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## **Growing Pains**

### **Transitioning from an Entrepreneurship To a Professionally Managed Firm**

**Eric G. Flamholtz & Yvonne Randle**

#### **The Onset of Growing Pains**

...experience the typical symptoms of organization growing pains.

**\*People did not understand what their jobs were, what others' jobs were, or what the relationship were between their jobs and the jobs of others. This problem resulted, in part, from the company's tendency to add people without developing clear definitions of their roles and responsibilities.**

**...did not have a formal organization chart that clearly outlined roles, responsibilities, and relationships among positions and functions within the company.**

Other problems that resulted from the lack of clearly defined roles and responsibilities were duplication of effort and loss of productivity.

The lack of clearly defined linkages between organizational rules meant unnecessary isolation as well as unnecessary overlap.

**\*the company had a sales orientation rather than a profit orientation. It had operated on the premise that if sales were increased, profit would naturally rise.**

Sales people believed that while the amount of sales was under their control, profit was not; as long as they were generating sales, profit would take care of itself.

**\*Employees in some department felt "overloaded."**

Sales people felt pressure to generate and maintain customers, a job that at times seemed to require twenty-four hours a day. In production, employees said that they often felt overloaded because they were forced to work long hours in order to complete the high number of rush orders on time.

\*Employees spent a lot of time resolving short-term problems that resulted from the lack of long-range planning.

\*There were not enough good managers.

...people did not perform effectively in managerial roles

\*Custom Printing did not have an overall business plan, and when plans were made, there was no follow-up.

\*some employees felt that custom Printing had no long-term goals.

I don't know where the company is going."

Employees were aware that changes were being made, but they did not know the ultimate goal toward which the changes were aimed.

\*Some people complained that meetings were a waste of time.

The high turnover suggested that some people may have left because the anxiety of living from day to day and wondering what would happen next was too much to bear.

### **The Transition**

**Phase I: Assess the company's current state of development as an organization and its future development needs.**

**Phase II: Design a program for the development of the organization as a whole.**

**Phase III: Implement the organization development program.**

**Phase VI. Monitor the program and make changes as needed.**

### **Making the Transition: Phase I**

The strategic planning process involved determining who the company was (its business definition), where it was going (its strategic mission), and how it was going to get there (objectives and goals).

### **A Framework for Developing Successful Organizations**

The firm's operational systems, needed to facilitate day-day activities, such as marketing, production or service delivery, accounting, credit, collections, and personnel, typically are overwhelmed by the sudden surge of activity.

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

\*People spend too much time putting out fires.

- \*Many people are not aware of what others are doing.
- \*People lack an understanding of the firm's ultimate goals.
- \*There are not enough good managers.
- \*People think, "I have to do it myself if I want to get it done correctly."
- \*Most people feel that the firm's meetings are a waste of time.
- \*Plans are seldom made and even more seldom followed up, so things often do not get done.
- \*Some people feel insecure about their place in the firm
- \*The firm has continued to grow in sales but not to the same extent in profits.

Operational support systems are the day-to-day systems required to produce a product or deliver a service and to function on a day-to-day basis.

Once the organization has identified a market and begun to produce products or services to meet the needs of customers within that market, it will begin to grow. It is then faced with the need to make a fundamental transformation or metamorphosis from the spontaneous, ad hoc, free-spirited enterprise that it has been to a more formally planned, organized, and disciplined entity.

\*Move up to chairperson, as Steven Jobs did at Apple computer, and bring in a professional manager while still staying involved.

...one successful entrepreneur brought two very highly paid and experienced managers into his firm, made a great flourish about the transition, and then proceeded to turn them into "managerial eunuch." After they had "failed," he was able to reluctantly resume control of the enterprise and plead that he had made every effort but the business obviously could not do without him.

### **Stage II: Expansion**

For most manufacturing firms, stage II begins at about the \$1 million sales level and extends to the \$10 million level.

The major problems that occur during stage II are ones of growth rather than survival. It is during this stage that horror stories begin to accumulate:

- Salespeople sell a product they know is in inventory, only to learn that someone else has grabbed it for other customers.
- One vendor's invoices are paid two and three times, while another vendor has not been paid in six months.
- A precipitous drop of product quality occurs, for unknown reasons.

- Turnover increases sharply just when the company needs more personnel.
- Missing letters, files, and reports cause confusion, loss of time, and embarrassment.
- Senior executives find themselves scheduled to be in two widely separated cities on the same day at the same time, or they arrive in a distant city only to learn that they are a day early (or a day late).
- The computer system crashes frequently, leaving users without access to valuable information, basically shutting the company down for hours or sometimes days.

Many companies experience a great deal of difficulty during stage II and may even disappear. When this occurs, it is usually because the founding entrepreneur is unable to cope with the managerial problems that arise as the organization grows. A stage II company needs an infrastructure of operational systems that lets it operate efficiently and effectively on a day-to-day basis.

### **Stage III. Professionalization**

Somewhere during the period of explosive growth that characterizes stage II, senior management realized (or ought to realize) that 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 transition or metamorphosis and become a somewhat different type of organization, as illustrated in the Custom Printing. This transition from an entrepreneurship to an entrepreneurially oriented, professionally managed firm is not a choice but a requirement for continued organizational success.

The need for this transition typically occurs for manufacturing firms by the time they have reached approximately \$10 million in sales. At this level of revenues, the sheer size of the organization requires more formal planning, regularly scheduled meetings, defined organizational roles and responsibilities, a performance appraisal system, and control systems.

But not the organization increasingly requires people who are adept at formal administration, planning, organization, motivation, leadership, and control. The focus at this stage of development should be on developing the management systems required to take the firm to its next stage of development.

An organization must never lose its entrepreneurial mind-set or spirit, but it must also begin to develop the infrastructure and management systems required to facilitate its future growth.

### **Stage IV: Consolidation**

By the time a firm reaches \$100 million in revenues, a third wave of people usually has joined the organization, and the informal socialization is no longer transmitting the corporate culture throughout the organization.

### **Managing the Transition between Growth Stages**

Step 1: Perform an organizational evaluation or audit

Step 2: Formulate an organizational development plan

Step 3: Implement the organizational development plan and monitor its progress.

### **The Ten Most Common Organizational Growing Pains**

- People feel that “there are not enough hours in the day.”
- People spend too much time “putting out fires.”
- People are not aware of what other people are doing.
- People lack understanding about where the firm is headed.
- There are too few good managers.
- People feel that “I have to do it myself if I want it done correctly.”
- Most people feel that meetings are a waste of time.
- When plans are made, there is very little follow-up, so things just don’t get done.
- Some people feel insecure about their place in the firm.
- The firm continues to grow in sales but not in profits.

#### **People Feel That “There Are Not Enough Hours in the Day”**

They begin to complain about “overload” and excessive stress.

They are being needlessly overworked may bring on morale problems. Complaints may increase. Employees may begin to experience physical illnesses brought on by excessive stress.

#### **People Spend Too Much Time “Putting Out Fires”**

A lack of long-range planning and the absence of a strategic plan.

A lack of planning caused orders to be needlessly rushed, resulting in excessive pressure on employees.

#### **People Feel That “I Have to Do It Myself If I Want to Get It Done Correctly”**

This symptom is caused by a lack of clearly defined roles, responsibilities, and linkages among roles.

When roles and responsibilities are not clearly defined, individuals or departments tend to act on their own because they do not know whose responsibility a given task is.

Each part of the company “does its own thing” without considering the good of the whole. Communication between management and lower levels of the organization and between departments may be minimal because the organization has no formal system through which information can be channeled.

#### **When Plans are Made, There is Very Little Follow-Up, So Things Just Don’t Get Done.**

In some cases there is not follow-up because the company has not developed adequate systems to monitor progress against goals.

Employees may also become insecure because they are unable to see the value of their position to the firm. This occurs when roles and responsibilities are not clearly defined and terminations are also occurring. Employees begin to wonder whether they will be the next to be terminated. In an attempt to protect themselves, they keep their activities secret and do not make waves.

Entire departments may come to suffer from the need to remain isolated in order to protect themselves from being eliminated.

In effect, the culture of the organization had become one that promoted and anxiety, and fear created a situation in which people spent more time covering “their vested interests” than working toward achieving company goals.

### **Measuring Organizational Growing Pains: The Organizational Growing Pains Questionnaire**

To assist the management of an entrepreneurial company in measuring the organization’s growing pains, we have developed a questionnaire that presents the ten organizational growing pains that have been identified in a wide variety of entrepreneurial companies with annual sales revenues ranging from less than \$1 million to over \$1 billion. (A sample completed questionnaire is presented in Exhibit 3.1.) Responses to the questionnaire are entered on a Likert-type five-point scale with descriptions ranging from “to a very great extent” to “to a very slight extent.” By placing check marks in the appropriate columns, the respondent indicates the extent to which he or she feels each of the ten growing pains characterizes the company.

Once the questionnaire has been completed, the number of check marks in each column is totaled and recorded on line 11. Each item on line 11 is then multiplied by the corresponding weight on line 12, and the total is recorded on line 113. For example, Exhibit 3.1 shows four check marks in column B. Accordingly, we multiply 4 by the weight of 4 and record the result, 16, on line 13 of column B.

The next step is to determine the sum of the numbers on line 13. This total represents the organization’s growing pains score. It can range from 10, the lowest possible or most favorable score, to 50 the highest possible or most unfavorable score.

### **Interpreting the Scores**

Drawing on our research concerning the degree of seriousness of problems indicated by different growing pains scores, we have worked out a color-coding scheme shown in Table 3.1. More detailed interpretation of score ranges is as follows:

**Green.** The organization is fairly healthy. Everything is probably functioning in a manner satisfactory for the organization at its current stage of development.

**Yellow.** The organization is basically healthy, but there are some areas of concern. It’s like hearing from your doctor, “your cholesterol is in the normal but on the high side. It’s something to watch and be careful about but not an immediate concern.”

**Orange.** There are some organizational problems that require attention. They may not be too serious yet, but corrective action should be taken before they become so.

**Red.** Immediate corrective action is required to address an existing or impending problem. A red score is a clear warning of present or impending problems.

**Purple.** The organization is in crisis, perhaps on the verge of collapse. There may not be enough time to save it.

It a firm's score exceeds 20, a more in-depth analysis to identify problems and develop recommendations for future action is warranted. Such a score may be a signal that the firm has reached a new stage in its development and must make major, qualitative changes. Failure to pay attention to a score of this magnitude can produce painful results. For example, the questionnaire shown in Exhibit 3.1 was completed by Joe McBride, the CEO of custom Printing, the firm we described in the Introduction to this book. Custom Printing's score, based on Joe's perceptions, was 36. this "red" score fits well with the fact that Custom Printing was in serious trouble.

**Exhibit 5.2. The "Old" and the "New" Metro.**

	Old	New
Culture	Poor performers are tolerated The company is a "family"	Poor performers are not tolerated The notion of "family" remains But is modified
	Managers avoid conflict	Managers are able to deal with Conflict
	Productivity is loosely defined.	Productivity is closely related to profitability.
	Company concentrates on revenue production.	Company concentrates on profit production.
Roles and Responsibilities	Roles and responsibilities are Not clearly defined.	Roles and responsibilities are are clearly defined.
	Responsibilities often overlap	Responsibilities are agreed on And do not overlap.
	Role confusion causes frustration.	Written definitions distributed to all employees eliminate confusion
Planning	No formal business plan exists.	Formal planning becomes an integral part of the organization.
	Company has no formalized Goals, objectives, or mission	Managers are taught how to design and use goals, and regularly Scheduled meetings are used to Evaluate progress toward goals.
	Little direction is given to Personnel.	Personnel are asked to participate In planning a course of action For the company.

Budgets & Accounting System	No formalized budget exists; available only for the entire the budget process is only an “exercise.”	Managers design and use realistic budgets.
	Financial information is Available only for the entire company. Information is often inaccurate or incomplete accounting system is underdeveloped.	A new accounting system provides information for all levels of the company in a timely manner.
Organization	Top-down management Style is used.	Participative management Style is used.
Control	Control is often ineffective.	Regularly scheduled meetings Monitor performance and Provide feedback.
Performance Appraisal	Appraisal consists of discussion Between managers and direct reports. Only positive feedback Is given; little effort is made to To improve performance	Supervisors provide both positive and negative feedback and ways to improve performance.
Decision Making & Leadership	Most decisions are made by top management; decision making is slow and often Ineffective.	Decision-making responsibility is distributed throughout the organization.
	Lack of participation in Decisions leads to lack of Commitment to decisions made.	The planning process encourages maximum participation by all Employees.
Communication	Total company communication is poor; communication between upper management And branch manager is ineffective.	Clearly defined roles and responsibilities contribute to better communication.
	Poor communication contributes To branch managers’ role Confusion and control by upper organization.	Regularly scheduled meetings increase communication among various levels of the management.

Recruiting	No formal recruiting plan Exists.	Recruiting is a planned activity.
	With a growing number of Branches, staffing is becoming A problem.	Managers are evaluated partly on partly on their ability to set and meet recruiting goals.
Training and Development	No management development program exists.	The training department is is responsible for training sales Associates.
	No standardized training for Sales associates exists.	
Compensation	No standardized training for Sales associates exists. Compensation is based on The ability of the branch to Generate revenue.	Compensation is based on ability of personnel to meet Financial and non-financial goals.

**TPU is one family, not a collection of separate families**

We can no longer operate as a group of separate entities, concerned only with ourselves.”

**Decisions will be made at all levels of the company, and people will be held accountable for their decisions.**

TPU’s management recognized the need to develop effective decision makers at all levels of the company and to eliminate the notion that upper management must never be challenged. To accomplish these goals, TPU began training individuals in effective decision-making techniques and encouraging them to apply these skills.

Participants in the management development program were formally taught how to make effective decisions. They also learned that they were responsible for certain decisions and that these decisions should not be deferred to senior management. As program participants returned to their jobs, the hope was that they would pass on these skills to others through example and, wherever possible, through actual training of their own direct reports.

**Whatever It Takes, Get it Done with Excellence**

“Whenever it takes to get it done with excellence in a cost-effective manner.” Managers were held accountable for meeting their budgets, and the notion of “always going first class” was eliminated.

**Our Company Can Learn from Others**

While TPU continued to promote the notion that it was a unique company, it also wanted employees to understand that they could learn from the experience of others. This belief was promoted through the management development program, which was designed to meet TPU’s specific needs and at the same time demonstrate techniques that had proved successful for other companies and other managers. These techniques included a performance review system that evaluated individuals based on observed

performance; a strategic planning system in which goals were set, monitored, and evaluated; and an organization design that was functional for the kind of company TPU had become.

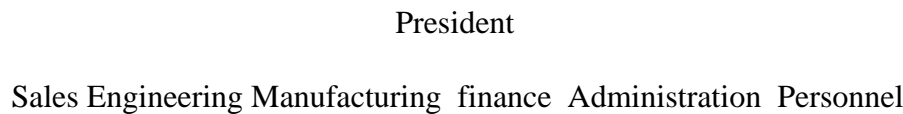
**Levels of Organizational Structure**

\*The macro structure – the boxes on an organization chart and how they are arranged.

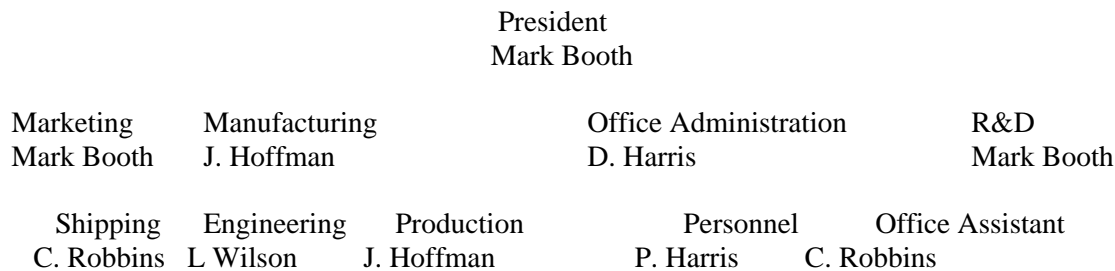
\*The micro structure – how the roles and responsibilities of each position holder are defined and the technology for defining these roles. For firms beyond stage II, all roles should be articulated in formal, written role descriptions that serve as guides for the behavior of people within the firm. They should not simply be used by the human resource function.

\*The supporting systems – the operational systems of the organization, its management development process, its performance management systems, and its corporate culture.

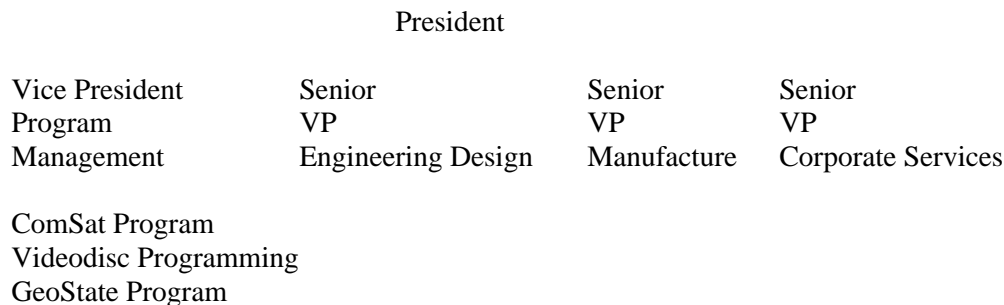
**Figure 8.1. Functional Organizational Structure**



**Figure 8.2. Pre-functional Organizational Structure: Plastic Molding Corporation**



**Figure 8.4. Matrix Organizational Structure: Ultraspace Corporation**



**Criteria For Evaluation and Design of Organizational Structure**

To evaluate whether a firm has developed all of the functional units needed to support its goals and whether certain units are no longer making the contribution that they should require determining the

extent to which all key result areas are reflected within existing organizational units. For example, one key result area may be customer service. This does not necessarily mean that the organization must have a customer service unit; however, the organization must in some way have an individual or group of people who are directly responsible for the performance of customer service.

### **Nature of Management Development**

To maximize its effectiveness, a management development program should focus not just on skill development, but also on helping participants understand how to behave and think in their roles as managers. The overall results of the program should be measured in terms of the behavioral change of managers and their direct reports and, ultimately, in terms of increased productivity of the entire team.

Management development is just as important an investment as the investment in plant and equipment. It is an investment in the human capital of an organization.

### **Critical Dimensions of Management Development**

...we have identified three critical dimensions that a person must manage effectively in order to be successful at a given level of the organizational hierarchy:

- \*The person's concept of his or her role
- \*The skills demanded by the role
- \*Certain attitudes or psychological factors

### **Change in Role Concept**

...changing the concept of one's organizational role from a performing role (doing) to a managerial role (supervising the work of others).

When a person first becomes a manager, he or she will be aware to some extent that the new role requires different activities, responsibilities, and even new ways of think. Unfortunately, few people have a very clear or specific concept of just what those new demands are until after they have been in the role for some time, and by the time they realize what was required they may already have failed on the job.

The first challenge facing any person who is making the transition to a managerial role, then, is a change of self-concept to reflect the new role. This requires developing a clear understanding of the new role, identifying what the new role's requirements mean in terms of how time should be used, and created an action plan for change.

Many new managers are not entirely sure what they should be doing and therefore continue doing what they have done in the past and hope for the best.

...clearly define the new role and communicate these expectations to the person who will occupy it.

Typically a manager must spend a considerable amount of time in planning (deciding what to do, when to do it, who should do it, and so), reading materials and reports, meeting with people, training team members, working with direct reports to set goals, and monitoring performance against goals.

To assist an individual in making this transition, he/she should request a copy of the job or role description for the new position. The individual should ask to and then meet with his or her superior to review expectations. Determine how best to invest his or her time in order to meet the requirements of the new role. Develop an action plan.

**Change in Skills Possessed**

Pyramid of management development, consists of five levels of skills that managers must develop over their careers to be effective in their roles.

**Figure 9.1 Pyramid of Management Development Skills**



Core management skills, required of all managers regardless of the organization they are operating include time management effectiveness, delegation effectiveness, interpersonal effectiveness, and operational leadership effectiveness.

Operational management required to manage day-to-day operations and supervise people. Recruit, selection, training, day-to-day supervision of people, performance appraisal, management of meetings, and project management.

Organizational management skills include planning, organizing people, designing and effectively using control systems, and management development.

Organization develop skills include strategic planning, organization planning, organization design, strategic leadership, and corporate culture management.

Transition management skills involve understanding how to manage change.

**Table 9.1. Critical Aspects of Management Development Transition.**

5. CEO/COO	<p>“Head coach”            Focused on managing            The organization as a            Whole, being an            Ambassador to the            External environment            And supervising senior            Managers</p>	<p>Transition management skills            The ability to identify the need            for an d management individual            and organization transitions</p>	<p>*Comfortable with working            through the senior management team            to achieve desired results            *Derives self-esteem for the success            of the company as a whole and from the            results of the senior management team            *Has the ability to make tough decisions,            Provide needed feedback to the senior            Management team, and deal with conflict            Within and outside the company (manages            His or her need to be liked effectively)</p>
4. Senior Manager	<p>Manager of a major            functional area or            Division</p> <p>Understands that            being effective in            this role involves            effectively managing            one’s area of responsi            bility , as well as being            a member of the corporate            management team</p>	<p>Organizational development skills            Strategic planning; organizational            planning and leadership            to position the organization            in response to long-range needs            identified through strategic            planning; management of            corporate culture</p>	<p>*Comfortable working through middle            managers to achieve the goals of the            functional unit or division            *Derives self-esteem from being both            the head of a functional unit and a corporate            leader. Understands when to plan each role            *Understands that he or she will sometimes            need to make decisions that are in the best            interest of the company and that this may            produce conflict within his or her            functional unit or division. Knows how to            manage this conflict.</p>
3. Middle manager	<p>Manager of other managers.            Understands that he or she            must work through other            managers, not directly with            technical professionals, to            achieve results</p> <p>Spends an increasingly greater            Amount of time on planning,            Organizing, and coaching</p>	<p>Organizational management            skills: Development of managers            departmental planning, organiza            tion, and control to produce a            a coordinated effort to achieve            collective goals</p>	<p>*Comfortable letting the manager            who report to him or her manage            the technical professionals within            his or her area of responsibility;            does not feel the need to directly            control technical professionals’            efforts            *Derives his or her self-esteem            from manager of other managers            *Manages the need to be liked in            Order to deal with conflict and            Provide feedback to other managers</p>
2. First-level supervisor	<p>Assistant coach or Player coach            Understands what it means to            make the transition from a player            to a coach</p>	<p>Core and operational management            skills: Delegation, time manage            ment, recruiting, training, perfor            mance appraisal, and supervision;            focus is on managing the day-to            day activities of technical pro            fessionals</p>	<p>*Must give up direct control of            results to technical professionals;            instead, works through them to            achieve results            *Derives self-esteem from the re            sults achieved by his or her team of            technical professionals and from</p>

	Spends an increasingly Greater amount of time On planning, organizing, And coaching		being the “best” manager * Is developing the ability to deal effectively with conflict and pro- vide effective feedback to those who report to him or her
1. Technician	Player (doer) 100 percent of the individual’s time is devoted to doing work rather than supervising it	Technical skills directly related to hands-on performance of tasks	*Has direct control over results *Self-esteem is based on the per- son’s individual efforts *Believes that being liked will get him or her ahead (avoids conflict)

## **Organizational Control Systems**

The organization will begin to experience growing pains related to ineffective control systems. For example, people either deny responsibility for tasks or do everything themselves because there are no clearly defined roles and responsibilities. If it has no way of knowing where it is financially because formal performance monitoring systems are underdeveloped, a company can find that its profits are low even when sales are increasing.

In order to be reasonably certain that the company's objectives will be achieved, they must have some way of trying to influence or channel people's behavior.

...the word control may have negative connotations for some people. As a result, the term performance management is sometimes used as a proxy.

## **Nature of Organizational Control**

A set of mechanisms designed to increase the probability that people will behave in ways that lead to the attainment of organizational goals.

## **Tasks of Control Systems**

First, they must be able to influence people's decisions and actions in an appropriate direction.

## **Design of Organizational Control Systems**

An organizational control system is designed to control some sort of organizational activity, such as sales, production, or engineering. More formally, it may be viewed as a set of mechanisms designed to increase the likelihood or probability that people will behave in ways that help to achieve organizational goals in a specified key result area.

A formal system of organizational control has the following basic components:

- \*Key result areas for the company, department, team or individual
- \*objectives within each specified key result area
- \*Goals that define the specific, measurable, time-dated activities that should occur to support the achievement of each objective
- \*a method of measurement for monitoring the performance of members of the organization
- \*A method for providing ongoing feedback on performance against goals
- \*a method for evaluating performance (at the end of the planning period)
- \*A method of administering awards to motivate and reinforce performance.

### **Exhibit 10..1. Scoreboard for a Manufacturing Plant.**

Key Result Areas	This	Last	This year's Performance									
	Year's	Year's	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
Nov	Goals	Goals										
Dec												

1. Prod. Volume

2. Quality

3. Safety

4. Energy utilized.

5. Scrap

### **Nature of Corporate Culture**

Some companies have been highly effective at developing and communicating to their employees their values with respect to customers.

Employees are trained to make customers feel at home.

### **Exhibit 12.5 Alpha Manufacturing's Current and Desired Cultures and The Tools Used to Make Its Desired Culture a Reality.**

Desired culture

A strong customer/quality orientation is present and consistent throughout all areas of the company.

### **The Transition CEO's Must Make to Survive Beyond the Entrepreneurial Stage** **Personal Control bind**

Making organizational transitions is the entrepreneurial CEO's desire for control. The typical CEO of an entrepreneurial company either consciously or unconsciously values control as both an end in itself and a means to other ends.

The CEO may have become an unwitting bottleneck in the organization.

The CEO may remain the most skilled person in the company in most, if not all, areas.

The CEO's desire for personal control over everything done in the organization was a considerable strength during stages I and II; it becomes a limitation or bind on the company during stage III.



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