The challenges and growing pains of high growth businesses

A High Growth Knowledge Company white paper for the leaders and owners of ambitious businesses

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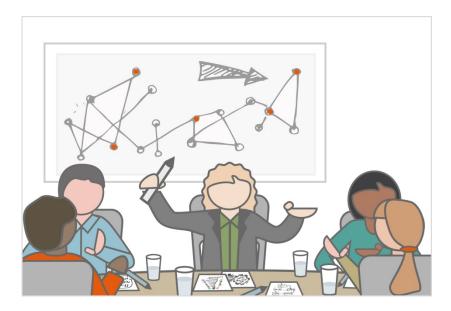# CONTENTS

Why we wrote this paper

Over the last two years we have conducted in-depth interviews with businesses varying age and size, some clients, drawn from a variety of sectors. With the recession at last beginning to turn, we wanted to find out more about the challenges they were facing. Were they trying to grow, now the economy was improving? Were they experiencing new challenges? Or were they experiencing the familiar growth pains every company seems to go through?

In this paper we discuss our findings in the context of a model first put forward in the 1970's (as relevant today as it was then), and illustrate them with quotes from the companies who participated in this research. We also provide 2-3 'Top Tips', drawn from our experience and research, for business leaders who are experiencing these pains and want to try something new to help deal with them.

Challenges in Context

Running a business is one of the hardest things any person can do. Every day you have to be motivated and to motivate the people who work for you. People want challenge, involvement, commitment, ownership and excitement from their work. As the leader, not only must you try to find a way of providing this for your people, but also for yourself.

Growing Pains

Personally staying focused, maintaining drive and keeping up energy levels, is a significant challenge. When a business is turning in good results month after month, growth is fun. When things go wrong, however, problems can be intensely stressful, damaging or even fatal to the business.

> '*The last six months have been horrific from everyone's perspective; there's been too much on…*' Managing Director

Rapid growth requires rapid change and fast growing businesses can be chaotic places to work. Workloads increase as the business succeeds and approaches which have worked in the past start to fail. Teams get overwhelmed, managers start making mistakes as their span of control expands, and existing systems buckle under increased load.

Evolution and Revolution as Businesses Grow[1]

Greiner's Growth Model describes the evolution and revolution that organisations and businesses move through as they grow, and relates each phase to maturity and size. Each growth phase is made up of a period of relatively stable growth, followed by a "crisis" when major change is needed if the business is to continue growing.

We believe, as Greiner did, that it is possible to recognise the symptoms, and diagnose from a range of possible solutions in order to get a head start before the crisis causes real pain. We also believe that the owners and leaders of companies all too often don't recognize the problem soon enough or resist taking action in the hope they will be able to work through it.

> *'The single biggest failing of companies of this size is not taking action at the right time'*   Andrew Finney, Chairman, HCR Group
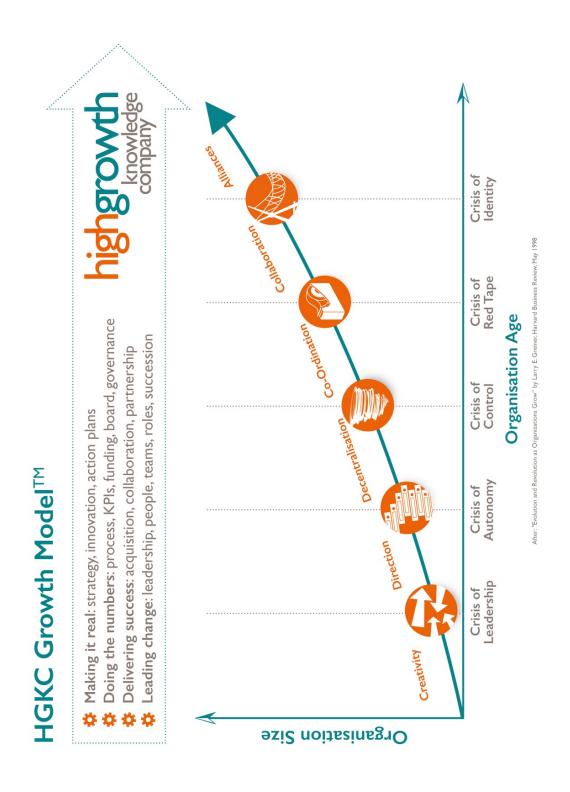
HGKC Growth Model[TM]

We find the 'Greiner Curve' a useful way of thinking about the 'pinch points' businesses experience with growth. Getting detailed research data from ambitious, fast growing businesses, gaining a better understanding of the symptoms – the pains and challenges these companies are facing – and thinking about them in the context of Greiner's crises, has helped us to develop our HGKC Growth Model[TM] (see below).

We are publishing this white paper because we believe this will help business leaders and owners realise they are not alone in facing their challenges - there will be somebody out there somewhere that is feeling exactly how you are.

More to the point, there are companies like High Growth Knowledge Company who understand, and can help.

Use this paper for tips and think about what kind of critical friends you need to help you.

HGKC Growth Model™

- ✱ Making it real: strategy, innovation, action plans
- ✱ Doing the numbers: process, KPIs, funding, board, governance
- ✱ Delivering success: acquisition, collaboration, partnership
- ✱ Leading change: leadership, people, teams, roles, succession

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Organisation Size

Organisation Age

- Creativity
- Crisis of Leadership
- Direction
- Crisis of Autonomy
- Decentralisation
- Crisis of Control
- Co-Ordination
- Crisis of Red Tape
- Collaboration
- Crisis of Identity
- Alliances

After: "Evolution and Revolution as Organizations Grow" by Larry E. Greiner, Harvard Business Review, May 1998

Crisis of Leadership

When businesses are first formed, reliance is placed on the skill, knowledge and creativity of the founders to get the business off the ground.

As the company grows, it becomes increasingly difficult to manage the workload. Instead of doing what they love, they find themselves burdened with administration, book-keeping and management.

> *'We need to work out how we can grow as balancing personal life and the business is a challenge'* Nicola Ray, Managing Director, Modern

This means they don't have the time to market effectively, carry out R&D, recruit, or develop people, let alone to manage the rapid changes they will be goiing through.

> *'We are trying to re-organise ourselves so that we can dedicate ourselves on the marketing and selling piece'* Debbie Lawley, CEO, Willow DNA

There is the need for strong leadership at this stage, somebody who can 'lead the company out of confusion and solve the managerial problems confronting it'[1].

Finding this person is easier said than done, and can take a lot of time itself. Sometimes, solving the problem can lead to the company going backwards before it can start to grow again.

Top Tips

✓ Consider using LinkedIn to identify a 'pinchlist' of people with the right set of leadership and management skills that you would like to come and work with you. Find a way of connecting with them and building a relationship.

✓ Create time for regular headspace – find quiet time to reflect, or engage an external mentor – a 'critical friend' to hold you to account.

> Debbie Lawley, CEO, Willow DNA — '*It has been very useful for us to focus on areas that we have let slide. Not areas that are brand new to us but in day to day operations we have let slide*'

✓ Eliminate or delegate unimportant tasks and replace them with value-added ones. Use the urgent/important matrix[2] to help plan and prioritise work. Finding a third party to challenge whether the work is important can help to prevent being drawn into dealing with the urgent but not important tasks that can so easily fill the day.
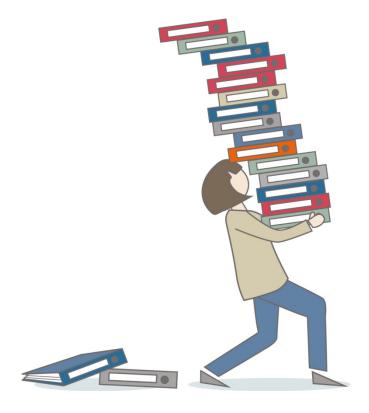
Crisis of Autonomy

Directive and organized leadership will channel employees' energies more effectively into growth. Separating functions, making roles more specialized, implementing new systems, and introducing incentives, budgets, and work standards, will all help the business become more efficient, and provide a way of controlling an increasingly diverse and complex organization.

However, lower-level employees eventually will find themselves restricted by what Greiner terms a 'cumbersome and centralized hierarchy', and eventually find themselves 'torn between following procedures and taking initiative on their own'[1].

The creativity that marked the company in its early days is now constrained by the need to manage.

The solution, Greiner identifies, is to move towards more delegation - finding a way of everybody feeling a sense of ownership when the owners are not present and taking responsibility for getting things done.

> '*Prioritising workload will help as will ensuring that work delegated is not 'shovelled' back*'
> Managing Director

But this can present two further challenges:

➢ Top-level managers must learn to trust their employees' ability to do the work they have been taking full responsibility for, and

➢ Lower-level managers have not been accustomed to making decisions and taking responsibility themselves.

Making sure the team have got the right set of skills to enable them to get the job done is easier said than done, and involves finding the resource to provide the right approach to development. Not everybody learns in the same way.

> '*When looking to employ people always strive to take on people far greater than you ever could be in those roles. That's the standard you should always hold up when recruiting*'
>
> Karl Loudon, Managing Director, TRW

Top Tips

✓ Introducing the 5 rules of 'monkey management'[3] can be a fun way of encouraging managers to delegate, instead of an overburdened manager allowing his employees to delegate upward.

✓ Introduce Performance Support - "When people are financially invested, they want a return. When people are emotionally invested, they want to contribute"[4].

Modern goal-setting should reflect the fast-paced, rapidly changing work environment and enable workers to shift focus to more important work.[5]

Crisis of Control

Improved delegation and performance management allows companies to expand by building on the increased motivation of managers and employees. Top level executives will limit themselves to management by exception, and this will allow them the time to look at new innovations and potentially acquiring outside organisations.

According to Greiner, however, eventually there will be a sense that they are losing control over the business, especially if it has become a highly diversified operation. Autonomous managers prefer to run things their own way.

'*The biggest challenge for directors of any business is that balance between building a business where people like to work and feel valued, and balancing that with the need to take tough decisions quickly*'
Andrew Finney, Chairman, HCR Group

To regain control, some companies try to return to the old centralized way of doing things. This is unlikely to go down well, and often results in failure.

New ways of organising are needed. In order to achieve new and better results, organisations must respond differently by taking on new ways of evaluating problems, spotting opportunities, and working toward success.

Ever since Nobel laureate Herbert Simon's 1969 classic *The Sciences of the Artificial,* design has been characterised not so much as a physical process but as a way of thinking. Today, design thinking pervades every area of business, and organisation design is a source of competitive advantage. As Steve Jobs says, *"*Design is a funny word. Some people think design means how it looks. But of course, if you dig deeper, it's really how it works*."*

Risk of failure can be greatly reduced through effective organisational design to encourage high performance and adaptability to changing circumstances.

Top Tips

✓ Review organisation design in the context of strategic objectives: if the organisation itself can be aligned, then business strategy can be executed to manage and achieve competitive advantage.

✓ Define your purpose and look at whether your hierarchy could be changed.

'Organizations are increasingly experimenting to define a radically more productive, purposeful and soulful way to run', Frederic Laloux, Reinventing Organizations.

'*When you give smart talented people the freedom to create without fear of failure, amazing things happen*', US game software developer Valve, www.valvesoftware.com.

✓ Consider adopting new progressive management disciplines that can support a flat, manager-free structure.

'Conventional management thought assumes that command-and-control is the most effective way to organize the efforts of large numbers of people, but rapid change and increasing complexity have rendered that model obsolete.' Rod Collins, WIKI Management.

Crisis of Red Tape

Formal systems and better ways of organising achieve greater co-ordination and more efficient allocation of a company's resources. The risk, however, as Greiner points out, is that managers may begin to justify their actions more carefully due to a 'watchdog audience', either at headquarters or, increasingly, at the external regulators.

> '*I came into this business to run a business and feel I am sort of trudging on a treadmill of compliance*' Dick Jenkins, Managing Director, Bath Building Society

> '*Increasing volumes in the traditional workshop is very difficult, primarily due to the number of variations and the amount of bespoke work that has been done*' John MacNaughton, Managing Director, Moulton Bicycles

This can lead to a crisis of red tape and bureaucracy, which stifles the company's ability to innovate and manage change through enforced adherence to rigid systems and processes.

> '*One of the greatest challenges of our business is integration and system development. I'd like to be able to find out anything about my customer in one place…I struggle to do that at the moment*' Group Marketing Director

Theordore Levitt said 'Creativity is thinking up new things. Innovation is doing new things' and Steve Jobs defined innovation as that which 'distinguishes between being a leader and a follower'.

Allowing systems and processes – whether they are 'imposed' internally or externally - to stifle innovation, is a sure way to demoralize the workforce and ultimately will kill the business.

Top Tips

✓ Include innovation in the competency model – the Enterprise Research Centre report 'Benchmarking Local Innovation' opens with *'Firms' ability to innovate successfully plays an important role in their ability to sustain growth and competitiveness'* and concludes that *'…innovating firms are more likely to be able to adjust when market conditions become more challenging'*. An innovation competency model would include space and encouragement to be creative and enterprising, explore new ways of doing things, and to learn from failure.

✓ Encourage dissent and diversity – this may sound counter-intuitive, but dissent and formal debate are valuable communication assets in complex contexts because they can generate innovative ideas that help leaders with development and execution of complex decisions and strategies. In a highly regulated field such as financial services, decision making is often complex.

Crisis of Identity

Greiner talks about a crisis being prompted by a realisation that there are no internal solutions for stimulating the new growth desired. However, partnering, acquiring or otherwise collaborating with another company can be a very effective way of growing rapidly.

Many of the companies we spoke to had been through an acquisition, and had experienced a mix of challenges and issues as a result.

'*I am looking to take over one company and set up our own legal entity in China… then you have the integration of Chinese staff … and getting both sides to understand and work together well*' Director

'*The sensible thing for us to do is to buy a more established service provider which could rapidly take us up to 25,000 connections and bring a whole load of …expertise that we perhaps don't have*' Group Marketing Director

Integrating different systems and processes is generally recognized in advance, but integrating people can be a much tougher challenge.

> '*Supporting people through what is going to be a transitional period into a commercial organisation*' Sarah Chilcott, Deputy Director, Planning Portal

Cultural due diligence – looking at a company's values and how it works - is often over-looked in the run-up to a deal. Yet the employees are often as important as the products, services and customer base they bring.

Open innovation – working with other organisations, sharing their ideas and co-developing new products – also has the potential to accelerate the exchange of knowledge and technology and create new business opportunities[6].

> '*Ideally, we'd like to enter into a joint R&D programme with a University, where one of our senior engineers can oversee some very bright students working on specific ideas*' John MacNaughton, Managing Director, Moulton Bicycles

Top Tips

✓ Include people in pre-deal due diligence – make sure you understand the ways of working and values of the target business and plan how you will integrate these into your company.

✓ Explore the potential for open innovation to strengthen your company's innovative potential by integrating external know-how that you can easily access - from customers, suppliers and other stakeholders - in order to generate more successful innovations in a shorter span of time.

✓ Include change management in the competency model - the real challenge is supporting people through a transitional period when they have left behind the old way and are making the journey toward the new. Doing this daily, quickly, is complex and requires enormous depths of leadership and management capacity.

✓ Make sure your vision, purpose and values – the reason you do what you do – are embedded throughout your company. If you involve your people when developing them, you will have a workforce that is engaged and highly motivated.

Challenge is Evergreen

It would be wrong to suggest that organisations go through the same stages of growth at the same point in their development, or that all organisations go through all the stages. It would equally be wrong to suggest that organisations always go through them in the same order, or that once a crisis has been experienced, it cannot be experienced again. External challenges like competition, recession, and changes in legislation can and do impact organisations at any time, completely independently of their size and age.

Here are three internal challenges that are also evergreen.

Succession

When the owner decides they want something back for all the time, money and effort they have invested, reliance will be placed on new leaders to take accountability and responsibility for running the business.

> '*I am planning exit from the business from a personal point of view…it is a challenge to step back and have an elder statesman, coach, mentor type role*'
> Andrew Finney, Chairman, HCR Group

You need to ensure you have the successors you can trust to take the business forward and continue to achieve the growth potential you believe to be there.

People

Getting and keeping the right people, developing them to keep them motivated and challenged, replacing them underperform, and making sure their knowledge and experience is not lost to you once they decide to go or to retire, are people challenges faced almost daily.

> '**Recognising when an employee, despite support, is unable to meet requirements, is a very difficult area for growing companies. Not taking timely action can be a major drag on performance and motivation**' Andrew Finney, Chairman, HCR Group

> '*I have one or two people who are coming to the end of their working life who I would like to keep – they are people who will be difficult to replace*' Dick Jenkins, Managing Director, Bath Building Society

Sales

Finding new business is an evergreen challenge, whether it is from new markets, getting new leads into the pipeline, getting sufficient focus on lead generation and the impact of scaling on the operation, or understanding that the market is going to change and that therefore strategy must evolve and change as well.

> '*Until now, we have been able to rely on work through recommendation, but additional staff and reduced work coming from 2-3 big clients is changing our approach to business development*' Managing Director

> '*It is really easy to make money at the moment. It won't always be like that and trying to work out what the next strategy is, how we evolve our strategy when those conditions change, is quite tough*' Dick Jenkins, Managing Director, Bath Building Society

Top Tips

✓ Identify your successor(s) – identify in advance the individuals who might have the potential to succeed you; develop them to ensure they have sufficient experience to take the helm when the time comes.

✓ Understand how your customers buy from you and make it easier for them to buy from you.

✓ Run a regular Board meeting to review key performance indicators and risks. Consider employing a non-exec Director to join you, or inviting your business advisor to facilitate a Board meeting with you.

✓ Consider working with a 90 day plan that is reviewed regularly with the leadership team and your external advisors.

Conclusion

The challenges and pains of high growth businesses can appear daunting, but business owners that have succeeded in growing their businesses by their nature do not view them as insurmountable. They frame them as challenges to be overcome with the range of resources available to them.[7]

The performance of a company, and its capacity to attract people, win profitable business and grow, depends on what Greiner describes as 'the fundamentals of good management: skillful leadership, a winning strategy, the heightened motivation of employees, and a deep concern for customers'.
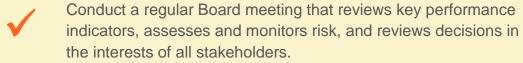
As the Director of one of the companies participating in our research succinctly put it:

'*We have to demonstrate that we know our business better than anyone else and deliver something that is unique and better than if they went the safer route with one of the bigger boys. That puts the emphasis on good delivery and doing it right.*'
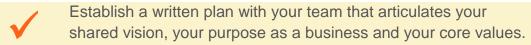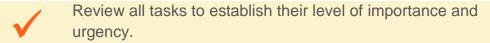
Checklist for Success

✓ Conduct a regular Board meeting that reviews key performance indicators, assesses and monitors risk, and reviews decisions in the interests of all stakeholders.

✓ Understand your target market's buying behaviour and regularly evaluate your messages to make sure your prospects get the answers they need to buy from you.

✓ Establish a written plan with your team that articulates your shared vision, your purpose as a business and your core values.

✓ If you are growing fast, develop 90 day plans broken down into identifiable, measurable tasks and clear responsibility for delivery.

✓ Review all tasks to establish their level of importance and urgency.

✓ Adopt 'monkey management' to encourage your management team to take their responsibilities seriously.

✓ Adopt a long-term view to succession and change.

✓ Ensure your leadership team are competent in leading change, understand risk management and supportive of innovation.

✓ Do not close your mind to open innovation. Encouraging a culture that fosters creative thinking and innovation will allow your people to design new solutions.

✓ Identify a critical friend, somebody who can listen, challenge and help to build your confidence.
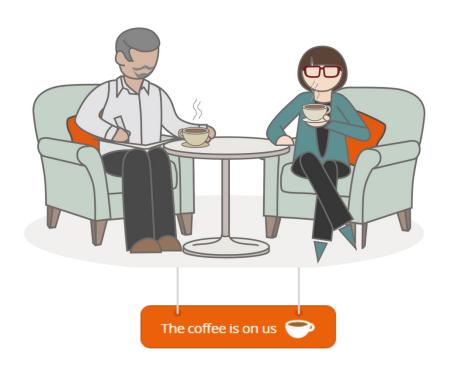
High Growth Knowledge Company

High Growth Knowledge Company delivers consultancy and advice to ambitious businesses that expect measurable results. We blend knowledge and research with current business thinking, combined with a practical approach gained from our experience of working with high growth businesses.

Being a critical friend is about building confidence, providing a sounding board, space and time to listen, backed by sound advice, which is practical and reassuring at times of challenge and change.

Everyone needs feedback. Contact us to find out more about how we can become your critical friend.

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Our thanks to the companies contributing to our research:

Company	Sector	Established	FTE
Bath Building Society	Financial Services	1904	60
HCR Group	Relocation Services	1986	100
Lifecycle Technology	Document Management	2008	13
Meanbee	Internet Solutions	2013	7
Media Clash	Publishing	2002	50
Modern	Digital Agency	2010	6
Moulton Bicycles	Manufacturing	1992	10
Nine Group	Digital Communications	2001	150
Selectronics	Optoelectronic Technology	1993	18
SLR Consulting	Environmental Consultancy	1999	300
The Planning Portal	Public Sector	2000	33
TRW Digital	Software Development	2013	50
Unwins Safety Systems	Manufacturing	1961	51
Willow DNA	Learning Solutions	2007	8

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