting timetables, appraisal schemes, formal agendas and other manifestations of the way to run a proper business. From an organisation that thrives on the high octane of entrepreneurship and rushing around after the next sale, the new business inevitably evolves into one in which disciplined forces of management have far more influence. The business moves from 2 to 3, where leadership and management styles are in balance, which is the ideal position for the senior team. There is enough business discipline and governance to sustain the business, but not too much so that the qualities of entrepreneurship and leadership are damaged.

For many businesses, staying in 3 sounds good in theory but is difficult to achieve. Some entrepreneurs ("leaders") feel obliged to turn into managers, or at least develop management capability. But although people can change and develop, it is rare to find an individual who can operate comfortably at both ends of the leadership/management spectrum. Changing from being an entrepreneur to being CEO or chairman of a big business is difficult, as Stelios Haji-Iannou indicated when resigning as chairman of easyJet in April 2002:[1]

> *Starting a company requires a very different skill-set from those needed to chair a major plc, and I consider my strengths are in the former. The history of the City is littered with entrepreneurs who held on to their creations for too long, failing to recognise the changing needs of the company.*

Rather than take on the managerial role themselves, entrepreneurs may best serve their own and their business's interests by seeking to recruit the necessary management expertise. But in doing this, entrepreneurs should realise that their role is still likely to need to change. Entrepreneurs and their new managers may not to see to eye-to-eye, and an entrepreneur who does not adapt to the new organisational circumstances is heading for conflict with the new management team. This often results in damage to the business and the departure of one or the other. Indeed, a reluctance to face up to the consequences of the tension leads some businesses to duck the problem in the first place. But businesses must introduce a management infrastructure if they are serious about sustainable growth. Family businesses are particularly prone to deferring the necessary professionalisation of management.

Many people with a managerial bent assume that the management force is more important than the entrepreneurial one. Indeed, this is a tendency in much business thinking. As Newman says:

> *This in turn stifles leadership and encourages management and because the business is successful, managers begin to believe that they are the best and their idiosyncrasies become part of the culture of the organisation.*

Although it is true that a business without decent management will not survive for long, a business in which the management impulse takes over and the entrepreneurial spirit is squeezed out will become yet another overmanaged, underinspired, middle-aged business on a glide-path to history. Premature ageing in an organisation is almost as worrying as a refusal to let it grow up. This is a feature of start-ups established by large companies, as a result of the mistaken assumption that a small business is just a small version of a big one. In the case of a stand-alone joint venture established by two UK listed companies (one a retailer, the other a broadcaster), the new chief executive was keen to "establish an entrepreneurial culture" but said that his first priority was to discuss implementing a defined-benefit pension scheme. This is a sure sign of a business on its way to being old before its time. That it is common for the finance director to succeed the entrepreneur as chief executive in a growing business would seem to illustrate how the discipline of accountancy can supersede the energy and creativity and propensity to take risk. A survey of FTSE 100 CEOs in 2010 found that over half of them had strong financial backgrounds.

As well as highlighting a contrast between the entrepreneur and the more managerially and governance-minded members of a team, the leadership/management model outlines what is for many businesses a feature of the history of their growth and development. The model is primarily about different types of people, but indirectly it describes the stages that all businesses have to pass through as they evolve, and how the managerial, organisational, strategic and operational imperatives differ significantly from one stage to the next. In short, as well as growing, businesses have to grow up. The leadership/management model just hints at stages of evolution companies have to pass through. But there are plenty of thinkers who have taken their analysis much further.

Modelling growth

When those who study growth attempt to structure their thinking the result is often a "growth model", an analytic framework that describes the stages that businesses pass through as they evolve, the characteristics of each stage, and the changes necessary to facilitate the move of the company from one stage to the next. The remainder of this chapter outlines the best-known growth models and explores how useful they are to those trying to grow their businesses or deal with the consequences of growth.

Evolution and revolution: the Greiner model

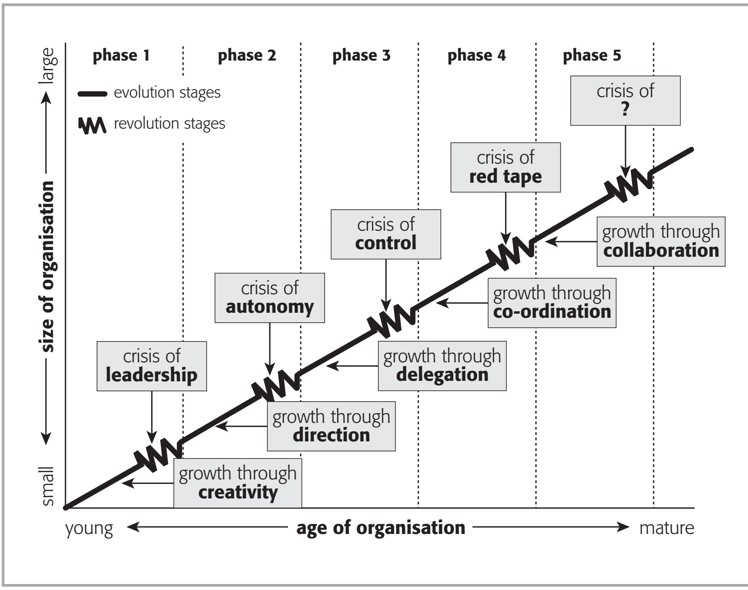
Larry E. Greiner, Professor of Management and Organisation at the Marshall School of Business at the University of Southern California, published his article "Evolution and Revolution as Organisations Grow" in *Harvard Business Review* in 1972. It is not the first model, but it is the oldest one still in common use. It describes five phases of growth through which businesses pass. In 1998 Greiner revised his model, adding a sixth stage.

Greiner outlines five developmental phases of company growth. Although each phase starts with a period of evolution, it ends in revolution, a period of "substantial organisational turmoil and change". How the revolutionary period is resolved determines whether or not the organisation will develop further.

The periods of revolution are at the heart of the model. Greiner's notion of revolution draws attention to the inevitability of change in the development of an organisation. The "critical task" for management in each revolutionary period is to find the new set of practices that will become the basis of managing the next period of evolutionary growth. But in so doing managers "experience the irony of seeing a major solution in one period become a major problem in a later period".

The five phases are as follows:

- **Creativity.** In the phase of creativity, the founder's energies are consumed by doing rather than managing and decisions are taken quickly and reactively. It ends in a crisis of leadership, in which the business addresses the question of who will establish



Source: Larry Greiner, "Evolution and Revolution as Organisations Grow", *Harvard Business Review*, 1972

FIG 2.2 Greiner's five-phase model

some necessary order in the chaos. Resolution of the crisis might well involve the recruitment of a "capable business manager".

- **Direction.** The first revolution will be followed by a phase of direction, in which management systems and processes are introduced and developed and communication and management become more formal. As the organisation grows, however, such systems, designed initially to support growth, end up constricting it. There is a crisis of autonomy, in which middle managers are "torn between following procedures and taking initiative on their own".
- **Delegation.** The second revolution is resolved by the establishment and development of a more decentralised structure in a phase of delegation, during which senior executives manage by exception and junior managers have budget and profit responsibility for divisions and departments.

But the revolution, a “crisis of control”, occurs when senior executives sense that they are losing control of a business with more and more offshoots. For some a re-imposition of central control is the obvious way forward.

- **Co-ordination.** However, going backwards is never an option for a business with ambition. The third revolution results in a phase of co-ordination, in which senior managers use formal systems for achieving co-ordination. Some functions are centralised, capital expenditure is carefully controlled, formal planning processes are established, and share options and company-wide bonus schemes may be used to “encourage employees to identify with the organisation as a whole”. This focus on systems and co-ordination ends in a crisis of red tape, in which “procedures take precedence over problem solving”.
- **Collaboration.** The fourth revolution results in a phase of collaboration in which teamwork, social control and self-discipline replace “formal control”. The focus shifts from process to problem solving, and from headquarters to interdisciplinary teams. Matrix structures (see page 78) are established to balance and resolve the competing thinking of different interest groups. Above all, there is a shift from individuals and systems to the collective.

Greiner, in his first article on the subject, said that he did not know how phase five would end (although he later suggested a sixth phase – see below). He imagines that the revolution “will centre around the psychological saturation of employees who grow emotionally and physically exhausted from the intensity of teamwork and the heavy pressure for innovative solutions”. He imagines organisations with structures that allow employees to “rest, reflect and revitalise themselves”. He imagines organisations making more use of sabbaticals, and balancing structured work and reflection. In so doing, Greiner is attempting to describe not so much the next phase of growth of businesses in general but the organisation of the future. Thus Greiner is one of the first to discover what many writers about growth have subsequently discovered, though few have been as honest as him in acknowledging, that the early phases of growth are a lot easier to describe and analyse than the later phases.

Greiner is also unusual in being allowed to be his own best critic. His 1972 piece was reprinted as a *Harvard Business Review* classic in 1998. In his comments on his own work after an interval of 26 years it is phase five that comes in for the most robust criticism. He suggests that his "speculation that 'psychological saturation' is the crisis ending phase five now seems wrong", and that the crisis is likely to be the realisation that there is no longer an internal solution. To keep growing the organisation needs to look outside itself – for partners, or maybe for "opportunities to sell itself to a bigger company". Indeed, Greiner suggests that maybe there is a sixth phase of growth dependent on such "extra-organisational solutions", and gives GE as an example of an organisation in which a group of companies have been built up around a core.

His model is presented as a series of hypotheses. Greiner reminds us that in the original article "the phases outlined ... are merely five in number and are still only approximations". The article always was an invitation to others to test, refine and, in all likelihood, correct if not contradict his work. Though many have worked on growth, Greiner's model still serves as the standard against which all others are judged.

Does Greiner's version of growth have any practical utility for managers? Greiner thinks so, though his "explicit guidelines for managers in growing organisations to keep in mind" are modest. Managers, he argues, benefit from knowing where they are in the development sequence and therefore understand when the time to act has come. His model implies that managers should recognise the limited range of their own solutions. Managers' interventions are time and context specific. No matter how good they were last year, next year a different phase might start, with a different set of problems. Greiner argues, after all, that the problems of one revolution are sown like seeds in the solutions to a previous revolution.

Greiner's analysis has a lot to commend it. Business leaders do indeed find it useful to plot their business against Greiner's model, using it to help understand the problems it survived last year and anticipate what might be around the corner. The focus on revolution and crisis is also useful. Too many managers assume that business problems need solving only once. Greiner reminds us that in a growing business in particular yesterday's solutions become tomorrow's problems; in an ambitious, successful business, continuous change is necessary. If nothing appears to be wrong, ask yourself whether you are looking in the right place. The model also draws attention to the pain that growth brings. If you are ambitious and choose to grow your business, you need to acknowledge the problems you will encounter.

The model's simplicity is beguiling to many of those attempting to anticipate and prepare for the changes that growth will bring, but some find it frustrating and unnaturally deterministic. Cynics might see the oscillation between revolution and evolution as a reflection of the times in which the model was created (the early 1970s), with the barriers not long down outside the Sorbonne and Marxism taken much more seriously in academic and political circles than at any time since. Greiner writes about the importance of "the forces of history" and notes that he has "drawn from the legacies of European psychologists who argue that the behaviour of individuals is determined primarily by past events and experiences rather than by what lies ahead". Indeed, he is dismissive of managers who "fix their gaze outward on the environment and toward the future, as if more precise market projections will provide the organisation with a new identity". But context is crucial, and a manager who attempts to manage without paying attention to it is risking much. Besides, Greiner himself took to speculating about the future even while trying to outline the characteristics of the later phases of the model. He is right when he suggests that managers should pay attention to the influence of "past decisions", although he is perhaps unfair in suggesting that these matter more than "present events or market dynamics". In the real world business leaders need to plan, and planning involves an understanding of the present as well as some anticipation of what the future holds, both in the market place and in the company. Business plans are discussed in Chapter 4.

Small business growth: the Churchill model

Neil Churchill is Emeritus Professor of Entrepreneurship at INSEAD in France and has been a distinguished member of the faculty of other institutions. His *Five Stages of Small Business Growth* was first