Managing Growth – 5 Phases of Growth

Why Growth?

We nearly forgot what growth means in the last decade. The strategic hypes of the late eighties and early nineties were called lean management and downsizing. Added to this we went for our core competencies and we turned away from synergies (at least from the difficult to realize synergies in the diversified corporations of the eighties). A famous example for this change in mindset is former Daimler group. Mr. Reuter's aim was to establish a global technology firm in the eighties (to exploit synergies). His successor, Mr. Schrempp now focuses on the organization's core competency. He divested all the diversified businesses with one exception – Daimlers core, automotive.

It was the trend for globalization, which came with a new focus on economies of scale, and wave of start-ups who aimed to get a market share as large as possible, that made managers think about growth again.
Organizations can grow internally – by increasing revenue, number of staff or balance sheet total – or through mergers and acquisitions.

Question: is it possible to speed up corporate growth without limits? This question comes up when you look at the ambiguous business plans of many e-start-ups. Many of them planned (or better: intended) to have their IPO within less than one year. Two groups of stakeholders were the drivers for this speed:

- Venture Capitalists – they wanted to get returns as high and as fast as it gets
- The founder-teams – they wanted to get a return for their idea and for their restless work, many of them aimed for "as high and as fast as it gets" too.

The core of the question is if it is possible that an organization can move through the various stages of growth that are necessary to reach an IPO within a few months.

Statement:

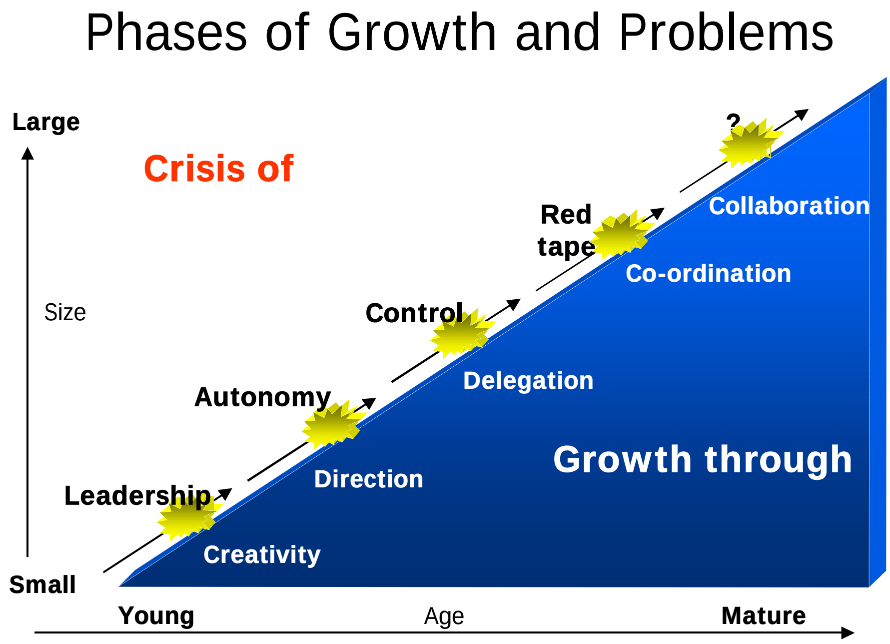
It is possible to speed up corporate growth – but not infinitely. Today start-up, tomorrow at the stock exchange – this is impossible for some practical reasons. The question is, however, how fast an organization can develop from start-up with a team of five to a business with 50+ people.

Greiners Model of Five Phases of Growth

When organizations grow, their structures and processes change. They need new ways of communication and leadership. The extent of these changes is determined by how the organization grows, i.e. by increasing the number of staff or by increasing revenues.

According to Greiner, a growing and maturing organization goes through five stages, each of them is related to particular organizational characteristics and – maybe – to particular problems.

Recklies Management Project GmbH ▪ www.themanager.org
Tel. 0049/391/5975930 ▪ Fax 0049/721/151235542 ▪ mail: orecklies@themanagement.de



A closer look at those five phases of growth reveals which problems a speeding up of growth can bring. Within every phase and every crisis, the organization has to go through particular processes of learning and change. These processes take time and cannot be reduced to zero.

Phase	Growth through	Crisis of
1	**Creativity**: In this early stage, there are only few people in the company. They know each other well and share their experience, knowledge, and information. All relevant issues are discussed among all people. This is the typical creative start-up culture.	**Leadership**: As the company gets larger, it gets increasingly difficult to do everything in a mutual effort. They have problems to distinguish important from unimportant issues, since there are few or no organizational structures that allow allocating work to certain persons. The company needs a strong leader who holds the team together and establishes appropriate systems and structures.
2	**Direction**: Now the company is able to direct certain issues and tasks to certain people. Normally, directives and control are highly centralized at this stage.	**Autonomy**: If the company continues to grow, this leads to an extremely high workload for the manager or the management team. They have to handle nearly everything in the company. They are responsible for assigning tasks, controlling results, acquiring work, solving problems, motivating people etc. As the company reaches a certain size, management will not be able to continue this way. They have to give up some of their autonomy and to share some tasks.
3	**Delegation**: Management delegates some tasks, functions and authorities to other people in the company. Departments emerge and develop their own dynamics.	**Control**: If management now fails to control the activities of these departments, they would start to handle tasks more from their own view than with the whole business in mind. At its extreme, departments would work against each other.

4	**Co-Ordination**: Projects and tasks are coordinated between all parts and departments of the company so that they are well in tune with each other.	**Red Tape**: This coordination can lead to a high level of bureaucracy. Fine-tuning requires high efforts that make it difficult for the company to adapt to changes in the external environment.
5	**Collaboration**: The co-operation between all parts of the company is so well organized that they really can work together effectively in whatever situation.	**?**: Nevertheless, doing business is never easy and the next crisis is waiting for sure.

Each of these phases of growth, evolution and revolution is marked by particular experiences of the members of the organization. In the beginning of each phase, all processes work smoothly. Than, the organization develops on. The once perfect processes and structures become inadequate – until the situation becomes unacceptable for management and/or staff. (Very few businesses initiate change processes *before* they reach a really unacceptable situation.) In such a situation of crisis, it is time for change. These changes have to be implemented, controlled, and modified in order to achieve a new fit between organizational needs and its structures and processes.

That means, however, that all members of the organization have to go through these phases of learning and development. A corporation that started the year with 10 people and that has 250 people at the end of the year has to go through three to four phases within twelve months! It is questionable, if really all processes, structures and skills (including leadership skills and mindset of the management team) can keep up with that speed.
Due to the several crises of growth, the implications of extreme growth on costs are enormous. The company moves from one crisis to the next - and the word ‘crisis’ stands for ‘inefficiency’ too. Many once ambiguous Internet-start-ups who suffer from extreme costs are evidence for this.

Conclusion
A study from Bain & Company found that only one out of seven companies is able to achieve a sustainable and profitable growth.

Managers must keep in mind that growth in itself is not necessary equal to shareholder value. Shareholder value comes from profits, not from increasing revenues.

The following factors determine a healthy and sustainable growth:
- The ability of the organization to identify profitable core businesses and to focus on them as time goes on.
- An ongoing questioning, developing and modifying of those organizational elements that are vital for the core businesses.
- The ability of the organization to realize changes in the external environment quickly and to react to them quickly.
- The organization needs internal processes that allow to manage crises of growth efficiently and to minimize their impact.