Introduction

A Bird's-Eye View

This book is designed for courses that explore entrepreneurship beyond the start-up phase, as well as for classes in managing small businesses. Its focus is on the common issues faced by businesses as they attempt to scale.

I have spent much of my non-academic career representing growth companies like those discussed in the cases, as a lawyer, an investment banker, or a strategy consultant. And now, my interest in growth companies has carried over into my academic research and teaching at the Darden Graduate School of Business. As a result, this book draws on both practical experience and academic research. All of the theories and many of the cases have been used in my own course, Managing Smaller Enterprises.

The book is divided into two parts—text and cases—to provide professors maximum flexibility in customizing course content. The thirty-three cases can be used in conjunction with the text or independent of it. Eleven cases were written as narratives with many teaching points but without a focused decision or conundrum. The remaining twenty-two cases were written to require students to make and defend business decisions. The case portion of the book contains discussion questions for each case and a matrix (table) that indicates which cases cover key issues that users (professors and students alike) may wish to explore.

The text portion of the book discusses key issues derived from research and consulting, and is meant to accompany the case method of teaching, raising issues for conversation and an exchange of views. It does not provide a comprehensive review of the literature or a discussion of *all* issues facing growing businesses. Rather, the text is focused on enabling classroom conversations about key issues for small firms that are aiming to grow. Questions are provided to stimulate reflective thought and discussion. Most have been battle-tested in the classroom, and have generated lively and challenging responses. A finely honed recommended readings list is provided to guide readers in broadening their knowledge beyond the foundation of this book. As I hope is evident, a hallmark throughout this presentation is *focus*—on presenting issues that matter most to growing businesses, on providing tangible examples of those issues for readers, and on building a foundational understanding of the promise and challenges that come with growth.

A First Word About Growth

Growing a business is a major inflection point for both the small business and the entrepreneur. Growth challenges people and processes and necessitates changes. Growth is particularly challenging for small businesses because they generally have limited resources: capital, people, time, and managerial experience. As the text discusses, if not properly managed, growth can pose significant risks to a business's viability and survivability.

As you read through this book, you will find several recurring themes that have an impact on people, processes, and culture. By *people* I mean everyone in the organization: the entrepreneur, managers, and line employees. *Processes* include how things are done and which checklists, information, and controls are needed to effectively manage the business. *Culture* is the environment created by the entrepreneur in which all of this happens. Following are the key themes throughout the text and cases:

1. *Growth is change.* Growth changes what many employees do; growth changes what the entrepreneur must do; growth necessitates different people and processes; and growth changes the organizational environment and the personal dynamics within the business.
2. *Growth is evolutionary.* Growth results in the evolution of the entrepreneur, the management team, and the processes and controls. Many times the business model and customer value proposition evolve too, as the company grows. This evolution is continuous.
3. *Growth requires learning.* The entrepreneur and employees must constantly be open to learning and adapting in an incremental, iterative, and experimental fashion. Growing businesses generally do not experience much sameness, stability or predictability until they become quite large—for example larger than $100 million in revenue.
4. *Growth requires focus.* The business generally must focus strategically on its differentiating customer value proposition and operational excellence. The entrepreneur's focus changes from every business detail to developing people as the business grows.

Chapter Overview

The text that makes up the first part of the book is divided into nine stand-alone chapters exploring common critical issues related to growing a business. The chapters contain embedded questions for discussion, and some also contain related commentaries previously written by me. Each chapter contains one case with case discussion questions. At the end of each chapter is a list of cases in this book that contain issues relevant to the chapter topic, allowing for multiple case discussions with regard to each chapter's content.

Chapter 1, "Growth Can Be Good and Growth Can Be Bad," challenges the common business assumptions that businesses must "grow or die," that growth is always good, that bigger is always better, and that growth should be the key objective of every business. In place of these assumptions, a more nuanced theory of growth is advanced, based on research demonstrating that, depending on the circumstances, growth may be either good or bad. Growth should never be assumed but rather should be a strategic decision made only after careful weighing of the pros and cons of growth at each stage of a business's life cycle. Often growth is not linear, and it rarely happens smoothly or predictably. Mistakes, detours, or bumps along the road are common. The point is that growth creates risks that must be effectively managed. If not properly managed, growth can (1) outstrip the capabilities and competencies of a business or its management team, (2) stress quality and financial controls, (3) dilute a business's culture, (4) dilute a business's customer value proposition, or (5) propel a business into a new competitive space, exposing it to bigger and better competition.

Chapter 1 introduces two tools: a Growth Risks Audit for companies to assess the wisdom of growth at a particular time and a Growth Decision Template that challenges entrepreneurs to think about why they want to grow, how much growth they can undertake without exposing the company and themselves to material risks, and other potential ramifications of growth.

Chapter 1 ends with the "Eyebobs Eyewear, Inc." case that tells the story of how Julie Allinson intentionally grew her business in a growth risk management manner.

Chapter 2, "Darden Private Growth Company Research (DPGC)," summarizes the key findings from my research: The Darden Private Growth Research Project, funded by the Batten Institute at the Darden Graduate School of Business and the Darden Foundation. This project involved semi-structured interviews with 54 CEOs of recognized high-performance private companies located in 23 different states. Twenty-one of the companies were primarily product companies with the remainder being primarily service companies. The average age of the companies was 9.6 years and the average revenue for 2008 was $60 million. Revenue ranged from $5 million to $343 million. A preview of these findings was first published in a chapter in my book *Smart Growth: Building an Enduring Business by Managing the Risks of Growth*,[1] which focused primarily on public company growth issues. Chapter 2 ends with the "Octane Fitness, Inc: The Power of Focus" case, which tells a story of how two entrepreneurs used strategic focus to build a market-leading business.

Chapter 3, "Growth Is More Than a Strategy," introduces the concept that growth is much more than a strategy—it is a system: a Growth System. To continuously produce quality growth, an internal, seamless, consistent, self-reinforcing Growth System has to be built linking strategy, structure, culture, HR policies, leadership model, execution processes, measurements, and rewards to drive desired behaviors. This Growth System requires constant tweaking as a business grows so that the critical components remain aligned to drive the desired behaviors.

Aligning all of the above requires the entrepreneur to become sensitized to the impact of people, process, and cultural changes as well as to the risks posed by a collection of small, dilutive changes that when added together produce a big, unintended consequence. A Growth System not only enables growth but helps manage and limit the risks of growth. Chapter 3 ends with the "Room & Board" case, which illustrates how one entrepreneur chose to grow at his own desired pace, building a Growth System that became his competitive advantage.

Chapter 4, "The 4Ps of Growth: Planning, Prioritization, Processes, and Pace," moves to granular findings of the DPGC research to explore how growth happens on the ground level. Much to my surprise, few of the companies researched systematically and proactively planned for their growth. Instead, in most cases, they reacted to growth. Most CEOs reported having to manage the pace of growth so it did not create material execution, quality, or financial risks to the company. Growth created the need for more processes, and this chapter discusses how CEOs prioritized what processes to create. Processes can be thought of as the step-by-step recipes for doing the critical tasks necessary to produce and consistently deliver high-quality products and services in a timely manner.

Many CEOs found it challenging to grow while simultaneously installing the necessary processes because growth and process implementation require different mindsets or perspectives. Too often, the result was a "gas pedal" approach to growth—growing until problems emerged and then letting up on the growth pedal to allow the processes to catch up. The challenge was managing the tension of slowing growth long enough to add sufficient processes and controls to mitigate risks without losing critical business opportunities. Another management tension was installing enough process while not becoming too bureaucratic and thus losing the entrepreneurial feel of the business.

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1. Edward D. Hess, *Smart Growth: Building an Enduring Business by Managing the Risks of Growth* (New York: Columbia Business School Publishing, 2010).

Chapter 4 also discusses the necessity of strategic focus as a growth accelerator and how our sample of CEOs created heuristics to help them decide what to focus on each day. In the chaos of fast-paced growth, entrepreneurs were constantly prioritizing how they spent their time on the basis of what the most critical need was that day, while expressing the need for "firehouse time" to think strategically and not to just "fight fires." Chapter 4 ends with the "SecureWorks" case, which tells the story of how Mike Cote grew a business substantially while dealing with the challenges of planning, processes, prioritization, and pace.

Chapter 5, "The Entrepreneur Must Grow, Too!," focuses on the finding that in order for a business to grow the entrepreneur must grow, too. The entrepreneur must evolve from being primarily a doer to being a manager. He or she must learn how to delegate and how to accept the fact that no one will do the task like the entrepreneur would do it. This "letting go" continues as the business grows and the entrepreneur evolves into being both a leader and ultimately a coach and mentor for the managers in the business.

For the entrepreneur, growth requires significant change not only in what he or she does but also in how he or she does it. Many entrepreneurs must step back from being a functional specialist and learn to be a generalist (general manager) in the early phases of a business. As the business grows, however, the entrepreneur often starts moving back to being a specialist, spending more time in the functional area he or she enjoys.

Evolving toward becoming a leader and coach is challenging for many entrepreneurs because both roles require emotional intelligence, people engagement, and the ability to relate to individuals in a way they find meaningful. Coaching requires that time be spent getting to know people, listening, caring, understanding their emotional needs, and helping them grow. Coaching takes patience and a degree of personal emotional intimacy that many entrepreneurs are not able to achieve. It requires a continuation of the mind shift from "me the entrepreneur" and "my way" to "it is really all about them." Many entrepreneurs found this process very difficult, and some neither relished nor excelled in this role. As the business grows, some entrepreneurs evolve into more of a CEO or chairman, focusing on strategy, culture, and big issues while delegating the daily operational management to a chief operating officer (COO).

Chapter 5 ends with the "Defender Direct, Inc.: A Business of Growing Leaders" case, which tells the story of how Dave Lindsey, the entrepreneur, grew as his business grew, eventually evolving into the role of a servant leader.

Chapter 6, "The Challenges of Building an Effective Management Team," focuses on the finding that most CEOs had difficulties building an effective management team. Challenges varied, but included evaluating technical competencies in a functional area in which the CEO lacked sufficient experience or training, such as finance or technology; failing to follow interviewing best practices; hiring big-company people who could not adjust to a small-company environment; hiring small-company people who had no scaling experience; managing the interpersonal dynamics among new managers brought into the business; and adjusting to the challenge of upgrading managers when the business outgrew their capabilities. The result was that many management positions required multiple hires to get it right, taking extensive time, incurring costs, causing lost opportunities, and stressing the emotional dynamics of the business.

Chapter 6 contains the "Global Medical Imaging, LLC" case, which discusses how Ryan Dienst, the CEO, had to build an effective management team that was capable of scaling the business.

Chapter 7, "Culture—Creating a High-Performance Environment," looks at the importance of culture in setting standards and bounds for employee behavior and in creating an environment that results in high employee engagement and productivity. Developing a positive employment culture is important because employees who find meaning in their work and view it as more than just a paycheck are generally more engaged and productive.

This chapter discusses the inherent management tension of creating a "family" environment while requiring high accountability. It contains a discussion not only of my studies but also of the leading academic research on employee engagement done at the University of Michigan, Stanford University, Case Western Reserve University, and Harvard University. Chapter 7 shares some of the ways that successful entrepreneurs built environments that enabled high employee engagement. The "Leaders Bank: Creating a Great Place to Work" case is used at the end of this chapter to illustrate a growth business that built a high employee engagement environment.

Chapter 8, "Growth Thrusters: 'Replicution' and 'Boosters,'" introduces the different ways businesses can grow beyond the start-up phase. Growth generally occurs either by scaling or through new growth initiatives. Scaling is the fastest way to grow and involves a strategy of replication. Executing a replication strategy is called "replicution." To scale quickly, entrepreneurs have to make critical decisions about what parts of their value chain they will scale and what parts they will outsource. Scaling has its limitations, and once scaling reaches its limits a business needs new "growth boosters" in order to continue growing. Different kinds of "growth boosters" are discussed with references to the various cases. This chapter attempts to put into perspective the interrelationship between scaling a business, constantly improving a business, and business innovation. It concludes with the "Enchanting Travels" case, which sets forth a scaling challenge.

Chapter 9, "The Added Complexity of Managing a Family Business," examines the added complexity when a growth business is also a family business. Having family members working in the business, owning stock in the business, or both adds a level of family dynamics complexity that has to be managed separately and in addition to the business. This chapter distills key points from my book *The Successful Family Business: A Proactive Plan for Managing Both the Family & the Business*.[2] Family business leaders need to proactively manage both the family and the business so that family issues do not have a negative impact on the business and business issues do not create family disharmony. Processes and policies need to be put in place that allow for the raising, discussing, and resolving of family issues that become apparent as family members age and their needs and wants change. In many cases an entrepreneur's business management style is not conducive to effectively managing family issues, and the entrepreneur or family leader has to adapt. Many find this difficult. This chapter ends with the "Edens & Avant" case, which tells the story of how Joe Edens institutionalized his family business while managing the succession process.

2. Edward D. Hess, *The Successful Family Business: A Proactive Plan for Managing Both the Family & the Business* (Westport, CT: Praeger, 2006).