Managing Growth in New Venture

After launching a new business, the focus is shifted to consolidating technology, after that for consolidating marketing efforts and once full capacity utilization has become possible because of booking of orders, attention has to be drawn towards growth. Growth is the best strategy for survival. Therefore, in this article, we will focus on understanding issues related to growth; meaning of growth, need for growth and factors affecting growth before discussing characteristics of high growth firms. Strategies for growth are discussed after that, where emphasis is on direction of growth and sub-strategies associated with each possible direction

Characteristics of High Growth

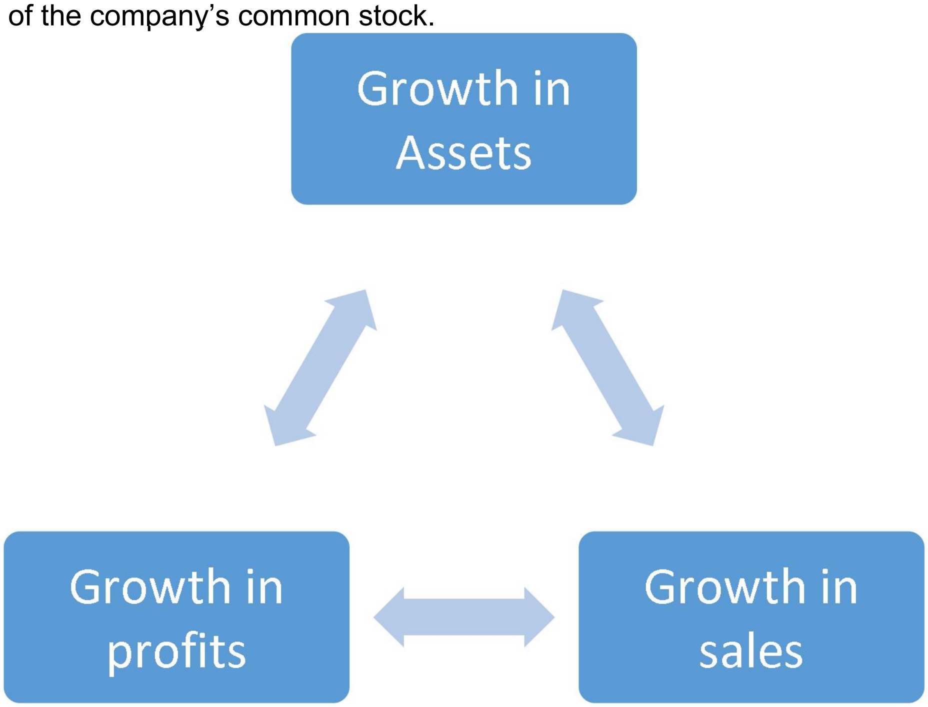
The growth of a firm had mainly remained a topic for economists to discuss for a long time before Young (1961) wrote, "The phenomenon of corporate growth – the product of wide range of contributing variables – has fascinated and baffled economists, executives and investors for as long as competitive business organizations have existed".

What is Growth?

In the world of real business, the term 'growth' is often used, because a competitive environment has compelled business firms to view growth as the best survival strategy that may decide whether a firm will prevail or perish.

Growth of a company is occasionally understood with reference to change in quantity sales, naira sales, gross or net investment in asset, profit or profitability. The term 'growth' is also used to indicate change in market share or earning per share or market price of share. Stanford Research

Institute, an applied research centre in Menlo Park, California, (Young, 1961) had conducted a fundamental study and developed a formula for growth ranking of firms. They had included three growth measures: the percentage increasein sales (growth in size), in net profits, and in the price of the company's common stock.



Firm's growth cycle

In this article, the growth of a firm has been defined in terms of change in gross block. Gross block means the purchase value of fixed assets; and change in gross block means new investment in the firm's fixed assets. It was observed there that a strong positive correlation existed between the movement in market price of share and change in the gross block of the firms.
Asset growth provides much needed conditions for growth in sales and profit. It must be followed by growth in sales through technological consolidation first and then through market consolidation. Sales growth should lead to profit growth, if the consolidation phase is suitably managed. In turn, the retained profit would create the necessary pre-requisite conditions for the growth in asset.
The cycle of firm's growth would, thus, continue.

Why Should a Firm Grow?
Some firms grow through product-diversification to minimize business risk, and some expand their operations globally to achieve market-line diversification needed for spreading out the risk. Reasons for growth vary from time to time, depending upon the situation. But ultimately value maximization should be the firm's objective.

Factors Inducing Growth
The entrepreneur's attitude towards growth has a tremendous impact on the quality of growth. Quality means sustainability. Sustainability brings out the full potential of the firm for maximizing firm's value.
Demand-push growth is an unplanned growth and is not a sustainable growth. It essentially means just a routine or mechanical response to the opportunity coming on the way of a business firm. The entrepreneur responds to the growth in demand of their product, and invest fresh amount of funds usually in expansion activities. Any change in pattern of demand would change a firm's financial position in a demand-push growth. Proactive growth requires strategic planning. Constant scanning of the environment for opportunities and threats, continuous study of internal strength and weaknesses, and strategies for establishing a viable fit between resources and opportunities are the characteristics of a proactive firm.

Characteristics of a High Growth Firm
Proactive growth is possible with entrepreneurial zeal of managers and owners of a business. The high growth opportunity arises out of four factors (quadrants) combining with each other, namely,
(i) Characteristics of an entrepreneur
(ii) Characteristics of business
(iii) Business practices of the enterprise
(iv) Human resources

(i) Characteristics of an entrepreneur
An entrepreneur who possesses the following qualities is likely to steer his/her business towards a high growth trajectory:

- Passion
- Vision to attain dream

Persistence to work relentlessly and tirelessly

- High Self-efficacy to attain one's objective
- Resource Skills
- Intelligence

(ii) Characteristics of business
Some characteristics of a firm would be conducive to high growth. Some important ones are as follows:

Strong commitment for growth
Collaborative Growth Strategies
Good Planning Strength
Vibrant Organization

Stages of evolution and revolution of an organization.

Usually in the infancy stage, vibrancy is derived from the visionary leader.When employees acquire confidence and understanding of business the further growth of business is ensured by granting little autonomy and guiding behavior of the leader. But when the crisis of autonomy arises, delegation would become the key for ensuring fast growth. When powers are delegated controls are lost over a time. When that happens, leaders test lies in coordinating skills; if the leaders effectively coordinate efforts of all departments and managers, the growth remains on a good trajectory. However, coordination would require rules and processes, the excess of which would result into red-tap organization.

Collaborative spirit may fade away and result into inter-personal crisis. Business is disintegrated at this stage and divisions are spun-off to make them into separate firms, who start from the scratch.

Reshaping of an organization structure as per the first sign of any type of crisis, supported with a suitable leadership, is very much essential. Otherwise an organization may start losing its effectiveness.

(iii) Business practices of the enterprise

Business practices are important for a long-term play of business, which grows fast. It is matter of rules, procedures, documentation and overall culture that can deliver customer satisfaction and build credibility. This can be achieved through quality product and services, offering of value for money to customers and innovations that may fullfil customer needs.

(iv) Human resources

Human resources are of utmost importance for the survival and growth of a business. It is also true that a growing firm can easily offer opportunities for employees to grow. Growth here does not mean financial advancement, but mostly professional advancement.

Be selective in hiring employees, especially on key positions. Search for the right people and offer opportunities in monetary terms and growth terms.

Hiring is one thing and developing is another. Continuous development of human resources is a function of several well-designed actions like, compensation plan, motivational steps, training need identification, imparting training, bringing innovation in jobs, empowerment of employees, promotion opportunities and others. Employee commitment is commanded through positive culture and empowering leadership. Still, recognition in monetary terms cannot be undermined. Start-ups are well-off designing reward system that attracts talent that is willing to take risk and be rewarded if risk taking succeeds. High growth rate of an enterprise is a compounded outcome of several factors characterized by entrepreneurship characteristics, business characteristics, business practices and human resources. Interplay among all these collectively creates an environment that may be either conducive to growth or destructive to growth.

Strategies for Growth

The issue of growth is strategic in nature, therefore, it involve strategic thinking, and hence, application of SWOT analysis. A SWOT analysis model must suit the need for answering a particular question, which is related to either direction of growth or rate of growth or strategy for growth. Strategic models are described and their applications are explained in each of these fields of strategic decisions in the following sections of this article.

Growth Direction Decision

Synergy is the measure of an effect on the net benefits of combining more than one activity. Synergy is said to exist when the whole is greater than the sum of the parts. The presence of some strength and its best fit with available opportunities are essential for creating a positive synergy. For the growth direction issue the synergy is searched in the areas of product and market. A SWOT analysis on these two parameters can give a quick idea about the value creating growth alternatives.

Four possible directions of investments can be charted on the basis of product-market analysis: (i) grow where you are, (ii) market side (vertical) growth, (iii) product-side (horizontal) growth, and (iv) diagonal growth.

(i) Grow where you are

If a firm is in a position to meet its growth and profit requirements in the present market and with the present product, it would not see any need to change direction. The firm would continue to be in the same business and the same market. Familiarity with the product and the market is a comfortable position in managing growth and profitability. The following options are available for growth without change in direction.

Expansion

Modernization

Backward integration

Cost effectiveness

PLC based strategies: Each product pass through four phases during its life cycle, which is called as a product life cycle (PLC). The four stages include introduction, growth, maturity and decline. Several of these strategies are operational strategies and some long-term ones.

(ii) Market side growth

A firm, which is weak on product side but strong on marketing, would not prefer to venture into related or new products. It would rather prefer to expand its market. Strategies based on product life cycle were seen earlier. The maturity stage can change the growth direction, if the firm is willing to enter into related and new markets. The GE matrix below and other such marketing models explain where and how to push up sales of the present product

GE MATRIX

INDUSTRY ATTRACTIVENESS				
COMPANY POSITION AND STRENGTH	Premium Invest/grow	Selective Invest/grow	Protective Selectivity/Earnings	High
	Challenge invest/Grow	Prime selectivity/Earnings	Restructure Harvest/Divest	Medium
	Opportunistic selectivity/Earnings	Opportunistic Harvest/Divest	Harvest/Divest	Low
	High	Medium	Low	

A firm, which possesses a better market strength, but whose present market offers insufficient opportunities, may capture related and new markets. Initially market penetration and later on market development may be desirable. The firm, after capturing the market, has to consolidate in terms of acquiring product strength. This implies that after going initially in the vertical direction in the product-market matrix, the firm has to change its direction and go horizontal. The firm has to set up R&D facility, improve quality, cut down costs and add related products. This pursuit finally results in the concentric diversification.

(iii) Product side growth

A single product in a product-portfolio ties firm's cash flow and profits with the phases of the product life cycle. The BCG matrix, therefore, advocates systematic building of a product-portfolio so that a firm can achieve a smooth flow of cash and profits. To achieve this goal a firm has to ensure that at any point of time it has different products in different phases of life so that it can use cash flow from cash cows and invest in a new (question mark) product and also re-invest some cash flows in the star products instead of allowing cash cows to consume its cash flow or permitting dogs to eat up cash flows and profits.

A firm possessing significant strength related to its product but which is weak in marketing would see its product maturing fast. This firm should naturally prefer to add first related and then new products in its product portfolio. These related and new products must have an appeal to the firm's current market for the present product. Product quality, efficient research and development work, effective workmanship, low cost but high value products, etc., indicate product strength. A firm may gradually enter into a new product, which may have only a distant relationship with the original product in the product portfolio, but it can be offered to the existing market.

Product side growth can only continue up to a point, beyond that the vertical direction (market side growth) may become a necessity. The BCG matrix given below explains the need and timing for adding new product. Question mark products (products in the introduction stage) are cash hungry. They need support. Star products (products in the growth phase) are almost self-sustaining.

They generate enough cash required for ploughing back into them. Cash cow products (products in maturity stage) generate a lot of surplus funds, which need not be fed back to them. Finally, dog products (products in decline stage) need to be divested; sold if they are in the early dog stage, or harvested (salvaged) if in the late dog stage. Harvesting or divesting generates funds. Operating funds, generated by cash cows, and terminal cash flows generated by sale or salvaging of dogs, should be invested in some opportunities. If a firm has no or only a few question mark products in its portfolio, then it would turn into a cash rich company.

A persisting cash rich position is bad, as it is an indication that the company has no profitable plans of investment. The excess funds need to be deployed for growth. Product-line growth (introducing a new question mark product) is the right choice in this case.

STAR	QUESTION MARK
CASH COW	DOGS

BCG MATRIX

However, a firm should not introduce too many new/related products at the same time. It may find shortage of funds if an unmanageable number of new products are introduced. A pursuit of a balanced product portfolio, thus, makes it imperative on the part of a company to periodically introduce related or new products in the market.

(iv) Diagonal growth

Only a few companies can think of successfully growing into the diagonal growth, because it is like riding two horses at a time. One needs to be strong on both the product and market fronts, which is often not the case. However, firms with very ambitious growth plan can look forward for sharing strengths with other firms and move into the diagonal direction. The strategies for diagonal growth may be many: like, memorandum of understanding, joint venture, takeovers and mergers are the alternatives to choose from. Business alliances are made with suitable partners so that the diagonal growth could be fostered jointly by sharing resources. Strategic intents of business alliance should go beyond just sharing resources and each partner should build strength from the other partner's presence, especially if it is not a merger with another firm. The business alliances are usually short-lived.

Two points need special mention here. One, firms must initially exploit their strength as they gives highest synergetic value. Also they must remove weaknesses and start building strengths in other fields, much before the further change in direction is warranted. Two, each firm carries two inherent contrasting behaviours. The familiar environment of the product and market in which the firm is presently functioning is the most comfortable area of functioning as long as the thirst for growth is satisfied. Firms therefore change direction. Right timing for change in the direction and preparation for the change are essential. Ultimately over a period a firm becomes a multi-product multi-segment conglomerate firm.

A conglomerate firm could hardly grow faster and can face more problems associated with inter-personal conflicts (Greiner, 1972) among division heads causing damage to the common cause in the pursuit of maximizing division's benefits. Therefore, when a conglomerate firm starts facing crisis of interpersonal conflict it must go back to present-product-present-market cell to create conditions for further growth. Spin-off is one way of the restructuring exercise for achieving this target. In a spin-off, technically each division or a group of divisions comes into existence as a new firm and cycle of growth continues for each one of them but now separately and independent from each other. A non-synergic haphazard growth is difficult to manage or sustain, as it may become a risky preposition.

Growth Rate Decision

At what rate should a company grow? A minimum rate of growth should be equal to inflation, the economy growth rate or the industry growth rate, for some.

Others may set target looking at competitors and try to achieve a growth rate at last equal to the competitor.

Benchmarking of growth rate in terms of inflation rate, industry growth or economy growth could be at the most a minimum target. Only those firms will view these as the ideal growth rate, who go for demand-push growth, and do not consider the growth rate as a decision variable. They are unlikely to go through a steady growth period as the market decides their growth. They are also unlikely to sustain the growth rate. Proactive firms would like to decide sustainable growth rate for them. Sustainable growth rate is determined by a combination of two sets of factors: one, financial factors and two, organizational or managerial factors. A firm, which has learned the art of managing both these factors, can look forward to fulfilling the ambitious goal of a super-growth.

'Profit determines growth' is the premise behind financial considerations of sustainable growth rate. 'Growth determines profit' is the premise around which organizational theories are developed to explain the ability to manage growth. Thus, we have two models of sustainable growth rate: a profit-constraint model and a managerial constraint model.

Growth Strategies

After deciding about the growth direction and growth rate the planners must select the right growth strategy. Growth strategy is a vehicle, which takes a company to a targeted destination (direction) and within the target time (at the targeted speed). This is done in two stages: the choice of internal vs external growth, and the choice of growth alternative.

Internal vs external growth

A company is said to have opted for internal growth if it makes fresh investment in the desired field. Expansion, modernization, replacement or any other greenfield projects bring internal growth. Whereas external growth is achieved either through buying out of an existing firm or through some arrangements with other firms, which may fit well in growth requirement. Merger, acquisition, takeover, joint ventures, collaboration, and strategic alliance are examples of external growth. A firm's internal strength must be assessed before taking a policy decision in favour of either internal growth or external growth. Some firms are very good at managing external growth, while others possess strength of managing internal growth. Internal growth requires strong project management skills and advance planning (because of gestation period), whereas external growth requires skills of managing various stakeholders on both sides as well as ability to manage cultural transformation, though it may offer instantaneous growth. Some argue that firms who opt for high growth rate select external growth option. It is not a necessary requirement. Reliance Industries has demonstrated superb internal growth. Choice should be based on assessment of the organization's capabilities.

Growth alternatives

There are many growth alternatives to choose from. Among them are expansion, capacity enhancement, modernization, technology upgradation, divestment, concentric or conglomerate diversification, consolidation, spin-off, market penetration, market development, backward and forward integration, horizontal integration and so on. A suitable strategy must be selected in the light of strategic decisions on the growth rate and the growth direction.

Building the New Venture Human Capital

Important Aspects of Human Management

Selecting high performing employees shall always be a priority of an enterprise, even if it costs more. One has to search for such employees rather than inviting application and going through a selection process. Head-hunting agencies can be employed for this purpose.

Bringing in professionalism is another important challenge for an entrepreneur. Lack of professionalism may still allow a family to continue in business but may not allow strategic growth of a firm. Unprofessional firms may not be in a position to attract good talent and retain them. Professionalism involves empowerment of key employees and allowing them freedom to take decision and be responsible for the same.

Increasing motivation and commitment of employees is a serious task an entrepreneur has to perform. One has to invest time and money in keeping the employees motivated. Though empowerment and reward system are essential parts for motivating people and in soliciting commitment, the continuous growth of employees in the firm is equally important.

Retaining employees seems to have become a difficult task with increasing mobility of people. However, well-motivated and committed employees who work in a professional environment are more likely to stay for a longer period with the firm.

Managing conflicts is yet another task in man-management. Where there are more people, committed people and highly motivated to perform the chance of conflict among them is also high. Different priorities demanded by the job, different temperaments, lack of appreciation for each other's role and absence of business savvy character can cause conflicts. A leader has to constantly invest time in conflict resolution in an amicable manner.

Managerial Slack and Growth Requirement

For a growing enterprise, timely creation of slack and using it for productive purpose could be a great and good strategy for not only growth but also for retention. The organization also has to grow along with the issues associated with growth. The following text explains the managerial slack and its utilization for retention of employees and growth of the firm, as well as the organizational growth.

(i) Managerial slack

The term ‘managerial slack’ as defined by Cyert and March (1963) is also called organizational slack. In very simple terms, organizational slack is achieved when managers are able to complete their routine task within working hours and are still left with some spare time for doing important work for business. Staffing and internal processes collectively determine the organizational slack. A negative slack, where time required for completing work is more than the working hours would make people attend to only urgent work; important work and the quality of work would be neglected.

(ii) Organizational development

The development of the organization is a continuous process. The degree of centralization, style of leadership, processes and host of other factors should assume different shapes to suit the stage of organizational development. Greiner
(1972) described the stages over which an organization would grow, and face changing problems. These stages are depicted in Figure 1 on the evolution and revolution of the organization. An enterprise that manages various nodes on the evolution and revolution chart by suitably adjusting the leadership style, organizational structure and processes stand to grow faster.

Summary

Let us recapitulate the important concepts discussed in this unit:

Starting a venture is easy but nurturing it for growth is more challenging because there is only one way of survival, and that is through growth.
Growth comes in phases, first investment in business grows, and then it shall result in growth in sales, and then profit and again growth in investment. The cycle begins with investment growth made in a very strategic way.

However, if a venture does not grow in the right direction chances of earning profits or improving market share may reduce. The choice of growth direction can be made by the application of product-market matrix in which strengths and weaknesses around product and markets of the existing business are assessed and trajectory is decided where the growth lies. The application of product-market matrix gives many options for the growth direction. Based on the one chosen with the application of this model, further applications of product life cycle, BCG, GE models would give further clarity about the area where focus must be laid for growth.

The next question is about the rate of growth. Slower or faster growth rate would bring sub-optimal results and sometimes even negative results.
Another important decision area is how to grow, that is growth strategies.
Growth strategies are broadly divided into two parts, internal growth and external growth. Internal growth is more organic and that comes with greenfield projects wherein a firm starts a new project afresh and takes a risk of gestation period and associated risks. In external growth strategies mergers and acquisitions or other types of collaborative growth are included.

A well-chosen growth path, growth rate and growth strategy will work only if proper human resource management as well as appropriate organizational systems are in place.