

Abstract – Growing Pains: Transitioning from an Entrepreneurship to a Professionally Managed Firm

Flamholtz, Eric G. and Yvonne Randle. “A Framework for Developing Successful Organizations.” ***Growing Pains: Transitioning from an Entrepreneurship to a Professionally Managed Firm***, John Wiley & Sons, 2000.

Organizations of any size can experience growing pains. These are the painful symptoms that let you know the company’s growth has outpaced its infrastructure—operating systems and management systems. The authors give us a good diagnostic tool to determine if a company is experiencing growing pains, a model for thinking about how companies develop infrastructure, and good advice on how to move an organization from the entrepreneurial phase to the professionally managed phase.

The first challenge entrepreneurs face is that of establishing a successful new venture. If they succeed, their fledgling enterprise is likely to experience rapid growth. It is at this point, whether the entrepreneur recognizes it or not, that the game begins to change. The firm’s success creates its next set of problems and challenges to survival.

As a result of expanding sales, the firm’s resources become stretched. The firm’s operational systems, needed to facilitate day-to-day activities, typically are overwhelmed by the sudden surge in activity. There is little time to think, and little or no planning takes place because most plans quickly become obsolete. People become high on their own adrenaline and merely react to the rush of activity. At this point the firm usually begins to experience the following organizational growing pains.

Managing the transition between growth stages: growing pains

How do you know if your venture is derailing? Flamholtz and Randle have defined the ten most common organizational growing pains below and have developed a self-administered questionnaire, which is attached.

1. *People feel that there are not enough hours in the day.*

Employees feel that they could work 24 hours a day, seven days a week, and still not have sufficient time to get everything done. They begin to complain about “overload” and excessive stress. Left unchecked, this growing pain can lead to poor morale, physical ailments, and turnover due to burn out.

This growing pain can suggest that the firm lacks or has an underdeveloped planning system, that there is a lack of formal structure (in which roles and responsibilities are clearly defined), and/or that individuals do not understand how to manage their time effectively.

2. *People spend too much time “putting out fires.”*

This common growing pain shows itself in excessive time spend dealing with short-term crises—“putting out fires.” This problem usually results from a shortage of long-range planning and the absence of a strategic plan. It can also result from a culture that rewards firefighters rather than planners.

3. *People are not aware of what other people are doing.*

When many people are unaware of the exact nature of their jobs and how those jobs relate to those of others, they tend to do whatever they think is best and say that the remaining tasks are “not our responsibility.” Constant bickering between people and departments over responsibility may ensue. Relationships between people and between departments may be unclear.

4. *People lack understanding about where the firm is headed.*

When there is widespread lack of understanding about where the firm is headed, employees may complain that “the company has no strategy” and blame upper management for not providing enough information about the company’s direction. Worse, they may believe that not even upper management knows what that direction will be.

The primary factors underlying this growing pain tend to relate to strategic planning. Either the firm has an inadequate or underdeveloped planning process and/or plans that are made are not effectively communicated throughout the organization.

5. *There are not enough good managers.*

Although a firm may have a significant number of people who hold the title of manager, it may not have many good managers. Managers may complain that they have responsibility

but no authority. Employees may complain about the lack of direction or feedback that their managers provide. The organization may notice that some of its components have significantly higher or lower productivity than others.

Problems like these suggest that the company has not adequately defined managers' roles or is not providing sufficient training to ensure that they have the skills they need. Problems may also result from real or perceived organizational constraints that restrict a manager's authority. For example, the perception that only top management can make decisions may greatly affect lower-level managers' effectiveness. The feeling that only upper management has decision-making responsibility is common in firms making the transition to professional management. It is a relic from the days when the founding entrepreneur made all the firm's decisions.

6. People feel that "I have to do it myself if I want to get it done correctly."

Increasingly, as people become frustrated by the difficulty of getting things done in an organization, they come to feel that "if I want to get something done correctly, I have to do it myself." Operating this way, individuals and departments become isolated from one another, and teamwork becomes minimal. Each part of the company "does its own thing" without considering the good of the whole.

7. Most people feel that meetings are a waste of time.

Recognizing a need for better coordination and communication, the growing organization may begin to hold meetings. Unfortunately, at many firms these meetings are nothing more than discussions between people. They have no planned agendas, no designated leader, and do not result in decisions. People conclude that meetings are a waste of time.

Problems result from too many meetings or meetings that are poorly managed; at the other extreme are companies where meetings are seldom held. In these situations, there is limited communication and coordination. As a result, the company frequently suffers from productivity problems, including duplication of effort.

8. When plans are made, there is very little follow-up, so things just don't get done.

Another sign of an entrepreneurship with growing pains is a lack of follow-up after plans are made. For example, people go through the motions of preparing business plans, but the things that were planned just do not get done. In some cases there is no follow-up because the company has not developed adequate control systems to monitor progress against goals.

9. *Some people feel insecure about their place in the firm.*

As a consequence of other organizational growing pains, employees begin to feel insecure about their places in the firm. In some cases, the entrepreneur has become anxious about problems facing the business and has hired a “heavyweight” manager from outside. Employees feel anxious partly because they do not understand the reasons for these and other changes.

10. *The firm continues to grow in sales, but not in profits.*

When all of the other growing pains exist, one final symptom may emerge: sales continue to increase while profits remain flat, so that the company is succeeding only in increasing its workload.

For some companies, the decline in profits may be the result of an underlying philosophy that stresses sales. People in such companies may say, “Profit will take care of itself.” Organizations may also suffer because of systems that reward employees for achieving sales goals rather than profit goals.

A short questionnaire is available to determine the level of “growing pains” experienced within your organization. (See Appendix A.)

What do growing pains mean?

Growing pains are red flags that there is a need to transition from one stage of organizational development to the next and constitute a set of leading indicators of future financial performance. All successful organizations move through these stages. There are two dimensions that contribute to the pain they experience in transitioning from one stage to the next: size and the extent that the organization has developed the systems required to support its growth. When there is a discrepancy—say, the organization is at stage III in terms of its size as measured in revenues, but only at stage II in its internal organizational capabilities—there are growing pains. Some companies have grown very large before their infrastructure fully develops; they are truly vulnerable. An organization will face significant problems if its internal development is too far out of step with its size.

Most entrepreneurs are concerned primarily with the risk of failure if revenues are insufficient to cover expenses. However, many ignore the equally damaging risks of choking on their own rapid growth. To avoid the problems accompanying hyper-growth, a company must have an infrastructure that will absorb that growth. Management must invest in building the required infrastructure *before* it is actually necessary.

Surviving the transitions: The stages of organizational growth

Moving from an entrepreneurial venture to a professionally managed business is tricky. It helps to have a good roadmap that describes the relevant stages of organizational growth and locate yourself on it. Each stage of growth has unique milestones and requires the completion of certain tasks. The authors describe the following four stages of growth in a company's transition from a start-up venture to a mature organization: new venture, expansion, professionalism, and consolidation.

The Entrepreneurial Phase

I. New Venture

Stage I, the inception of a new venture, typically occurs from the time an organization is founded until it reaches approximately \$1 million in annual sales for a manufacturing firm or \$.3 million in sales for a service firm. In this stage, the greatest emphasis is placed on the tasks of **identifying and defining markets and developing products and services**. These two tasks are critical to the survival of the firm; without customers and products or services to provide to them, it cannot exist.

II. Expansion

An organization that successfully completes the key developmental tasks of stage I will reach stage II, which involves the rapid expansion of the firm. The major purpose or challenge of stage II is 'organizational scale-up.' This means that the business concept has been demonstrated to be valid (stage I), and the organization must now acquire the resources and develop the systems required to facilitate growth. This stage requires **acquisition of resources and development of operational systems**. A stage II company needs an infrastructure of operational systems that lets it operate effectively on a day-to-day basis. Unfortunately, many entrepreneurs are not interested in such "organizational plumbing." If the firm is growing rapidly, discrepancies between firm size and the degree of development of its operational systems can be masked in the short term by rapidly rising revenues.

These two stages call upon the "classic skills of entrepreneurship" and once they have been reached, require that the transition from entrepreneurship to entrepreneurially oriented, professionally managed firm begin to occur.

The Professional Management Phase

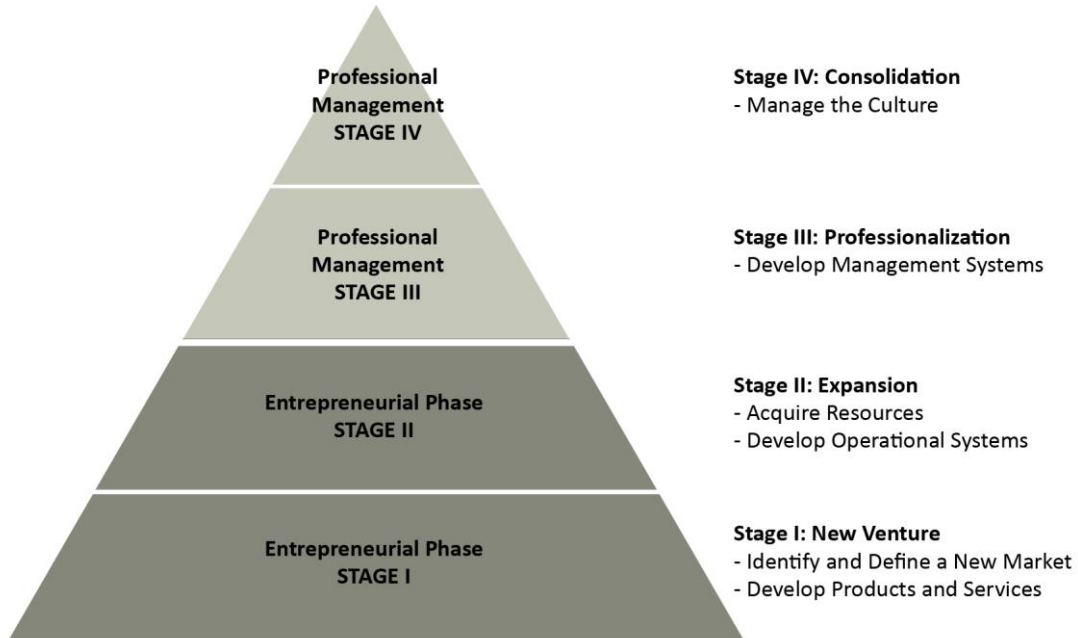
III. Professionalization

At this stage, a need for a qualitative change in the firm is arising. The company cannot merely add people, money, equipment, and space to cope with its growth: it must undergo a metamorphosis and become a somewhat different type of organization. The level of revenues at this stage (typically around \$10 million for manufacturing firms and \$3.3 million for service firms) necessitates a greater degree of formalization as organizational size increases. Formal planning, regularly scheduled meetings, defined organizational roles and responsibilities, a performance appraisal system, and control systems are required. People in the firm are required to change their skills and capabilities to meet the new organizational needs for formal administration, planning, organization, motivation, leadership, and control. The focus of this stage is on **developing the management systems necessary to take the firm to its next stage of development**. Despite the need to maintain an entrepreneurial spirit, the firm will need to develop infrastructure and professional management capabilities in order to continue to grow successfully. Entrepreneurs at this phase must embrace systems despite any previous anti-bureaucracy experiences or risk decline or failure.

IV. Consolidation

Once systems for planning, organization, management development, and control are in place, firms must attend to corporate culture. Establishing this significant asset is the main task at this phase of operations and has a very real impact on the bottom line. This stage typically occurs around \$100 million in revenue for manufacturing firms as many more people have been attracted to the organization. Prior to this period, culture was instilled by direct contact between founders and personnel, but at this stage the large numbers of personnel and particularly newer waves of employees render informal socialization both infeasible and ineffective. This requires the firm to develop a more conscious and **formal method of transmitting the corporate culture throughout the organization**. Values, beliefs, and norms must be transmitted to and carried out by all personnel in order for organizational growth to continue.

Pyramid of Organizational Development



Clarification of the Distinction Between Professional and Entrepreneurial Management

The following table defines the differences between professional management and entrepreneurial management for specified key result areas.

Table 2.2

Key Result Areas	Professional Management	Entrepreneurial Management
Profit	Profit orientation; profit as explicit goal	Profit as by-product
Planning	Formal systematic planning: <ul style="list-style-type: none"> • Strategic planning • Operational planning • Contingency planning 	Informal, ad hoc planning
Organization	Formal, explicit role descriptions that are mutually exclusive and exhaustive	Informal structure with overlapping and undefined responsibilities
Control	Formal, planned system of organizational control, including explicit objectives, targets, measures, evaluations, and rewards	Partial, ad hoc control, seldom with formal measurement
Management Development	Planned management development: <ul style="list-style-type: none"> • Identification of requirements • Design of programs 	Ad hoc development, principally through on-the-job training
Budgeting	Management by standards and variances	Budget not explicit; no follow-up on variances
Innovation	Orientation to incremental innovations; willingness to take calculated risks	Orientation toward major innovations; willingness to take major risks
Leadership	Consultative or participative styles	Styles varying from very directive to laissez-faire
Culture	Well-defined culture	Loosely-defined, "family"-oriented culture

Appendix A: Survey of Organizational Growing Pains

Growing Pain	A: to a very great extent	B: to a great extent	C: to some extent	D: to a slight extent	E: to a very slight extent
1. People feel that there are not enough hours in the day.					
2. People spend too much time “putting out fires”					
3. Many people are not aware of what others are doing.					
4. People lack an understanding of where the firm is headed					
5. There are not enough good managers.					
6. People feel that “I have to do it myself if I want to get it done correctly.”					
7. Most people feel that the firm’s meetings are a waste of time.					
8. When plans are made there is very little follow-up, so things just don’t get done.					
9. Some people feel insecure about their place in the firm.					
10. The firm has continued to grow in sales, but not in profits.					
Scoring					
Total for each column:					
Multiply by:	5	4	3	2	1
Result:					
Add Results Columns for Total Growing Pains Score					

Score Range	Color	Interpretation
10-14	Green	Everything OK
15-19	Yellow	Some things to watch
20-29	Orange	Some areas that need attention
30-39	Red	Some very significant problems
40-50	Purple	A potential crisis or turnaround situation