

**Seminar Report**

**How to manage rapid growth?**

**By**

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## **Abstract**

This report is a part of the course TU-91.167 Seminar in Strategy and International Business in the Helsinki University of Technology. Its aim is to identify and analyze the most important challenges that occur in companies that grow too fast, after this, some suggestions to prevent and solve the side effects of rapid-growth are given in this report.

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# **1. Introduction**

## **1.1 BACKGROUND**

Many companies, that answer the customer's needs to such a degree that they go flocking to buy their products or to use their services, are created every year.

These companies experience an obvious take off on their sales and start to grow quite fast, this situation, often creates some management problems, even bigger, in new or small companies that have limited experience and limited financial resources.<sup>1</sup>

Some of the challenges that those companies have to face, are the necessity for more people, materials and money. Nevertheless, some of them manage to succeed although there is any recipe to achieve success in a growth process. At least, it is possible to give some recommendations and tools to take under consideration while trying to manage rapid-growth.

## **1.2 RESEARCH PROBLEM**

Rapid-growth companies play an important role in local and international economies. This is one of the reasons why I found important to give an approach to the most common challenges of rapid-growth and also to give special advise of how to overcome to the different growing phases.

## **1.3 OBJECTIVES**

The main objectives of this report are:

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<sup>1</sup> Davenport, Ian. QCBiznet (Magazine), *How To: Manage Rapid Growth*.2001

- To distinguish the most important management challenges of rapid-growth.
- To analyze some literature to understand the different phases of growth.
- To suggest some actions to manage rapid-growth.

## **1.4 SCOPE AND METHODOLOGY OF THE RESEARCH**

This report focuses in small and medium sized companies, because of their big vulnerability to experience a rapid growth. An approach to the most common symptoms of rapid-growth and how to manage them are the main target.

This report is based on related literature, in the form of books and articles where it was possible to study other companies' experiences and their suggestions to overcome challenging times.

## **1.5 STRUCTURE OF THE RESEARCH**

This report is divided in six chapters, the *first* chapter is for the introduction. The *second* chapter will define some important terms used in this report. The *third* chapter is reserved for the analysis of two growth models that will help us to understand better the life cycle of a company and its different stages of growth. On the *fourth* chapter we will describe the main challenges that can occur during a fast growing process. In the *fifth* chapter the conclusions of the study can be found, as well as, some recommendations on how to manage with rapid-growth. The *sixth* and last chapter is containing the summary of this report.

## **2. Definitions**

### **2.1 DEFINITION OF A SMALL AND MEDIUM SIZED COMPANY**

There are many different definitions for the term Company, but for the purpose of this report, I considered as the most suitable the one used for law matters.

*Company*<sup>2</sup> - A legal entity allowed by legislation, which permits a group of people, as shareholders, to create an organization which can then focus on pursuing set objectives, and empowered with legal rights which are usually only reserved for individuals, such as to sue and be sued, own property, hire employees or loan and borrow money.

Also known as a corporation. The primary advantage of a company structure is that it provides the shareholders with a right to participate in the profits without any personal liability (the company absorbs the entire liability of the business).

### **2.2 DEFINITION OF RAPID GROWTH**

Rapid-growth is a process that entails a fast increase on the sales, volume, people and costs of a company on a short term. These factors, when they happen suddenly, can carry out some side effects that risk the profitability and future of the company.

Rapid growth reflects on the solidity and the atmosphere of the company.<sup>3</sup> It is important to clarify that when we make reference in this report to rapid growth usually the period of time when it happens is relatively short.

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<sup>2</sup> <http://www.duhaime.org/dict-c.htm#c>

<sup>3</sup> Wickham, P. *Strategic Entrepreneurship*. England. 1998

## **2.3 DEFINITION OF MANAGING RAPID-GROWTH**

Rapid-growth usually requires detailed planning, reinforcement of the objectives and an organizational-wide transition. Managerial skills are also very important when the growth becomes fast, the ability to recognize the symptoms and to begin the medication on time is an ability of an effective management.

To manage rapid-growth involves taking proactive steps to insure that prospective risk and controls are in check<sup>4</sup>.

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<sup>4</sup> <http://www.accel-team.com/techniques/growth.html>

### **3. Growth Models**

In this chapter I will analyze some literature about the growing process, I found very helpful to have an approach to two different growth models that have been developed, in order to have a better understanding of the company's transition period.

Nowadays exist many growth models, but this report focuses, as I mentioned, in just two that I found the most useful to achieve my target. First I will analyze the model developed by Churchill and Lewis and then the model of Larry Greiner.

Both models have received many criticts but my aim is just to give an overview of the different stages that a company steps in during a process of rapid-growth.

#### **3.1 CHURCHILL AND LEWIS MODEL<sup>5</sup>**

This model itself is complicated and not perfect but as with other models this offers what Churchill described as "the ability to foretell what is going to happen tomorrow, next week, next moth, and next year - and the ability afterwards to explain why it didn't happen" <sup>6</sup>.

##### **3.1.1 Stage I.        *Existence***

In this stage the existence of the company is on its simplest format, the idea is to be alive, to start the research of customers, to develop, if it's necessary, new or better suppliers and the management is directly supervised by the owners.

The company is vulnerable to fail in this stage if there is an inadequate management of the issues above mentioned. Some of them stay on the attempt.

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<sup>5</sup> Churchill, N.C., Lewis V.L. *The Five Stages of Small Business Growth*. Harvard Business Review.1983.

<sup>6</sup> Churchill, N.C., Lewis V.L. *The Five Stages of Small Business Growth*. Harvard Business Review.1983.

### 3.1.2 Stage II. *Survival*

In this second stage the company has managed to find enough customers to remain active.

At this point is necessary to put special attention on financial items like cash flow, profitability and assets. The organizational structure is usually the same as in the *existence* stage. The owners are still capable to supervise their business directly.

Some companies at this stage can start to enjoy a highest demand of their products or services and the main goal is to satisfy the new demand with existing resources. The aim is to survive and growth.

### 3.1.3 Stage III. *Success*

This third phase has two different manifestations. The inference is that either to invest for further growth, or to enjoy the fruits of labours already spent and to a greater or lesser extent "disengage" from the business<sup>7</sup>.

**Success - Disengagement**, in this sub-stage the company enjoys profitable and stable times, the customer's demand is covered and the penetration on the market is satisfactory. The company is growing and there is a need of more people to successfully operate. Owners have to start to delegate responsibilities.

Some companies can stay on long term in this *disengagement* sub-stage; this situation depends on how narrow is their chosen market.

**Success – Growth**, the company is financially healthy and able to grow, an extension on the original strategic plan is necessary, the organizational structure required here is basically the same than in the first sub-stage (more people and delegation of responsibilities). If everything works well in this sub-stage, the company is ready to run into the next stage.

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<sup>7</sup> <http://bdo2.ignition2.com/atoz/page0127.asp>

### **3.1.4 Stage IV. *Take Off***

Churchill and Lewis consider this stage quite important on every company's life cycle. The management of rapid-growth and how to finance it are main issues at this stage. If both issues are controlled, the company is prone to a positive and healthy growth. At this stage cash flow should be an existent commodity and the costs must be kept under control.

A Company at this point is very vulnerable to fail if growth comes too fast and the company runs out of cash on the attempt to achieve that growth. Owners can't have the total control of their company anymore. Competitive managers are key issues to succeed in this stage.

### **3.1.5 Stage V. *Maturity***

This is the last stage of Churchill and Lewis growth model, they base the company's *maturity* on its management skills to consolidate and control the profits. A reviewed and more flexible business plan is necessary.

## **3.2 GREINER MODEL<sup>8 9</sup>**

Larry E. Greiner developed an organization developmental theory that is helpful in change management when examining the problems associated with growth on organizations and developing a proactive framework to cope with such situations.

Greiner argued that growing organizations move through five relatively calm periods of evolution, each of which ends with a period of crisis and revolution.

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<sup>8</sup> Greiner, Larry E. *Evolution and Revolution as Organizations Growth*. Harvard Business Review. 1972.

<sup>9</sup> <http://www.accel-team.com/techniques/growth.html>

- Each *evolutionary* period is characterized by the dominant management style used to achieve growth.
- Each *revolutionary* period is characterized by the dominant management problem that must be solved before growth will continue.

On Table 1 we can see an illustration of the Five Stages of Organizational Growth<sup>10</sup>

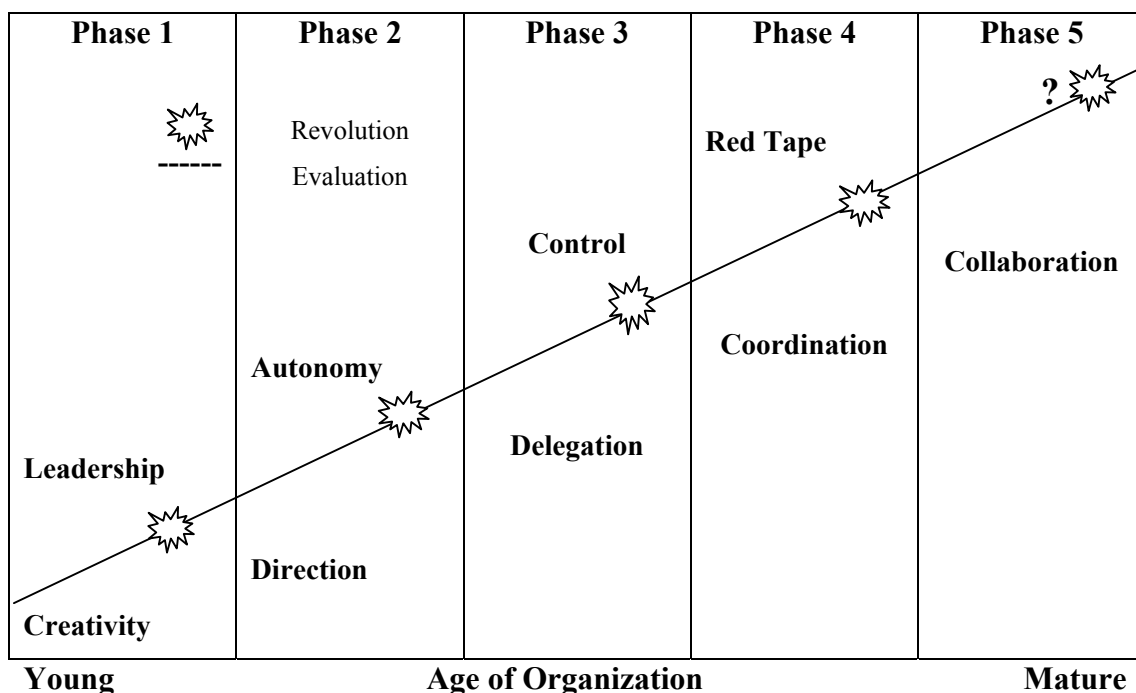


Table 1 - Five Stages of Organizational Growth

In 1972 timeframe, most companies were growing for two years to three years, and then decaying for one to two years. The transition times between each of the Greiner growth phases were in most cases orderly.

Nowadays when Technology has altered the business world, companies (such as INTERNET and E-Commerce) move through the phases in a much shorter time that they would have done back then.

<sup>10</sup> [http://www.mardon-y2k.com/in\\_1972.htm](http://www.mardon-y2k.com/in_1972.htm)

But what is still true though is that a company moves through the five phases irregardless of time frames. The problems and solutions still tend to change in-line with Greiner's model as the number of employees, customers and sales volume increase<sup>11</sup>. What is needed today, is the ability to move to the mature, centerless organization model in the shortest time.

### **3.2.1 Creativity / Leadership**

The founders of the organization dominate this stage, the main emphasis is on creating both a product and a market. The founders are usually more focus on technical and entrepreneurial activities than management ones, they put all their efforts in making and selling a new product.

Management problems occur when the organization starts to growth and they cannot be handled through informal communication and dedication. Thus the founders could find themselves carrying unwanted management responsibilities.

### **3.2.2 Direction / Autonomy**

In this stage a crisis of leadership occurs and the first revolutionary period begins. There is a need to solve the management problems by finding or locating a strong manager who can pull the organization together. This leads to the next evolutionary period called *direction*.

During this phase, the new manager and key staff should focus on instituting direction, while lower level supervisors are treated more as functional specialists than autonomous decision-making managers.

Managers with lower level demand more autonomy and this eventually leads to the next revolutionary period - the crisis of *autonomy*. The best solution to this crisis is usually greater delegation.

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<sup>11</sup> [http://www.mardon-y2k.com/in\\_1972.htm](http://www.mardon-y2k.com/in_1972.htm)

### **3.2.3 Delegation / Control**

At this point top managers should give up responsibility but lower level managers are not accustomed to make decisions for themselves, as a result many organizations flounder during this revolutionary period.

In this stage of delegation, the organization usually begins to develop a decentralized inside structure, which drives motivation at the lower levels.

The next crisis begins when the top managers sense to feel a loose of control over a highly diversified field of operation.

The crisis of *control* often results in a return to centralization, which at this point can be inappropriate and can create a negative feeling among those who had been given freedom.

### **3.2.4 Coordination / Red Tape**

This period is characterized by the use of formal systems to achieve a greater coordination with top management. Yet most coordination systems eventually get carried away and result in the next revolutionary period - the crisis of *red tape*.

This crisis must often occur when the organization has become too large and complex to be managed through format programs and rigid systems.

### **3.2.5 Collaboration / ?**

This phase begins just after the company has managed to overcome the crisis of *Red-Tape*. While the coordination phase was managed through formal systems and procedures, the collaboration phase emphasizes a major spontaneity in management actions through teams and the skillful confrontation of interpersonal differences.

Greiner is not certain on which could be the next revolution but he explains that it should be involve with "center around the psychological saturation"<sup>12</sup> caused by an exhausted intensity of teamwork and the heavy pressure for innovative solutions.

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<sup>12</sup> Greiner, Larry E. *Evolution and Revolution as Organizations Growth*. Harvard Business Review. 1972.

## **4. Challenges**

After the analysis of the growth models, it is possible to recognize that the result of growth can be sometimes frustrating and very challenging for a company, even more when it comes too fast.

In this chapter I will analyze the most important challenges that a company has to face to manage rapid-growth and will give some advises of how to sustain that growth.

For a better understanding of those challenges, this study has divided them, in four different groups or categories, these are:

1. Management challenges
2. Human resources challenges
3. Financial challenges
4. Market challenges

### **4.1 MANAGEMENT CHALLENGES**

As we have studied in the chapter three, the role of the top managers change with the different phases of growth of the company. At the starting of the company (small or medium size) it is possible that the top managers supervise all the operations themselves but that possibility reduces with rapid growth, at some point they have to delegate some functions and assume new and sometimes unknown managerial responsibilities.

New competent people must be welcome to the company to achieve managerial efficiency during the growth process.

The Managers of rapid-growth companies usually loose control of critical areas, the pains of the company directly affect them and they are slow in recognizing the need

for transition<sup>13</sup>.

These managers have to learn to move at the same speed of the company without losing the main objectives and although it is not easy, they have to take precautions in advance and try to anticipate the side-effects of rapid-growth.

## **4.2 HUMAN RESOURCES CHALLENGES**

A rapid-growth company requires to hire new people to handle the increased volumes, the challenge here is to develop an ability to recruit talented and enthusiastic people, this can be achieved by the use of professionals in the area. To hire wrong people takes a lot of time and money, so human resources experts are a key item in the process.

It is also very important to develop the ability to retain key people, incentive programs, a nice atmosphere and possibilities of promotion can help to have happy and committed employees, ready to work hard in difficult moments.

An efficient human resource should help the employees to accept and feel comfortable with the organizational structure, which can change during the growing process. The employees must understand the transition phase and they must be able to work with new and different tools.

## **4.3 FINANCIAL CHALLENGES**

As the business grows, it needs resources (capital) to purchase additional assets: equipment, inventory, may be a larger building. It also needs capital to pay added employees and other added costs of doing more business

The foundation of a company is the capital investment, it must be large enough to support the operations of the business in good and in bad times. But as this usually never happens because in the early days of the company, the expenses have consumed

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<sup>13</sup> Davenport, Ian. QCBiznet (Magazine), *How To: Manage Rapid Growth*.2001

huge quantities of cash, afterwards, the accounting systems have serious problems to support the new high-volume operations.

To overcome to that kind of situation a business plan needs to be done, it should address a new financial structure: how to bring the capital structure in alignment with operations. Examine realistic sales projections and develop cash flows scenarios. Budgets should be developed for every department<sup>14</sup>

The financial pains usually occur because of poor capital structure from the beginning. A solid foundation, strong enough to support added size would be the best recommendation when starting a new company.

#### **4.4 MARKET CHALLENGES**

These kind of challenges, emerge by external factors but it is important to study them because the company has to be aware of the turns and new demands of the market, in order to have a sustainable growth.

The business plan should determine in detail the dynamics and demographics of the target customer . Competition should be examined and a marketing strategy should be developed, in order to answer to the market demands on time.

It is well know that when a company experiences a rapid-growth, the market is experiencing the same phenomenon. The result of this phenomenon can mean new entrants and tie competitors, this situations can push the company to reduce its prices and innovate its products. The company has to be bale to differentiate from the others competitors. A minimum competitive advantage can give the possibility of a sustainable growth.

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<sup>14</sup> Wickham,P. *Strategic Entrepreneurship*. England. 1998

## **5. Conclusion**

The aim of this report was to contribute to a better understanding of rapid-growth, the problems that it involves and the different phases or stages that a company has to face while trying to succeed during rapid-growth.

The cure for rapid-growth syndrome is not easy but neither impossible, the important is to recognize the need of a transition and a review of the organizational structure on time.

There is no perfect model and none of them claim to be. But they can be use as a very useful tool to understand what happens to a business as it grows and get more complicated.

The company should look within itself and develop a very clear vision. The vision should be clear when defining "why the company exist" and "where the company want to be taken". Rapid growth companies have to be cautious and keep an strategic focus.

## **6. Summary**

The objectives of this study were to distinguish the most important management challenges of rapid-growth, to analyze some literature to understand the different phases of growth and to suggest some actions to manage with rapid-growth.

Churchill and Lewis model provide a framework for examining firm growth. They articulate five stages: I. Existence; II. Survival; III. Success; IV. Take off and V. Resource Maturity. Each stage is characterized by size, diversity and complexity. Five management functions they find important: managerial style, organizational structure, formal systems, strategic goals and the owners involvement in the business.

Larry Greiner provide some insight into a five phases of growth model, each one that will be met with a crisis that must be successfully addressed in order to facilitate growth. The five phases of growth and the matching crisis are :  
1.Creativity/Leadership; 2. Direction/autonomy; 3. Delegation/control;  
4.Coordination/red tape and 5. Collaboration/crisis undetermined.

On Chapter four the most common challenges to manage rapid growth were analyze. An approach to: management challenges, human resources challenges, financial challenges and market challenges was done. It is important to know the areas that need special attention within a company involve in a growth process. Some suggestions were also given to face the problems caused by rapid-growth.

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