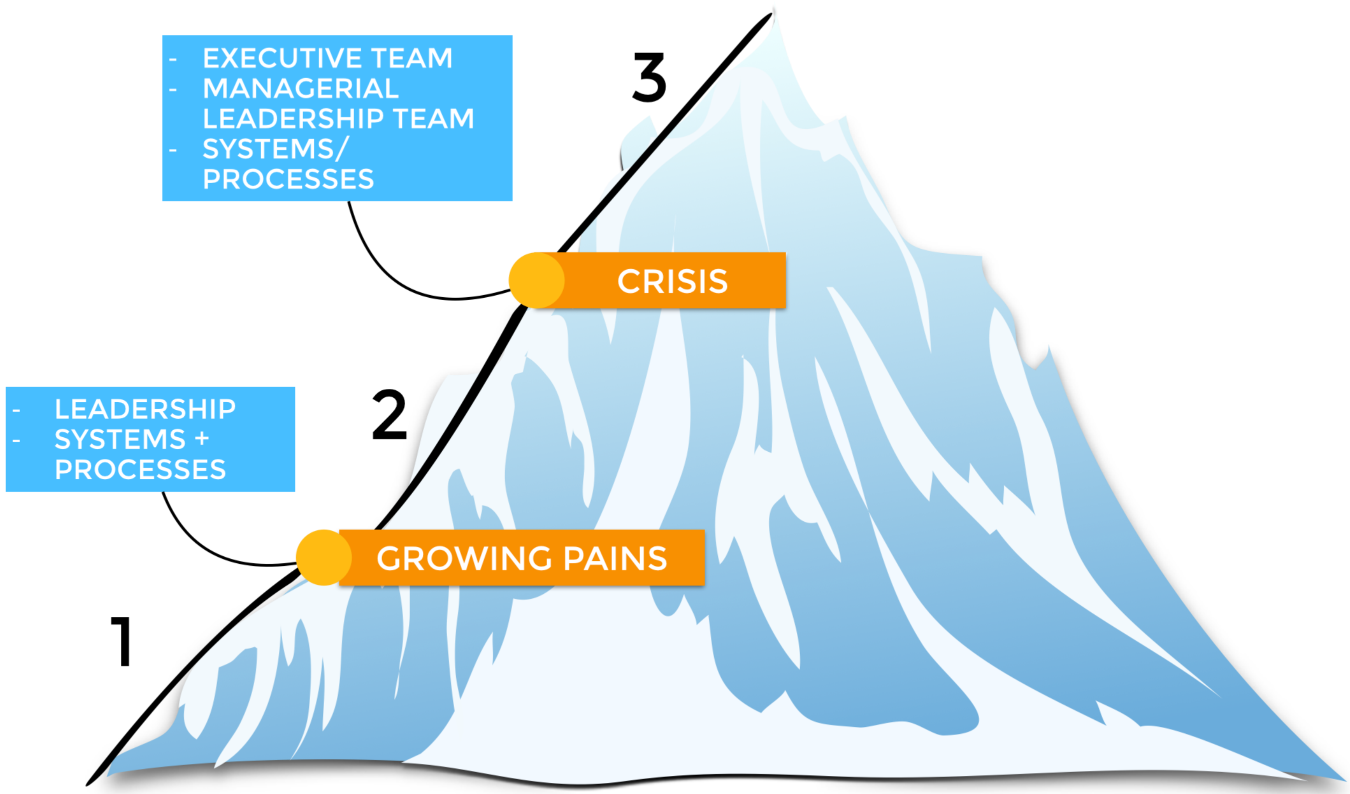
BUSINESS GROWTH CYCLE

HOW SUCCESSFUL COMPANIES GET - AND STAY - ON TOP

WHERE ARE YOU IN THE GROWTH JOURNEY?



Nothing kills faster than success. It's the responsibility of leadership to predict and prepare for growth and the problems growth causes. Growth-hungry organizations must assess where they have been, where they are, where they are going. They must also evaluate if any of the 12 Warning Signs of Success will derail their growth. These warning signs of success are the 12 most critical mistakes leaders make, and each is a direct result of an earlier success.

THE CRITICAL TASK FOR LEADERS IN EACH DEVELOPMENTAL PHASE is to find a new set of organizational practices that will become the basis for managing the next level of performance. Leaders must be ready to work with the flow rather than fighting the tide.

THE BUSINESS GROWTH CYCLE helps business leaders identify their level of performance today and precisely what they need to accomplish to move to the next level.

Based on decades of experience with thousands of business leaders, the Business

Growth Cycle is an approximate timeline of how successful organizations mature and the opportunities and pitfalls to be aware of at each stage of growth. Each level begins with a period of steady growth and stability and always ends with a crisis period of substantial organizational turmoil and change. *As a leader, you must know your organization's current stage so you can recognize when it's time to change in order to move to the next level.*

Experience shows only one out of 10 companies that develop from a Start Up (Level I) into a Rapid Growth (Level II) company succeed in making the transition to a Market Leader (Level III). The remaining 90 percent slide back, shrink, fight the same battles in different ways, or go out of business when they hit the transition period between Level II and Level III.

Each organization and its component parts are, at any given time, at different stages of development. Circle the characteristics and problems that you feel most represent where your organization is in the Business Growth Cycle. This will help you know where your organization is, what is next and what you need to focus on and communicate to help your organization predict, prepare and normalize the journey of growth and success.

LEVEL I ORGANIZATION: START-UP

CHARACTERISTICS OF A TYPICAL LEVEL I ORGANIZATION

- The founders are actively involved in running the organization.
- The primary emphasis is on producing and selling products or services.
- Management, development, systems and planning receive minimal emphasis.
- Communication is informal.
- Employees work long hours and are paid modest salaries.
- Management and leadership react more to customer needs than to employee needs.
- The founders are either technically oriented or market builders—and are usually not skilled managers.
- The company culture—the non-negotiable values and ways of treating customers and one another—is generally understood and does not require a lot of reinforcement.
- The growth is greater than inflation, but usually slow or moderate.

TYPICAL PROBLEMS IN A LEVEL I ORGANIZATION

- When there are two or more founders or partners in the business, it is not clear who is in charge and where accountability lies.
- Conflicts between founders or partners often arise and remain unresolved.
- New employees are less motivated by dedication and more motivated by money and status.
- Budgeting and cash control are often insufficient.
- Minimal cash planning and/or misuse of cash result in working capital shortages.
- Financial reporting is generally slow and inaccurate, and the use of key performance data is not sufficient to predict problems and develop necessary coping strategies.
- Entrepreneurial founders are often tempted to diversify into unrelated products,

services or businesses.

WHAT'S NEXT: Leadership and processes/systems must change for Level I organizations to evolve to Level II. Once these are put in place, usually after turmoil, the organization generally (but not always) advances to the Level II stage.

LEVEL II ORGANIZATION: RAPID GROWTH

CHARACTERISTICS OF A TYPICAL LEVEL II ORGANIZATION

- A capable leader is at the helm. (Level I crisis resolved)
- The business often has multiple locations, such as sales offices, branch offices or off-site warehouses.
- Your focus diversifies, and you give more attention to areas such as marketing, inventory management, team member benefits and support, budgeting and systems support.
- Jobs are more specialized.
- The organization becomes more impersonal because there are more employees.
- The growth rate is faster than in Level I, sometimes accelerating at a very fast rate.
- The culture needs to be explicitly communicated and reinforced in words and actions.

TYPICAL PROBLEMS IN A LEVEL II ORGANIZATION

- The executive leadership team does not function as an aligned team. For example:
  - Entitlement or arrogance plagues one or more of the executive team members, who were once all-stars but have become troublemakers or brilliant jerks.
  - There are some long-term loyal employees or recent hires on the executive team that cannot scale themselves to meet the needs of the business.
  - Friction emerges between old and new leadership.
- The organization feels the effects of mismanagement. For example:
  - Top-performing individuals are brought together to become the management team, but they lack the experience of working in a Level II organization.
  - Delegation becomes increasingly difficult for the CEO, but managers don't have the authority to make decisions on their own.
- An "us versus them" feeling pervades as senior management is less engaged with day-to-day operations
- It becomes apparent that some senior managers are not developing as skilled leaders or executives.
- One or a few customers or products represent a disproportionate amount of the business, increasing vulnerability to competition.
- Customer service quality falters.
- Executive leadership team fails to understand or react to changing market conditions or increasing competition.
- Increased internal problems threaten the organization's ability to scale. For example:

- In-fighting among managers and supervisors
- Outdated corporate cultures
- "Look the other way" deals on non-negotiable values for certain "special" employees
- Inefficient or outdated systems and processes
- Bureaucracy sets in

- Poor decisions are being made by unqualified managers in areas such as systems, facilities, recruiting, or use.
- There is less communication from the top.
- Accountability becomes confused and sporadic.
- Problem-solving meetings and processes are awkward, time-consuming or ineffective.
- There are "pockets" of both tight and loose cost controls.
- Entrepreneurial owners and leaders are tempted to sustain rapid growth indefinitely without the infrastructure truly needed to scale the business.
- Major shortages of management time and cash often occur.
- Vendor relationships become strained. Long-term service providers are no longer effectively able to serve the organization.
- Throughout the organization, relationships become more important than qualifications or accountability; the organization becomes a political beast.
- Financial performance reporting and control systems are often inadequate for sales volume.
- Some key employees become disenchanted and leave.

WHAT'S NEXT: Level II organizations go into crisis before making it to Level III. Most turmoil happens within the executive leadership team, the middle management team, and with the systems that help the business scale.

LEVEL III ORGANIZATION: MARKET LEADER (MATURE, FINANCIALLY STABLE, PROFESSIONALLY MANAGED & LED)

CHARACTERISTICS OF A TYPICAL LEVEL III ORGANIZATION

- Aligned executive and middle management teams are in place and are staffed with qualified people; accountability is clear and well managed. (Level II crisis is resolved)
- The organization's niche is clearly defined, and its products and services fit the niche.
- The organization has an identity beyond the founder and the current leader.
- The organization has well-defined and communicated short-term and intermediate-term strategies and plans, which are being followed.
- Managerial leaders are doing more managing (working "on" the business) than technical work (working "in" the business). They're focused on developing systems, accountability and people that will allow the business to scale.
- Unproductive or unprofitable products and services are phased out.
- Market research, development and planning is timely and competent in all areas of business such as products, services, customers and competition.
- Competent staff, management and leadership development processes are in place, including performance feedback, training and coaching.
- Managers effectively use financial and non-financial performance data in presenting, planning, decision-making, problem-predicting and expense

control.
- Profitability is strong.
- Financial health is strong and cash flow works well.

BENEFITS OF BECOMING A LEVEL III ORGANIZATION

- Survival and continued development of the organization are not dependent on one or a few people.
- Leadership and ownership succession are more assured.
- More capable executive, management and technical employees can be hired and retained.
- A strong middle management team frees ownership/executive leadership to plan, predict problems and react to major opportunities.
- The organization can more effectively expand product lines and markets.
- The organization is able to quickly react to an adverse economy or market.
- Profitability is usually sustained and predictable.
- The increased flexibility and stability generally makes the business more enjoyable for owners, managers and key employees.
- The owners can spend more time away from the business if desired.
- The business is more marketable at a premium price if the owners desire to sell.
- Smaller companies in the same industry can be successfully acquired.

THE 12 WARNING SIGNS OF SUCCESS

THE FIRST WARNING SIGN OF SUCCESS: RIGHT IDEA, WRONG PERSON

The company started out with the right ideas, right people and right direction. Along the way, the company ended up with some wrong people in key positions. "Superstars" – whether promoted from within or hired externally – have not worked out.

The team members changed, you changed or the goals changed. Whichever it is, some of the key people in the organization are now holding us back.

THIS SOUNDS LIKE MY COMPANY.

1	2	3	4	5

STRONGLY DISAGREE NEUTRAL STRONGLY AGREE

THE SECOND WARNING SIGN OF SUCCESS: BAD MANAGEMENT OF GREAT OPPORTUNITIES

Rarely is it an actual lack of opportunity that causes a business to struggle or fail. More often, it is bad management of people or poor prioritization of existing opportunities.

Technical/functional experts are "rewarded" with management and leadership positions, but they have not done the work to become great managers. Team members are not able to take advantage of all the opportunities in front of them because they are frustratingly being mismanaged.

Some people have the title of "manager," but not the skills.

THIS SOUNDS LIKE MY COMPANY.

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STRONGLY DISAGREE NEUTRAL STRONGLY AGREE

THE THIRD WARNING SIGN OF SUCCESS: OPEN DOOR, CLOSED MIND

Your leadership team says they're on board for change and growth. But, their actions tell a different story.

They dismiss ideas quickly or impede new processes. What was once a can-do attitude and a "playing to win" mentality has morphed into a "play it safe" mindset. The leaders are not really listening to the rest of the team. They insist on doing it "their way," and the result is frustration.

Negativity and insecurity are seeping in because certain leaders won't change course.

THIS SOUNDS LIKE MY COMPANY.

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STRONGLY DISAGREE		NEUTRAL		STRONGLY AGREE

THE FOURTH WARNING SIGN OF SUCCESS: LEADERSHIP BOTTLENECK

The formal org chart is not drawn this way, but functionally the org chart looks like a rake (a lot of people reporting into one or a few people).

This rake org structure has now turned key leaders into chief problem solvers who spend most of their time working "in" the business vs. working "on" the business.

Capable managers become frustrated and feel untrusted. Incapable managers figure out the path of least resistance is the path to the CEO's office to get the answer. The result is a bottleneck that slows or stalls growth.

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THE FIFTH WARNING SIGN OF SUCCESS:
HOPE IS NOT A STRATEGY

We have a lot of great ideas, but not a robust strategy process to bring these ideas to life.

The company sets what they think are clear, measurable goals. However, we've had several missteps and missed deadlines. This leads to less focus and even less results.

The team is hoping their way to set of audacious goals, without a plan to reach them.

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STRONGLY DISAGREE		NEUTRAL		STRONGLY AGREE

THE SIXTH WARNING SIGN OF SUCCESS:
CORE VALUES MELTDOWN

The organization started with non-negotiable core values, performance expectations and culture. But those have slowly broken down over time.

Compromises are made for special circumstances and "brilliant jerks" are tolerated.

There is a feeling that the leadership team's questionable actions reveal their actual values. The best team members are losing faith, creating an "us versus them" environment. The back-channel gossip chain is hindering the organization's ability to execute on key initiatives.

THIS SOUNDS LIKE MY COMPANY.

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STRONGLY DISAGREE		NEUTRAL		STRONGLY AGREE

THE SEVENTH WARNING SIGN OF SUCCESS: DRINKING THE CHAOS KOOL-AID

Opportunity is everywhere! New products, new markets, new services - the possibilities are endless.

Teams go, go, go, and it's thrilling — for a while. Suddenly, it is obvious: key people are unable to say no or draw hard lines on spending the organization's limited resources. The result is chaos: teams are burned out and leadership is stressed out. It seems like everyone's to-do list is endless — and also pointless.

There is chatter about needing prioritization and getting laser-focused on performance and measuring results. But little changes.

THIS SOUNDS LIKE MY COMPANY.

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THE EIGHTH WARNING SIGN OF SUCCESS: COMMUNICATION VACUUM (A.K.A., IT SUCKS)

As the organization has grown, senior managers have less day-to-day interaction with operations and team members, so they're less aware of problems and priorities than they should be. Executives feel out of control, and team members perceive a lack of direction from the top.

Despite countless emails, newsletters and meetings, team members consistently identify poor communication as a core problem.

THIS SOUNDS LIKE MY COMPANY.

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STRONGLY DISAGREE		NEUTRAL		STRONGLY AGREE

THE NINTH WARNING SIGN OF SUCCESS: INCENTIVIZING FAILURE

In general, recognition and incentives are not tied to the right behaviors or results. This creates unintended consequences. It also erodes employee confidence and keeps the company off course for too long.

For example, sales is incentivized to close the deal, but isn't incentivized to keep the deal long-term.

If we can change the way we incentivize employees, we'll reach our goals faster.

THIS SOUNDS LIKE MY COMPANY.

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STRONGLY DISAGREE NEUTRAL STRONGLY AGREE

THE TENTH WARNING SIGN OF SUCCESS: THE FALSE SECURITY OF REVENUES

Things look good; revenues are growing, so leadership relaxes a bit. But because of poor or spotty controls on spending, extra expenditures are approved without much thought or analysis.

There are mandates to reign in spending — or worse, cut jobs. The financial, performance or market data needed to predict problems is not accurate, timely, or shared with the right people.

Expenses are starting to grow faster than revenues.

THIS SOUNDS LIKE MY COMPANY.

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STRONGLY DISAGREE NEUTRAL STRONGLY AGREE

THE ELEVENTH WARNING SIGN OF SUCCESS: RANDOM ACTS OF ACCOUNTABILITY

A lack of transparent, consistent accountability means top performers don't know exactly what to do. Less-than-great team members use the lack of accountability to their advantage.

People talk about "accountability." But it does not have a deep cultural meaning other than someone needs to be fired or needs to do their job. The "accountable" people are discussing and wondering what the "not accountable" people actually do.

There is confusion about how to create accountability, although it is very clearly needed.

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THE TWELFTH WARNING SIGN OF SUCCESS: SOWING THE SEEDS OF DECAY

At one point, the business was ahead of the game because of new technologies, systems and processes. Today the organization has outgrown those systems and processes. This includes everything from accounting to people to technology.

Systems that once enhanced the business are actually speeding its demise.

There is a lot of discussion that the current systems and processes will not scale. But there are few or no resources (time, money, talent) put towards the issues. These improvements are required for the next level of growth.

The focus is on hitting the next quarter's numbers. The technology, systems and processes debt is growing but largely ignored.

THIS SOUNDS LIKE MY COMPANY.

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