PUBLICATION
NO. 3

LEADING GROWTH FIRMS SERIES

THE SIX STAGES OF

GROWTH

Ontario

Contents

Researched and written by Donald Rumball
for the Ministry of Economic Development and Trade

THE SIX STAGES OF GROWTH
in Ontario's Leading Growth Firms

Introduction

CEOs who have built substantial companies from scratch know just how much they have had to change to keep pace with the demands of their growing firms. And when that growth has been squeezed into a decade or less, they know just how much it has cost them to make those changes. The job of running a firm with 150-plus employees, let alone the firms with thousands of employees that some entrepreneurs build, is so different from a startup as to require their CEOs to reinvent themselves.

This observation has an impact far beyond the stories of struggle and achievement of these CEOs and their firms. We call them leading growth firms and they are one of the principal strategic resources in any modern economy. Defined as firms with 20 to 500 employees that generate sales growth of 50% or more in a three-year period, leading growth firms represent only 2% of the firms in Ontario, but they account for about a third of the new jobs. And the spin-off benefits of their growth — new exports, head-office and professional services, R&D, the development of local managerial and technological talent, the creation of "hot spots" of concentrated economic activity and wealth creation, to name a few — are essential building blocks in the development of an economic infrastructure capable of sustainable growth.

It is therefore no exaggeration to say that it is in everyone's long-term interests that these entrepreneurs accomplish whatever changes are necessary to guarantee their successful transition to the threshold firms that have the capacity to become the industrial linchpins of tomorrow. The truth is that many leading growth firms fail to reach their full potential. Some are sold off to bigger companies; some struggle along without ever making the big breakthrough; and some die. But the ones that succeed have a big impact. And if more of them succeed, the benefit to the whole economy is substantial.

Leading growth firms are not small versions of big firms, nor are they a subset of small business. They are a unique group unto themselves, for whom the lessons of big and small business are not necessarily appropriate. The pace and volatility of their growth imposes a set of disciplines and challenges quite different from those faced by companies that grow at a more leisurely pace or that have substantial resources at their disposal.

The CEOs of leading growth firms are, in turn, a special breed of people. The range and scale of challenges that rapid growth imposes demand a more developed skill set from these CEOs than from other entrepreneurs, yet these CEOs have a superior track record, with a lower failure rate than other firms. They habitually question conventional wisdom and they are in a position to act on their beliefs, because they generally own their companies, so they are independent thinkers. They also learn differently, preferring the experiential advice of their peers and focussing almost exclusively on immediate needs, opportunities and challenges (with no time or patience for hypothetical learning).

An understanding of the unique characteristics of each stage in their growth is therefore critical to their long-term success. There have, in fact, been a number of studies on the stages of growth, some claiming there are no stages of growth and others finding many different characteristics at each stage that differ between studies. This study focusses solely on leading growth firms and it questions the CEOs on a wide range of qualitative issues that go to the heart of the dynamics involved in leading a growth firm through its evolution to become a threshold firm. It is presented with two principal objectives in mind:

• To help CEOs of leading growth companies understand the patterns of growth in their companies, so that they can see their own challenges and opportunities in the context of the stages through which they have passed, are passing and will pass, thereby enabling them to identify and deal with emerging situations more effectively. These insights will also help the startup entrepreneur to develop his/her vision for their future.

• To help business service providers to understand the needs of this vital sector in their present and future client base, so that they can attract leading growth firms as clients by approaching them in a way that meets their unique needs. This applies to organizations ranging from banks, through consultants, to economic development agencies.

How to use this paper

The introduction on these pages explains why this paper is important. Section I, starting on page 3, contains an overview of the stages of growth of a leading growth firm, summarizing the main concepts relating to both the requirements of running leading growth firms in each of the six stages of growth and the responses of their CEOs to these challenges. Reading time for Section I is 10 minutes.

Section II, starting on page 8, explores each of the six Stages of Growth in more detail. Readers may select the stage appropriate for their companies:

STAGE 1 One-person bands
STAGE 2 Early success
STAGE 3 Operationalizing
STAGE 4 The People crunch
STAGE 5 Professionalizing
STAGE 6 The Corporation

Read the stage through which your company is presently passing, review the stage it has most recently exited and contemplate your upcoming stage. Each stage takes about 5 minutes to read, so total reading time for Section II is 5-15 minutes. The Conclusions, starting on page 26, offer some additional insights.

SECTION I

Overview

The analysis and conclusions in this paper are drawn from an in-depth study[1] prepared for the Ministry of Economic Development and Trade. This study was based on a survey that was conducted by Statistics Canada for the Ministry of the CEOs of leading growth firms in Ontario, defined as firms with 20 to 500 employees[2] whose sales grew by 50% over a three-year period.

The 742 respondents to the survey represent the cream of the emerging business leaders in the province. They are mostly male, experienced and mature (very few are younger than 30 and the rest are evenly split between 30-49 and 50+). Three-quarters have voting control of their companies — the ones who don't being mainly in the largest companies. The best source of leading growth firms is manufacturing, which accounts for 7% of all types of firms in the province, but which provides more than a third of the leading growth firms with more than 20 employees.

The survey asked these CEOs a wide range of questions relating to their behaviour as leaders, managers and strategists. From these questions, 21 were selected for this study as the issues that best define the degree to which differences in behaviour can be linked to distinct stages of growth.

These issues are:

COMPLEXITY

- **Ownership**
- **Number of product lines**
- **Number of countries sold into**
- **Number of direct clients**
- **Number of distinct markets**
- **Percentage of revenues from products introduced in the previous 3 years**

SELF-MANAGEMENT/LEADERSHIP

- **CEO training in the previous 5 years**
- **Sources of advice**
- **Core competencies in the firm**
- **Strategic priorities**
- **Weaknesses of the firm**

MANAGEMENT STRUCTURE

- **Is there a formal structure?**
- **Focus: Functional vs. general management**
- **Written business plans**
- **Written long-term strategic plans**
- **Incentives for managers**

DELEGATION

Hiring decisions below next level of management
Key strategic decisions (including entry into new markets, new product development)
Degree of supervision vs. leadership
Senior managers' capacity for growth
Customer contact

These 21 measurements of change were each analyzed by size of firm, as defined by the number of full-time and part-time employees in the firm. There are a number of other variables that can be used to measure stages of growth, including the complexity of the firm or its revenues, and the boundaries of each stage can vary between industries and between firms within an industry.

Furthermore, these stages of growth are not discrete in the sense that everyone changes uniformly at the same point in the growth path. In fact, the process is seldom tidy. Some CEOs make a switch in their behaviour sooner than most of their peers — and some do so later. And some CEOs make some of the transitions within a stage at different points in their growth. There is a very small minority who, in certain aspects, may run a 100-employee business much the same way that they ran a 5-person firm. But the majority of firms in any one stage behave in a comparable fashion.

Finally, the evolution through the stages is not a linear process. Most growth-oriented firms have periods when they grow rapidly, followed by periods when they stagnate or even decline. Their periods of stability are usually to enable them to digest their recent growth, but it can also be because they sold off a new division that did not turn out sufficiently profitable or because the source of their growth attracted the attention of competitors and they lost that business (to name just two possibilities). Whatever the reason, growth is usually (but not always) erratic. Often, a firm will go back a stage for a period, where it may stay or from which it might resume growth into later stages. There are, of course, some firms that progress steadily through the stages in a linear sequence, but these must be counted the exception rather than the rule.

The points at which one stage ends and another begins are difficult to pinpoint. There are many studies that support 20 employees and 50 employees as definitive turning points, but the other points are less certain. In this study, the other turning points are taken to be 10, 30 and 100 employees. While it is clear there are significant differences on either side of these points, it is not certain that these are the definitive points for all industries and firms.

The stages in this study are therefore based on the following employment sizes:

STAGE 1 0-9 employees
STAGE 2 10-19 employees
STAGE 3 20-29 employees
STAGE 4 30-49 employees
STAGE 5 50-99 employees
STAGE 6 100+ employees

Based on this analysis, there is conclusive evidence that there are quite distinct stages in terms of the priorities, challenges, practices and plans through which the CEOs pass as they lead their firms along the path of growth. In the following narrative of the stages of growth, therefore, we are really dealing with an overall shift in behaviour at each stage, shared by most CEOs of leading growth firms in differing degrees of intensity. In several cases, a very large shift in behaviour takes place over several size categories, each of them significant steps in their own right.

The six stages can be summarized as follows:

STAGE 1 One-person bands

These CEOs have yet to find a product that meets with market acceptance. Most own 100% of the shares in their company; their views and preferences dominate their business. They may have one manager, but they take all the key decisions themselves, usually without consulting their employees or managers. They are not active planners and their businesses have a limited range of products, markets and clients. Few of them are exporters. They tend to be product-oriented and show little interest in developing talent or team building. They do not need much management structure and they tend not to do much training to improve their own skills. Their biggest single challenge is access to capital.

STAGE 2 Early success

These CEOs have found a product that meets market acceptance. So they commit themselves to build a viable business around that product, recognizing that there may be adjustments to or extensions of the product in order to marry it to a market. They develop new product lines related to their breakthrough product lines and they expand their client base through new markets. They adopt a niche strategy, where they focus on flexibility and adding value rather than on low prices. These CEOs are in an early phase of building a formal management structure — they hire an extra manager reporting directly to them. They start to delegate responsibility and manage their employees more closely; they are very enthusiastic about their managers and are committed to hiring good people to build an effective team. They also pay more attention to training, in order to equip themselves better to handle their own job requirements — mostly through self-directed study. They don't think long-term; it is too early to know where their diversification is taking them. Their primary source of advice is their customers.

STAGE 3 Operationalizing

CEOs in this stage are in a "heads-down" rush to "nail" the market for the successful product lines, putting customer needs front and centre. To support these needs, they set up systems, add an extra layer of management and create an organized distribution of responsibilities and authority. They pay a lot of attention to acquiring management skills (including training themselves) in their quest to upgrade their people, their organization and their technology. These CEOs delegate progressively more responsibility as they grow. However, they avoid the risk of losing control by keeping their management team small and by supervising their managers closely. They also broaden their shareholder base, bringing in more private investors. However, they are not thinking long-term, nor are they looking for alternative strategies. They take their lead from their existing customers, who are their primary focus and whose interests define their own. One of the results of this is that their client base starts shrinking, concurrently with an expansion in their product lines to meet their customers' needs.

STAGE 4 The People crunch

CEOs who have operationalized their firms switch priorities as they grow larger; they adopt a "heads-up" approach, maintaining their niche strategy as they complete the task of formalizing their management structure, but they also look around to assess the multiplicity of available options and to judge the capacity of the firm's products and people to capitalize on those options. They look critically at the capacity of their senior managers to grow with the requirements of their jobs. Some of their most loyal managers are people who may have grown with them from early days (Stage 2), but the CEOs now realize that not all of them can cope with the new organizational imperatives. Accordingly, the CEOs ease up on trying to build their team, while they look for new talent. These CEOs are thinking more about their future team than they are about their current team, as they take back some of the tasks they delegated previously. Most of them reduce their reliance on their customers for strategic guidance and support. This, in turn, results in their dropping some of the product lines they developed earlier for their customers (Stage 3), which may not have been in their own best interests, even if they were what the customers wanted. They expand by adding new clients and markets and exporting to more countries.

STAGE 5 Professionalizing

The firm in this stage is ready to make the leap into a fully professional organization, with sufficient management depth to successfully diversify its products and markets. The process of building a management structure that can sustain rapid growth and development is already behind them, so they stick with what they've got, except that they upgrade their management teams by hiring professional managers from much larger, more complex organizations who can carry the CEOs into new territory. The CEOs in Stage 5 embark on a dramatic expansion in the scale of their businesses: they increase the number of product lines, clients and markets, and they commit to new product development and more diverse exports. With the resulting economies of scale, they drop the classic niche strategy appropriate to smaller companies and seek instead to compete on price and to rely less on being flexible enough to meet all their customers' needs. Having a high-powered management team — and more powerful boards of directors — persuades these CEOs they don't need to spend as much time training themselves for their jobs, because they have the expertise in-house.

They delegate a high percentage of the tasks of daily management and spend most of their time on planning and strategy. It is not always an easy adjustment for the CEOs to work with such independent managers, but they do at least stop worrying about the capacity of their managers to grow with the requirements of the job. As they bring in new shareholders, many let their ownership positions slip.

STAGE 6 The Corporation

Finally, the firm approaches the status of a "threshold" company, one of the small pool of mid-sized, leading growth firms from which tomorrow's industrial giants will emerge. This is a fully-rounded, full-service company capable of reinventing itself. It has multiple product lines and markets. Most of the firms in Stage 6 are exporters, often to a wide range of countries. The CEOs are leaders rather than managers, presiding over a multi-layered management team with embedded processes of planning and decision making. They compete on all fronts. Quality and competitive prices are a condition of survival and, as such, are taken for granted by the CEOs, because the senior managers make sure they are dealt with effectively. Their competitive edge lies in the unique skills of their employees and flexibility in meeting their customers' current and future needs. The CEOs' strategic priorities are mostly visioning, developing talent and team building. They delegate almost all the major day-to-day tasks to competent professionals who are recruited from outside if the requisite talent is not available inside the company. The CEOs meanwhile seek out independent consultants for advice, although they don't abandon their boards of directors or their customers. The broad-based growth makes access to capital a greater problem than in earlier stages and many more CEOs let their voting control slip or disappear in the process of raising equity financing. Some companies are bought by large corporations, others go public.

In the following section, the individual characteristics of each stage of growth are explored in detail. For each stage, there is a summary of the stage followed by the detailed account.

NOTES

1 The detailed statistical analysis, running to 89 pages, is entitled: *Stages of Growth: An empirical study of how the CEOs of leading growth firms lead and manage the challenges and opportunities of rapid growth*. Prepared for the Innovation and Business Development Branch of the Ministry of Economic Development and Trade, by Donald Rumball. 2000. Available on request: e-mail ann.matyas@edt.gov.on.ca or fax (416) 325-6757.

2 The sample includes firms with fewer than 20 employees, provided they had sales of at least $2 million.

SECTION II

Detailed characteristics of each stage

STAGE 1 One-person bands

SUMMARY

In Stage 1, most CEOs own 100% of the shares in their company. Their views and preferences dominate their business; they have an average of one manager, but they make all the key decisions, usually without consulting their employees or managers; and nothing happens without their knowledge and approval. They are not active planners and their businesses are inevitably narrow, with a limited range of products, markets and clients. Few of them export their products. They compete on flexibility and a low price. They tend to be product-oriented and show little interest in developing talent or team building. With only a few employees, they do not need much management structure — they rarely have clear job descriptions and do not generally organize work through departments. They tend not to do much training to improve their own skills and when they do any training, it is mostly self-directed study. Their biggest single challenge is access to capital.

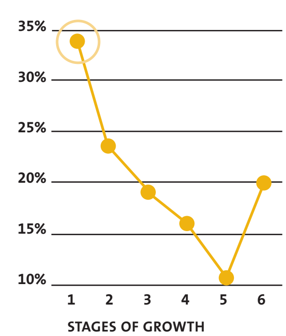
THE DETAIL

More than 80% of the CEOs in Stage 1 have voting control of the companies, most of them with 100% of the shares. Partly because these firms are so tightly held, many of the CEOs are unwilling to part with shares when they raise capital, so access to capital is the single most important problem for them.

Businesses in Stage 1 are less complex than larger companies. They tend to have a limited range of product lines and they are not aggressive in creating new products, so they have far fewer clients than even the next stage. Well over a third serve only one market and they are not particularly interested in developing new markets — two-thirds of them do not market outside Canada.

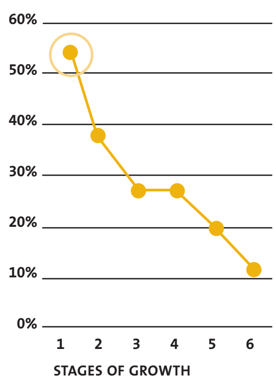
Most of them are one-person bands who have little or no management structure beneath them. By their very nature, one-person bands do not delegate many of their core responsibilities, if only because a large proportion of them feel that their senior employees have only a weak to moderate capacity to grow with the requirements of their jobs. For key decisions (entry into new markets, new product development, acquiring new technology, choosing suppliers), more than half of them make their

"Access to capital is one of my two greatest problems"



decisions alone, without consulting their managers or employees. These CEOs are also intimately involved in the hiring process, identifying the candidates for the short list and watching over every step from then on. Most particularly, they keep a very close watch on their customers — a third handle all customer contact entirely on their own.

"On key issues, I take decisions entirely on my own"



CEOs of companies this size are less interested in actively managing their employees than are their counterparts in larger companies, preferring to set goals for them or ask them to report back only when they reach pre-arranged milestones in their work plan. These CEOs show little interest in functional issues (such as marketing or finance or operations) because the CEO takes care of everything. They feel they have two major weaknesses, both of which are important functional roles in a formalized management structure — marketing and sales and access to capital.

Very few of these CEOs undertake training to improve their skills and, for those who do, self-directed study is the preferred approach. The focus of their training is tilted more toward management rather than functional or technical training than in any other stage. When they need advice, they go first to their customers and then their suppliers.

Their business strategy is to compete on low prices with maximum flexibility. This makes sense for Stage 1, because low prices are usually the most important selling point for a very small company, mostly because of its capacity to keep its overheads to a minimum. Stage-1 firms are also adept at turning their size into an advantage by offering a high degree of flexibility, which, again, is easier for a small firm than a larger firm.

In this context, the strategic priorities of the CEOs are supervising quality and setting priorities for their employees — and they rank quality as their most important core competency. Some of them also rank design as an important core competency, indicating that they are still toying with their products, seeking customer approval.

These CEOs do not see their employees as possessing unique skills, because they tend to be very product-oriented and show very little interest in developing talent and team building. They have fewer incentive plans for their key employees than do bigger companies, although three-quarters do have bonuses.

Stage-1 CEOs are not strong planners — for firms this size, the long term is often next month. Less than half have a written business plan and most of the CEOs who have plans review their plan only once a year or not at all. A third of them also keep the planning process to themselves, excluding their employees. Even fewer have a written strategic plan — a fact they recognize when they rank strategic thinking (or visioning) as their third most important weakness.

STAGE 2 Early success

SUMMARY

In Stage 2, CEOs have found a product that meets a market need and it is taking off; they can smell success. They develop new product lines related to their breakthrough product lines and they expand their client base through new markets. The proportion of firms that export is low, as it is for Stage 1, but the firms that are already exporters add new countries to their markets. This is a stage of experimentation and diversification as the CEOs start to focus on creating a viable, sustainable business out of their successful product, adopting a niche strategy, where they focus on flexibility and adding value rather than on low prices. However, the expansion makes the business more complex to manage, so, in order to provide a framework for a sustainable business, these CEOs take the first steps in building a formal management structure — a process that finally reaches fruition only in Stage 4. As part of this process, they hire an extra manager reporting directly to them. They are conscious that they cannot do it all on their own, so they start to delegate responsibility and manage their employees more closely; they are very enthusiastic about their managers and are committed to hiring good people to build an effective team. They also step up their training to equip themselves better to handle their own job requirements — mostly through self-directed study, with a strong emphasis on functional topics (finance, marketing, etc.). They don't think long-term; it is too early to know where their diversification is taking them. Their primary sources of advice are their customers, then their suppliers.

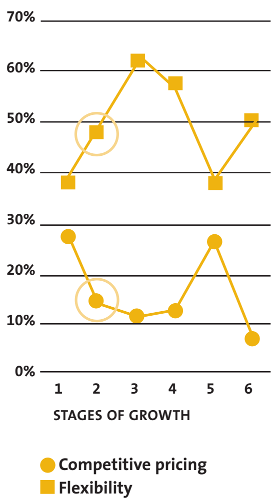
THE DETAIL

As businesses enter this stage, their clients have demonstrated that they like the firms' products. With the resulting possibilities for growth in related products, their CEOs start developing new products and entering into new markets. Their average number of customers almost triples with their breakthrough product, and although there are no new exporters, the ones who were already exporting expand their horizons. Two-thirds of them still do not sell outside Canada. This stage involves a high degree of experimentation in and expansion of product lines and markets, based on the breakthrough products.

Stage-2 CEOs adopt a classic niche strategy. In Stage 1, they are as flexible as possible but still try to compete on price. In Stage 2, they know the customers will buy their products, so they don't need to compete on price. Instead, they build in more value so they can justify raising their prices. In this context, the companies' core competencies in the CEOs' eyes are flexibility and the unique skills the company has to offer. By contrast, very few pay attention to design, because the acceptance of the product reduces the need to innovate on design.

In order to capitalize on their successful products, these CEOs recognize the need to create an organized business around the products. In addition, the increased complexity of the business makes it imperative to introduce some structure into the decision-making process. These CEOs therefore set out on the long road of building a formalized management structure — a process that takes three stages to achieve and ends only when employment in the firm approaches 50. They start by hiring a second manager who reports directly to them and they start thinking in terms of departments, with specialized functions being identified and allocated to key managers (if they are not taken care of by the CEOs themselves).

"Our core competencies are: a) competitive pricing and b) flexibility"



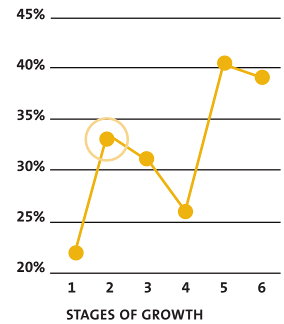
The CEOs in Stage 2 attach great importance to management skills in general, but they feel a greater urgency in developing functional skills. They also start paying more attention to their business plans, using them much more to monitor performance as well as to set goals. But they are not thinking about the long term — few of them have long-term strategic plans. The CEOs know they have a successful product, but they are busy diversifying and experimenting, so there is little point in developing long-term strategies until it becomes clear what is going to work best.

With the increased number of employees and an embryonic management team, the CEOs in Stage 2 cannot help but realize they can no longer do everything all on their own, as they might have done in Stage 1. So they begin to delegate. This task is made easier by their enthusiasm for their senior managers — almost half strongly believe their managers have the necessary capacity to grow with the requirements of the job — the highest rating, by far, assigned in any stage. For the key strategic decisions (entry into new markets, new product development, acquiring technology and choosing suppliers), these CEOs consult their managers far more than in Stage 1. More tellingly, fewer CEOs in Stage 2 handle all their customer accounts personally, and there is even a sharp drop in the proportion of CEOs who prepare their business plans on their own. Finally, they delegate more responsibility when their managers have to hire people and they ease off on micro-management, giving their managers more room to set priorities and supervise quality.

To protect themselves as they delegate more, the CEOs in Stage 2 manage their employees more actively through regular review meetings and they think harder about how to motivate them. There is a sharp increase in the proportion who use financial incentives, but non-financial incentives also play an important role in this stage. Almost half the CEOs have shareholders other than themselves and many of them offer shares in their companies to their managers and employees. Obviously, the enthusiasm noted earlier for the capacity of their managers and employees is part of the reason for this — the distribution of shares is aimed less at raising finance than at motivating the employees. Nonetheless, bonuses remain the most important incentive and these CEOs use them to the same degree as firms of all sizes.

Of course, the more the CEOs delegate and the more they draw their employees into the company, the more they realize the importance of having the best employees possible. Hiring and retaining good employees is cited as their top concern — and this challenge continues to hold that ranking in every subsequent stage. The next two major weaknesses cited by the Stage-2 CEOs are marketing and visioning or strategic thinking. Marketing, of course, is a symptom of the increased awareness of the need for functional expertise as the management structure becomes more formal, and the perceived weakness in strategic thinking reflects the CEOs' understanding that the high level of experimentation in the product lines must sooner or later end with the selection of the core products that will build a solid business for them. However, it is too early at this stage to know which products will meet these requirements, so, while the CEOs are very conscious of the need for strategic thinking, there's not a lot they can do about it immediately.

"Developing srategy is one of my top priorities"



The next important priority for CEOs is team building, which is in tune with the greater awareness of the need for good employees and the beginning of progressive delegation. It is worth noting that there is a correlation between a commitment to team building and a positive view on the part of the CEOs of their existing managers. The priority attached to team building declines in later stages, when the CEOs are less confident of their senior managers' capacity to grow with the business and rises again when that confidence is restored.

Another significant change arising from having a successful product is that a significant proportion of CEOs think technology is a problem for them, indicating that they see the path to success in this stage as being dependent on making a good product better. By contrast, access to capital becomes a much smaller problem for these CEOs, because it's easier to raise money with a demonstrably successful product.

To cope with the increased strains of a more formal — and a more specialized — management structure as well as the broader requirements of the job, these CEOs increase their commitment to acquiring the necessary skills, putting in twice as much training as in Stage 1 — still mainly in the form of self-directed study, rather than formal education. Like their counterparts in Stage 1, these CEOs rely most heavily for advice on their customers and their suppliers.

STAGE 3 Operationalizing

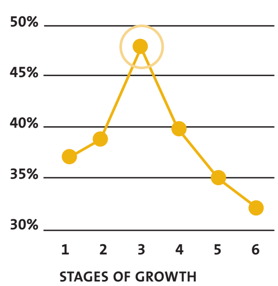
SUMMARY

Having doubled their size since they saw the early signs of success, CEOs in Stage 3 knuckle down to the task of operationalizing their businesses — providing the operational infrastructure to support their successful products and sustain their further development. They set up systems that avoid having to reinvent the wheel and develop a more formalized management structure with an extra layer of management and an organized distribution of responsibilities and authority. They promote an employee to be the third manager reporting directly to them. They pay a lot of attention to acquiring management skills (including training themselves) in their quest to upgrade their people, their organization and their technology. These CEOs are more realistic than they were in Stage 2 about what their employees can do for them, but they still delegate progressively more responsibility as they grow. However, they avoid the risk of losing control by keeping their management team small and by managing their people closely. They also broaden their shareholder base, bringing in more private investors. However, they are not thinking long-term, nor are they looking for alternative strategies. They take their lead from their existing customers, who are their primary focus and whose interests define their own. One of the results of this is that their client base starts shrinking, concurrently with an expansion in their product lines to meet their customers' needs.

THE DETAIL

If there's one thing that characterizes the CEO in Stage 3, it's getting close to the customer, who is the principal source of advice for almost half these CEOs. In tune with this, two-thirds see flexibility in meeting their customers' needs as one of their top two core competencies. Accordingly, the emphasis they place on the unique skills of their employees declines, because, in Stage 3, they are more interested in giving their existing customers what they want than in trying to find new customers for their particular mix of skills.

"My customers are one of my top two sources of advice"



The focus on existing clients is confirmed by several measures. There is a decline in the client base and they sell into fewer markets and there is very little change in their export activities, which remain substantially at the same level as in Stage 2. Also, there is less internally driven product innovation, although there is a simultaneous small increase in the number of product lines, as customers request additional products.

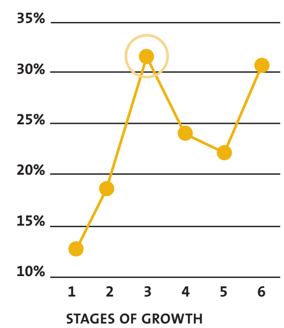
This drive to tailor their products to customer needs rather than trying to find customers for whatever products they may have is a fundamental switch in the attitudes of the CEOs. It is, perhaps, their primary motivation to "operationalize" the business by seeking to maximize production efficiencies and by organizing the business along functional lines that address methodically all aspects of the product that may not meet the customers' needs. These CEOs perceive "operations," or production efficiencies, as an important weakness, particularly in terms of the use of technology, which ranks as the second biggest problem, behind hiring and firing. In essence, using up-to-date technology is a vital part of operationalizing the business to meet with customer approval.

An even bigger part of the operationalizing process is that the CEOs in Stage 3 start in earnest to formalize their management structure. Two-thirds say they have a formalized management structure with two layers of managers, with three managers reporting directly to the CEO. These CEOs attach the greatest importance of any of the six stages of growth to management skills, but they are also very conscious — more so than in any other stage — of the need to develop functional skills (finance, marketing, etc.).

With this emerging management structure, these CEOs continue the process of delegating progressively more of their responsibilities. Three-quarters of them share decision-making power with their managers on key issues, compared with about two-thirds in Stage 2 and half in Stage 1. In particular, very few of them retain greater control over the two key decisions of entry into new markets and new product development than they do over the other key decisions — reflecting, perhaps, the reduction in the number of markets and the slower pace of new product development. They also let their managers take care of hiring the people who will be working for them to a much greater extent than in previous stages. Finally, these CEOs continue to let go control of the relationship with their customers — mostly because CEOs who previously retained contact with key customers remove themselves entirely from the front line.

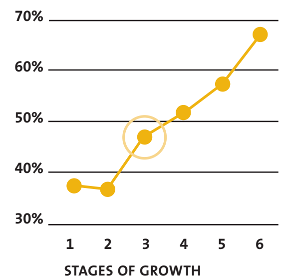
The one area where the CEOs in this stage do not delegate more is in preparing their business plans. However, planning follows its own cycle. There is an increase in Stage 3 in the proportion of CEOs who have written business plans; whenever there is an increase in planning, there is a parallel increase in the proportion of CEOs who do not share their plans with their managers and who do not review their plans regularly throughout the year. This probably reflects an initial degree of unfamiliarity with the planning process, because, each time this happens, manager participation and frequency of review increase in the next stage, once the CEO has become used to the process and how to use it more fully.

"The use of technology is one of our two greatest weaknessess"



The increased attention given to business plans, however, does not indicate a similar level of interest in long-term strategic planning, with as small a proportion of CEOs having written strategic plans in this stage as in the previous one. However, relatively few of them need long-term strategies at this stage. Their minds are clearly on the short-term priority of operationalizing — and visioning or strategic thinking disappears as a perceived weakness. Stages 3 and 4 are the period when CEOs take their businesses from early success to the threshold of a professional organization and they generally do so on the back of a good product that they make a lot better. They are not looking for alternative strategies, they are not thinking long-term. They are going with whatever works for the customer.

"I have a written business plan"



Internally, the CEOs in Stage 3 are highly focussed on team building and developing talent. The combination of more delegation and a greater focus on team building means that these CEOs manage their employees more actively. The overwhelming majority manage through regular review meetings, rather than setting goals or meeting when milestones are reached. They also shift their focus toward bonuses (used by 96% of the CEOs) as a means of motivating their employees and managers, while they lose interest in offering company shares as an incentive.

Part of the reason for reducing the shareholdings of employees is that, with their greater sales and prospects, Stage-3 firms are more attractive to outside investors. These CEOs make their first significant move in equity financing — private investors become shareholders in half the firms in Stage 3.

All these changes — more formalized structures, greater delegation, more planning and a greater presence of private investors — place ever heavier demands on the CEOs to cope with new ways of leading and managing. Recognizing this, they further increase their commitment to training, although they are less inclined than in Stage 2 to rely on self-directed study and are more interested in formal education.

STAGE 4 The People crunch

SUMMARY

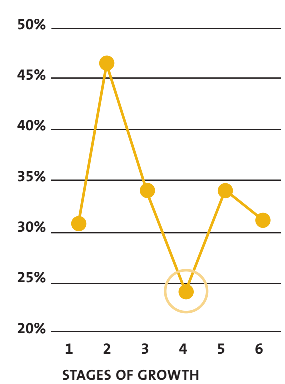
In Stage 4, CEOs complete the process of formalizing and operationalizing their companies, mastering most of the functional issues of management as they add a fourth manager reporting directly to them and fill out their two layers of management. In achieving a fully formed management structure, they are now ready to look for their next big expansion that will take them into Stage 5. CEOs review their strategic options and come to grips with the realization that their own interests are separate from those of their companies, which, in turn, are separate from those of their clients and their management teams. Some CEOs let a portion of their ownership go, bringing in large corporations as shareholders (some of whom buy them outright). Most of them reduce their reliance on their customers for strategic guidance and support. This, in turn, results in dropping some product lines they developed for customers in Stage 3, which may not have been in their own best interests, even if they were products that customers wanted. With fewer product lines, firms continue to expand, however, by adding new clients and markets and exporting to more countries. As CEOs distance themselves from the close involvement that marked Stages 2 and 3, they begin to look more critically at the capacity of their senior managers to grow with the requirements of their jobs. Some of their most loyal managers are people who may have grown with them from early days, but CEOs now believe that not all of them can cope with new organizational imperatives. Accordingly, CEOs ease up on trying to build their team and look hard for new talent. They tend not to manage their senior managers as closely as before, but also take back some of the tasks they delegated previously, particularly those they have identified as being vital to the next stage, such as entry into new markets. CEOs maintain the same niche strategy as in Stages 2 and 3, but are thinking more about their future team than they are about their current team.

THE DETAIL

Stage 4 marks the end of the process that began in Stage 2, when CEOs recognized they couldn't do it all themselves and started to build a management team. CEOs in Stage 4 put into place the final pieces of a functionally organized management structure — more than 80% say they have a formalized structure with three layers of managers, and an average of four managers reporting to them — and they draw their talent from among their existing managers.

Not surprisingly, management skills continue to rank at the highest level of importance for most CEOs in this stage, as they do for subsequent stages. However, the focus for CEOs turns away from functional issues because the departmentalization of their business is complete; practically all of the perceived functional weaknesses from Stage 3 — marketing, access to capital and integration of technology — decline

"I have complete confidence in the capacity of my senior people to grow with the requirements of their jobs"

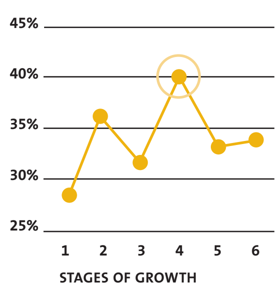


dramatically in Stage 4. As proof of their progress, some CEOs make ISO certification a priority.

To manage this formalized structure, CEOs in Stage 4 place greater reliance on the planning process. More than half have written plans, and they review them regularly, using them as a management tool to monitor performance as well as set goals. They also pay significantly more attention to long-term planning with a sharp increase in the proportion having written long-term strategic plans. Paradoxically, however, CEOs attach less priority to developing strategy. The likeliest explanation of this is that, in focussing tightly on the optimization of their limited product lines, these CEOs are not looking at alternative strategies. However, they recognize that the process has gone almost as far as it can go, so they start expanding their horizons in preparation for a major change in strategy, yet do not go beyond the first step of clarifying their existing strategy. (Old Japanese proverb: "If you want to jump, you have to bend your knees.")

This interpretation is supported by how CEOs seek advice. In Stage 3, customers are the major source of advice, by far. Indeed, they govern the direction and pace of the firms' expansion in Stage 3, eliminating much of the need for strategic thinking. In Stage 4, however, CEOs rely much less on their customers. In their place, signs appear, for the fist time, of the growing use of consultants. In taking this approach, the CEOs are realizing the limitations of the customer-centric approach used in Stage 3 and are beginning to look for alternative strategies, even if they are not ready to implement them.

"Hiring and retaining good employees is our most important challenge"

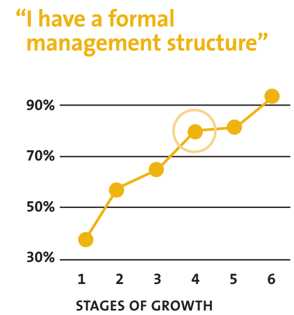


An important part of this process is to identify which of their product lines may not be in their best interests, even if they are beneficial for their customers. In Stage 4, CEOs reduce the number of their product lines as they abandon those that were introduced in Stage 3 to keep customers happy. In order to keep sales growing with fewer product lines, they return to new product development that was put on the back burner in Stage 3 and seek out new markets and new customers. As a result, they increase their average number of clients significantly from the lower levels of Stage 3. They also move decisively into foreign markets. The proportion who sell only in Canada drops to about a half and the proportion who sell outside Canada and the United States rises to one-fifth.

Despite all these changes, CEOs in Stage 4 make almost no changes to their competitive strategy and use a niche strategy almost identical to that of Stage 3. However, there are major changes in their perspective on the future. CEOs are beginning to appreciate, in effect, that their role is not to maximize the performance of their current management team for the current customers, but to be the catalyst in the creation of an appropriate management team for the most appropriate mix of customers. To achieve this goal, CEOs must see themselves as a separate entity from their own business. This is an essential transition before a CEO can embark on Stage 5.

This identity transition, as CEOs distance themselves from their immediate environment, precipitates some important changes. This is the stage where many CEOs sell part or all of their own position. The proportion of CEOs who hold 100% of their shares is the same as in Stages 2 and 3 (in fact it is remarkably steady, averaging 56% in the four stages from 2 to 5) — but, in those companies where the CEO does not own 100% of the shares, only a little more than half of them still hold any shares at all. The buyers, in many cases, are large corporations.

Also, in what is perhaps the most important aspect of Stage 4, CEOs start to lose confidence in the capacity of their senior managers to grow with the requirements of the job: a smaller proportion of CEOs rate this capacity as strong in Stage 4 than in any other stage. There are, in fact, several other indications of this concern: the proportion who rate hiring and retaining good employees as a strategic priority rises to the highest point in any of the stages, and developing talent is the second most important strategic priority, by far. Team building, however, is a much lower priority — as mentioned earlier, interest in team building flags when the CEOs' confidence in their managers deteriorates. Therefore, managers and employees are less likely to be invited to become shareholders.



Other indications of concern with their management teams is their perception that production efficiencies ("operations") are the second most important weakness, despite the enormous effort put into operationalizing the company in this stage and in Stage 3.

The only explanation for this array of consistent attitudes is that the CEOs are concerned that the existing employees may not be able to pull off the plans they are making for their companies. Again, these CEOs are thinking more about their future team than they are about their current team.

In response to these concerns, CEOs reverse some of the delegation of responsibilities they made in earlier stages. They are more selective in the degree to which they delegate hiring decisions, with a sharp increase in the proportion who participate in the final interviews. They also keep their thinking about planning to themselves and take back some of the responsibilities they delegated for customer contact. These CEOs also keep to themselves what they think about entering new markets. However, in other key decisions (new product development, technology integration and choosing new suppliers), they maintain the process of progressive delegation. It would appear that, while continuing the process of progressive delegation, they reduce the involvement of their management team on issues that have clear relevance to the next stage, when they will make a major jump into a professionally managed organization.

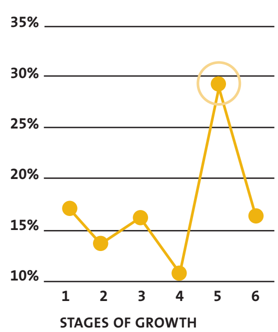
The pull-back in delegation reduces the need for CEOs to manage their employees as actively as CEOs in Stage 3. CEOs in Stage 4 are less likely to review progress through regular meetings with their key managers. They also attach less importance to incentives generally.

STAGE 5 Professionalizing

SUMMARY

Having completed the process of building a management structure that can sustain rapid growth and development in the business in Stage 4, CEOs in Stage 5 do not change their structure at all, but upgrade their management teams by hiring professional managers who have performed well in much larger, more complex organizations — and who can carry the CEOs into new territory. Fundamentally, CEOs no longer think of their companies as a support system for the successful products they discovered and perfected in Stages 2 to 4. Instead, the Stage-5 companies are vehicles to create successful businesses with whatever products and customers make the most sense. Accordingly, CEOs in Stage 5 embark on a dramatic expansion in the scale of their businesses by increasing the number of product lines, clients and markets, and committing to new product development and more diverse exports. With the resulting economies of scale, they drop the classic niche strategy pursued in the previous three stages and seek instead to compete on price and to rely less on being flexible enough to meet all their customers' needs. Having a high-powered management team creates several changes in the way these CEOs lead their companies. New managers — and the boards of directors that become more important in Stage 5, persuade CEOs that they don't need to spend as much time training themselves for their jobs, because they have expertise in-house. CEOs delegate a high percentage of the tasks of daily management and spend more of their time on planning and strategy, which are their main priorities. Their only lingering concern is that the systematic professionalism that their new vice presidents learned in their previous jobs may suffocate the entrepreneurial flair that CEOs brought to their businesses in the first four stages. It is not always an easy adjustment for CEOs to work with such independent managers, but they do at least stop worrying about the capacity of their managers to grow with the requirements of the job. Finally, the pressing need to finance the transformation of the business leads many CEOs to let their ownership positions slip. While the percentage of those who own 100% of the business remains high in Stage 5, those who do have other shareholders generally let their ownership position erode, some going public and some bringing in partners.

"One of my top two concerns is the creativity of my senior managers"



THE DETAIL

Having built as sound an operation as they possibly can on the foundation of the products that were identified in Stage 2 as meeting a market need, CEOs in Stage 5 aggressively take their businesses to the next step. A Stage-5 company is no longer a support system for a successful product, but a vehicle to create a successful business with whatever products and customers make the most sense. These CEOs assess the skills and experience that they have built in the first four stages and match them to the full range of potentially profitable products they can create and sell.

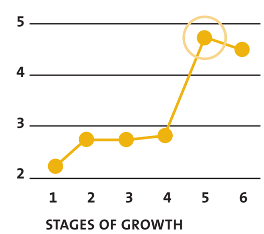
The result is a push to diversify into a number of new product lines, with an important part of this diversification coming from new product development — an activity that was put on the back burner in previous stages in order to focus on perfecting the principal product line. With this greater array of product lines, Stage-5 companies sell into more markets and garner a lot more clients. They also export to more countries — more than half are exporters in Stage 5 and a third export to the United States.

The proliferation of product lines and markets works against the strategy of maximum flexibility in meeting client needs that was followed in Stages 2 to 4. However, once they pass 50 employees, these firms acquire economies of scale that give them the capacity to lower their prices without affecting quality. So they move away from the niche strategy followed in the previous stages that gave a high priority to added value and a low priority to competitive pricing. Instead, they increase sharply the priority attached to competitive prices, while they reduce equally sharply the priority attached to being flexible in meeting all the idiosyncratic needs of their customers. This places an increased premium on design competencies and a diminished premium on the unique skills of their employees (which usually go hand in hand with flexible responses). Against these strengths, CEOs perceive two major weaknesses that reflect the rapid expansion of their businesses — marketing/sales and visioning.

It would not be possible to do all this, of course, if a solid management structure were not in place. Stage 5 is the pay-off for the hard work done in building a competent management structure in Stages 2 through 4. In fact, CEOs in Stage 5 make almost no changes to the structure created in Stage 4: they have no additional managers reporting to them nor do they add extra layers of managers. However, there is a big change in the people holding senior positions. As a result of the CEOs' concerns in Stage 4 over the capacity of their managers to grow with the requirements of the job, they upgrade the skills of their best managers and hire professional managers to replace the ones who can't keep up with the new organizational imperatives. This is reflected in the proportion of managers who were hired from outside and report to CEOs. These managers have experience in larger, more complex organizations and the ability to lead the company into sustainable growth, as they push the CEO into new territory.

With their professional management teams, CEOs are more methodical in their planning process. More have written business plans and there is an accompanying

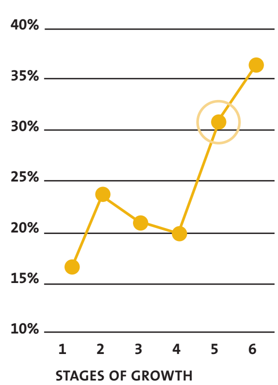
Average number of countries to which leading growth firms export



increase in the proportion who are not yet used to planning and who review their plans only annually or not at all. There is also, however, a significant increase in the proportion who prepare written long-term strategic plans — and, as confirmation, developing strategy is ranked as their top priority. As one further indication of their switch to a professional organization, Stage-5 CEOs rate their boards of directors as one of their top two sources of advice for the first time. Concurrently, customers become less important as sources of advice.

Stage-5 CEOs also have strong confidence in the capacity of their senior managers to grow with the requirements of the job — and they rate hiring and retaining good employees as less of a problem than they do in Stage 4 (although it is still ranked the biggest weakness). Also, only a third of the CEOs view functional skills (finance and marketing, for example) as important to their companies. This is the lowest degree of importance attached to functional skills in any stage after the first one and reflects CEOs' confidence in new, professional managers. As a result, perhaps, CEOs in Stage 5 feel it is less important to undertake training of some kind, and the training they do shifts toward formal education in universities and away from self-directed study (although self-directed study is still the most important source of education, albeit by a much smaller margin).

"I have non-financial incentives to motivate my managers"



These CEOs do have one concern about their management team, however — the creativity of their senior managers. Having hired professionals out of large, more bureaucratic organizations, they are concerned that the entrepreneurial flair they brought to their businesses will be crushed, so creativity is rated as an important weakness by triple the proportion who were concerned about it in Stage 4.

The concern for the creativity of their managers does not stop the progressive delegation of important tasks by CEOs. In the key decisions (such as entering new markets, new product development, integrating technology and choosing new suppliers), the proportion who make decisions without consulting their managers drops to an average of one-fifth, compared with one-quarter in Stages 3 and 4, one-third in Stage 2 and half in Stage 1. Most important, in the first two of these key decisions, which are the most important strategically, there is a sharp reduction in decisions taken without consulting the senior managers. There is an equal drop in the proportion of CEOs who handle all the customers themselves — and these CEOs involve their managers much more in the planning process. The delegation process is slowest in hiring decisions: CEOs of leading growth firms appear to be extremely loathe to let this responsibility go, no matter how big they grow.

With this level of delegation, CEOs return to a more hands-on management style through regular meetings to review progress, though not to the same degree as in Stage 3. Some of the CEOs may not quite have mastered their new vice presidents, so they tend to give them more rope. It is not until Stage 6 that they return to their former level of hands-on management.

With such powerful teams around them, CEOs are able to spend more time on strategic issues, rather than fire fighting. As a strategic priority, supervising quality and production efficiencies drop off the radar screen for CEOs. Clearly, they feel they can leave these responsibilities to their professional managers. At the same time, they are highly conscious of the need to motivate managers to whom they are giving so much more responsibility. As they go public — or contemplate it — more offer stock options, but their main preferences are for bonuses and non-financial incentives.

Whether or not they raise money in the public markets, the need for investment capital is enormous in this stage because of the rapid development of products and markets, not to mention a more expensive management team. Interestingly, CEOs who own 100% of their firms resist the temptation to bring in new shareholders — the percentage of firms with a CEO who owns 100% of the shares in the company stays rock steady at about 56% from Stage 2 through Stage 5. However, the ownership of the remaining 44% of the CEOs erodes sharply in Stage 5 — two-thirds of those CEOs do not have a controlling block of shares. The shares that they sell are bought in many cases by public shareholders and by their own managers. By contrast, many of the private investors sell out their positions, and even corporate shareholders become slightly rarer.

STAGE 6 The Corporation

SUMMARY

In Stage 6, leading growth firms become diversified corporations, led by strong management teams with great depth and the ability to reinvent themselves and sustain long-term growth. They have multiple product lines and markets. Most are exporters, often to a wide range of countries. Their CEOs are leaders rather than managers, presiding over a multi-layered management team with embedded processes of planning and decision making. They compete on all fronts. Quality and competitive prices are conditions of survival and, as such, are taken for granted by CEOs, because senior managers make sure they are dealt with effectively. Their competitive edge lies in the unique skills of their employees and flexibility in meeting their customers' current and future needs. CEOs spend their time developing and maintaining the skills, tools and strategies that will enable their companies to continue to survive and prosper long after they are gone. Their strategic priorities are mostly visioning and getting large numbers of people working together; they attach great importance to developing talent and team building. The powerful management team enables CEOs to delegate almost all the major day-to-day tasks to competent professionals who are recruited from outside if the requisite talent is not available inside the company. CEOs meanwhile further distance themselves from their firms and balance their sources of advice; they don't abandon their boards of directors or their customers, but now seek out independent consultants too. They also spend less time educating themselves — although what time they do spend is less likely than in previous stages to be self-directed study and more likely to be formal education (such as universities). The hunger for capital in Stage-6 companies makes access to capital a greater problem than in earlier stages and many CEOs let their voting control slip or disappear in the process of raising equity financing. A quarter of the CEOs who owned 100% of the shares in Stage 5 bring in new shareholders — and among the balance of CEOs, there are few who retain controlling interests. In their stead, some companies are bought by large corporations, others go public.

THE DETAIL

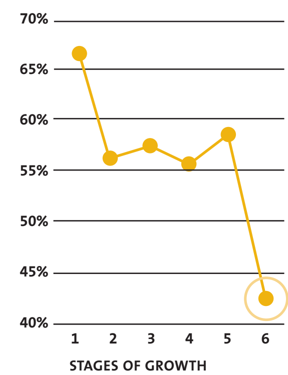
In Stage 6, leading growth firms become fully rounded corporations, with multiple products and markets, with strength in every department and with sound, professional management in all the essential functions of the corporation.

There are still one-fifth of the firms with one or no product lines, but these are far outweighed by the proportion with a greater spread of product lines. CEOs are also more aggressive in developing new markets and are more export-minded than in any other stage. In Stage 6, only 38% do not export at all. Inevitably, they have a lot more clients.

Having reached this size and depth, companies in Stage 6 compete on all fronts. Their competitive edge does not lie in low prices, although this is not the same as the niche strategy of earlier stages. CEOs ensure their prices are competitive in Stage 5, and they maintain that competitiveness in Stage 6. However, low prices are not seen as a competitive edge because they are a condition of staying in business for firms this size. The true competitive edge of firms in Stage 6 is constant development of clients, products and markets, all of which depend on the unique skills of their employees and their flexibility in meeting client needs, both of which are ranked highly as one of the top two strategic priorities by CEOs. Design also becomes more important in Stage 6.

The task of directing such a complex, multi-faceted organization demands a full-fledged management structure with the required functional expertise and a CEO who is capable of setting the firm's strategic direction and getting everyone to work together in pursuit of their common goals. There are no one-person bands in Stage 6. The planning process is also institutionalized in this stage — more than two-thirds have written business plans and they use them to monitor performance. Almost half of these CEOs also have written long-term strategic plans. With multiple layers of managers, five managers (on average) report to the CEO in Stage 6. Furthermore, in filling key management slots, CEOs do not settle for the best available people in their own organizations; they pick the right person for the job, regardless of where they have to look.

"I own 100% of the shares in my company"

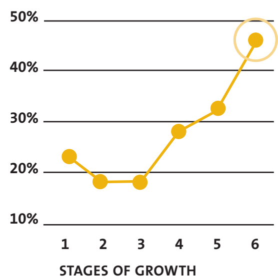


Given this needs-oriented approach to hiring, CEOs in Stage 6 appear to have a more balanced perspective than in previous stages on the capacity of their senior managers to grow with the requirements of the job. They have the highest proportion rating their managers' capacity as average (apart from the smallest category) and they have one of the lowest proportions rating their managers as excellent (apart, of course, from Stage 4). In other words, they are not hard or soft on their managers — they seem to have a balanced assessment that appreciates the full range of differences in quality one would expect in a fairly large organization. Moreover, CEOs in Stage 6 appear to have reconciled their fear that the entrepreneurial flair they nourished in earlier stages will disappear as they grow.

With such a diversified, balanced management resource at their disposal, some of the things that were a top priority for CEOs in earlier stages are taken for granted in this stage, because the management teams can look after them without the involvement of CEOs. So quality is no longer seen as a core competency by CEOs and several of the perceived weaknesses that are important in earlier stages — such as setting priorities and supervising quality — simply drop off their radar screen. In their place, CEOs focus on developing strategy, which is by far their most important strategic priority, and on the next two priorities, team building and developing talent. And, as a reflection of the distancing of the CEO from the front line, developing a corporate culture becomes a much greater priority in Stage 6. Clearly, CEOs understand that their role is to get things done through other people, which enables them to concentrate on setting strategy and tone.

Against these powerful strengths, CEOs' perceptions of their weaknesses is entirely consistent. At the top of the list, as always, is hiring and retaining good employees. However, visioning is as important as hiring, followed by the use of technology — again an indication of their need to keep pushing with innovation. One other weakness perceived by CEOs as they contemplate going public or financing rapid growth in a big firm is access to capital, which rears its head again, albeit ranked low in priority, but mentioned by twice as many CEOs as in Stage 5.

"Our firm has a written long-term strategy"



By adopting the role of leader rather than manager, CEOs in Stage 6 are by necessity strong delegators. When their senior managers hire new people, they rarely get involved beyond approving their managers' choices. In key decisions (entry into new markets, new product development, integrating technology and choosing suppliers), about 12% of them make decisions without consulting their managers. Similarly, less than 10% look after all their customers themselves, while a third delegate all customer contact to their managers.

CEOs in Stage 6 manage this high degree of delegation by reviewing the progress of their senior managers at regular meetings — and they use incentives for their managers to a greater degree than in earlier stages. Some offer stock options, of course, but non-financial incentives are the most popular technique after bonuses. Very few regard the direct purchase of company shares as a useful form of incentive and, in fact, there is a smaller proportion of firms with managers as shareholders in Stage 6 than in any other stage.

Inevitably, by distancing themselves from the internal workings of their companies as they drop day-to-day functions in order to focus on strategic development, CEOs seek input and advice from outside their companies, particularly from consultants, although their boards and their customers are still, by a small margin, the most popular sources of advice. These sources of advice apparently serve as the primary tool for CEOs to educate themselves, because they seek out less training than CEOs in earlier stages. This training is heavily biased toward general management, as functional skills are seen as progressively more a matter for the senior managers than for CEOs.

As mentioned earlier, financing is a source of concern in Stage 6. For many CEOs, the mounting need for capital means they have to relinquish voting control, if not management control, in return for equity capital. The proportion who own all the shares in their companies continues at a surprisingly high level, but it still drops to 43% in Stage 6 from an average of 56% in the previous four stages. An equal number, however, have ceded control to someone else — more than three-quarters of the CEOs without a controlling block do not own any shares at all. A large part of the reason for this is that many firms that reach Stage 6 are sold to large corporations or go public. By contrast, private investors continue to disinvest.

CONCLUSIONS

There are, among others, four implications of the stages of growth for leading growth firms

1. Even though CEOs do not beat a steady, linear path through the six stages, the stages are not independent — the lessons and attitudes acquired in one often depend on the previous stage, because each stage puts in place one or more critical elements that may be considered to be the building blocks of growth.

2. There are some inefficiencies in the process, in the sense that some of the steps taken in one stage may have to be undone in a subsequent stage and some stages are repeated as firms grow and decline on their growth path. While it is theoretically possible to avoid these inefficiencies, it is a critical part of the process — a necessary evolution to achieve the right balance of skills and attitudes for long-term success.

3. The priorities and needs of these firms are quite different in each stage of growth, so any CEO leading them — and any business service provider seeking to offer them support services — should view any need or priority strictly in the context of the stage they are in. Some needs and priorities that are traditionally ascribed to all smaller businesses are, in fact, important to CEOs of leading growth firms only in some of the stages of growth. Some of the more interesting examples of this are as follows:

ACCESS TO CAPITAL. This is a serious weakness for firms in Stage 1 and, to a lesser degree, in Stage 2, when the firms lack market momentum and have a critical need to develop products that will meet market acceptance. Once they have traversed this challenge, somewhere during Stage 2, access to capital ceases to be a major problem until Stage 6, when capital becomes a big issue, because the firm is either public or thinking about it and spending a lot of money to grow quickly.

PRODUCT INNOVATION. While innovation is always a priority, product innovation is not important in times of consolidation. Furthermore, even when it is important, the context is different in different stages. Product innovation is critical in Stage 1 and Stage 2, when market information and an understanding of their own strengths are keys to success. It is of minor importance in Stage 3, then increasingly important in Stage 4. In Stage 5, the process of product innovation is institutionalized and the key drivers become strategy and allocation of resources. In the last stage, technology becomes a key factor in the process.

ORGANIZATIONAL DEVELOPMENT. This is of prime importance only in Stage 3 and 4. These stages are the part of the sequence where functional issues have to be mastered, giving the CEO the ability to manage people in every function, including operations, finance, marketing and human resources. In the earlier stages, organizational development is unnecessary and in the later stages, it is subsumed in overall management. However, if this part of the process is not implemented effectively in Stages 3 and 4, the resulting deficiencies can haunt a company for many years.

HUMAN RESOURCES. Stages 3 and 4 are also the critical period for learning HR, which is closely linked to organizational development. In this period, CEOs learn to appreciate management talent. Having discovered they need it in Stage 2, they learn to develop it in Stages 3 and 4 — in the context of effective implementation of their organizational development. Then, in Stage 5, they learn how and when to hire the best people for the job.

EXPORTING. It is not a problem in Stages 1 through 3; if firms export, it is a natural extension of their product (for example, many software firms export from their first sale). In Stage 4, the drive to develop exports creates a need for help, which lasts into Stage 5. In Stage 6, the companies can look after themselves.

CUSTOMERS. In Stage 3, customers play a crucial role, providing the mirror to the creative force of the heads-down entrepreneur. This relationship is short-lived but intense and underlines the importance of a supplier development policy for local firms. In later stages, the customer is still vital, but CEOs balance their needs against their own capacities and strategies.

4. It is not necessary for the same CEO to lead a growth firm through all its stages. Some are unable or unwilling to make the adaptations required to grow their firms. However, a better understanding of the required adaptations can make these transitions easier to manage, either through better preparation of CEOs or through changes in leadership.

The Ministry of Economic Development and Trade is producing a series of publications based on innovative research and insights shared by CEOs and Presidents of Ontario's leading growth firms.

No. 1 – The Innovation Report, 1999
A management resource focusing on innovation and what drives Ontario's leading growth firms as discussed by CEOs and Presidents at the Wisdom Exchange in 1998

No. 2 – The Growth Builders Report, 2000
A management tool focusing on challenges and solutions of managing and sustaining rapid growth as shared by CEOs and Presidents of Ontario's leading growth firms at the Wisdom Exchange in 1999

No. 3 – The Six Stages of Growth in Leading Growth Firms, 2001
A unique study of growth-oriented firms based on new research describing the distinctive stages that a company passes through as it grows

Leading growth firms employ between 20 and 500 people, have a minumum growth rate of 50% (gross sales) over three years and maintain their global head office in Ontario.

Website: www.ontario-canada.com
Telephone: (416) 325–6748
Fax: (416) 325–6757
e-mail: ann.matyas@edt.gov.on.ca

ISBN 0-7794-0348-7

Ontario