

**Postgraduate Diploma in Business Finance
and Strategy (PGDBFS)
PGDBFS 202
Financial Strategy for Growth (FSG)**

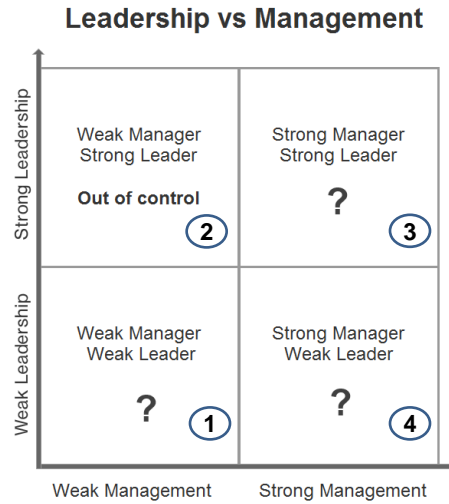
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Stages of Growth

- Growth of business gives qualitative & quantitative changes which requires changing demand of its managers.
- Growth enables to changing role of the founder.
- Most Business start high on leadership & low management
- Sustainable growth requires more leadership qualities – such as as energy, Inspiration & creativity,

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The leadership / Management matrix



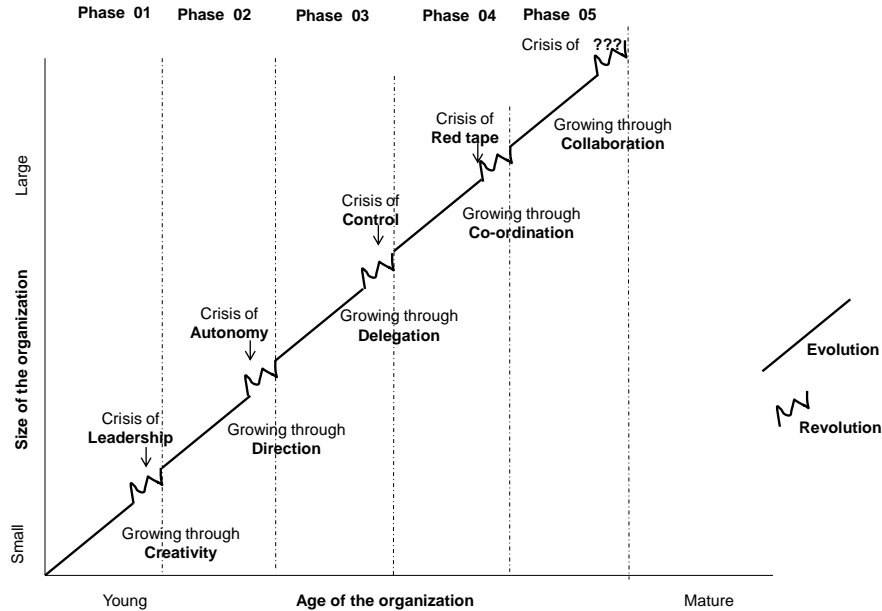
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The leadership / Management matrix

High	The team is excited initially Some early results are positive Commitment wanes quickly	The team gets started quickly, and results get better. The workforce is highly engaged. Team capability strengthens.
Low	The team struggles to start projects. Little happens. Results are disappointing.	The team makes some initial progress. There is no momentum. Bureaucracy strangles progress.
Leadership	Low	High
	Management	

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The Greiner Model- Evolution & revolution



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- Greiner proposes five growth stages
 - Each stage results in a crisis
 - Advancement to the next stage requires successfully resolving the crisis in the previous stage
- Stage 1: Growth through creativity
 - Entrepreneurs develop the skills to create and introduce new products
 - Organizational learning occurs
 - Crisis of leadership – entrepreneurs may lack management skills

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- Stage 2: Growth through direction
 - Crisis of leadership results in recruitment of top-level managers who take responsibility for the organization's strategy
 - Often turns around an organization's fortunes
 - Crisis of autonomy
 - Creative people lose control over new product development
 - Professional managers run the show

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- Stage 3: Growth through delegation
 - To solve the crisis of autonomy, managers must delegate
 - Strike a balance between the need for professional management and the opportunity for entrepreneurship
 - Movement toward product team structure
 - Crisis of control as power struggles over resources emerge between top-level and lower-level managers

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- Stage 4: Growth through coordination
 - To resolve crisis of control, managers must find right balance of centralized and decentralized control
 - Top management takes on role of coordinating different divisions
 - Attempt to inculcate a companywide perspective
 - Crisis of red tape
 - Increasing reliance on rules and standard procedures
 - Organization becomes overly bureaucratic

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- Stage 5: Growth through collaboration
 - Emphasizes greater spontaneity in management action
 - Greater use of product team and matrix structures
 - Changing from a mechanistic to an organic structure as an organization grows is a difficult task

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The Greiner Model- Summary

The five predicted crises of growth according to the model are:

Growth Phase: Direction - Crisis of Leadership

Informal communication starts to fail
Business now too big for leader to get involved in everything

Growth Phase: Delegation - Crisis of Autonomy

Business now has functional management
But founder / leader still struggling to let go

Growth Phase: Coordination - Crisis of Control

More formal management structures in place
But new layers of hierarchy needed to keep control

Growth Phase: Collaboration - Crisis of Red Tape

A dangerous growth in organizational bureaucracy
Slowing decision-making & missing external changes

New six Phase

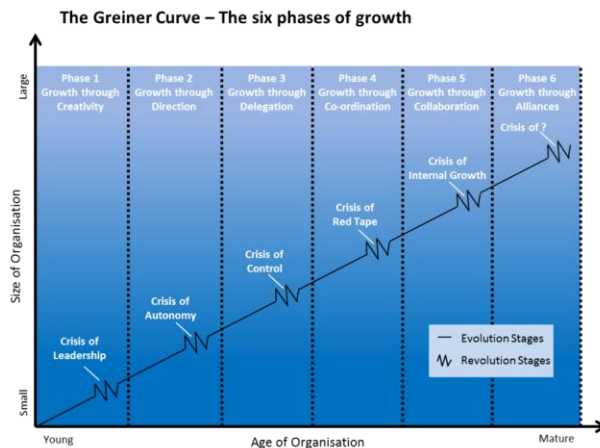
Growth Phase: Alliances - Crisis of Growth

Growth slowing as business runs out of ideas
Alliances are sought (including new business owners)

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Growth Models

- The Greiner Model – With Six Phases



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Key Messages from Greiner's Growth Model

- What can we learn about the challenges of growing a business if, for a moment, we assume that Greiner's Growth Model is valid?
- Growth is hard
- Growth poses many management and leadership challenges (crises)
- Leadership and organisational structure have to evolve to reflect the growth of a business
- Businesses that don't adjust as they grow will experience lower growth than those that do

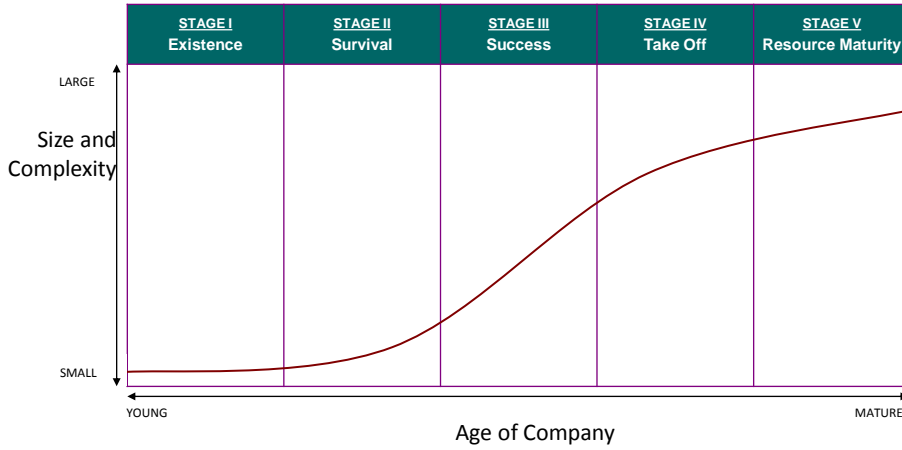
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Criticisms of Greiner's Growth Model

- Like most models – it is simplistic
- Not every business will suffer crises as it grows – many adapt easily without suffering any obvious panics or crises
- The model doesn't really take account of the pace of growth, particularly in an increasingly dynamic external environment

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Small Business Growth- the Churchill model



Source: Churchill & Lewis, The Five Stages of Small Business Growth, Harvard Business Review

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EXHIBIT 3
Characteristics of Small Business at Each Stage of Development

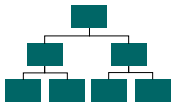
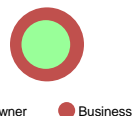
	Stage I Existence	Stage II Survival	Stage III-D Success- Disengagement	Stage III-G Success- Growth	Stage IV Take-off	Stage V Resource Maturity
Management style	Direct supervision	Supervised supervision	Functional	Functional	Divisional	Line and staff
Organization						
Extent of formal systems	Minimal to nonexistent	Minimal	Basic	Developing	Maturing	Extensive
Major strategy	Existence	Survival	Maintaining profitable status quo	Get resources for growth	Growth	Return on investment
Business and owner*						

*Smaller circle represents owner; Larger circle represents business.

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The focus of businesses in Stage II, Survival, is to optimize cash flow

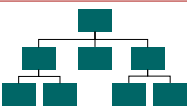
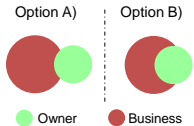
Stage II – Survival

STAGE I Existence	STAGE II Survival	STAGE III Success	STAGE IV Take Off	STAGE V Resource Maturity
OVERVIEW <ul style="list-style-type: none"> Reaching this stage demonstrates that the business is a workable business entity Its value proposition and business model have been tested—it has customers and satisfies them sufficiently with its products or services to retain them The key problem will shift from mere existence to the relationship between revenues and expenses—i.e. cash flow Some businesses can stuck in this stage—they earn marginal returns on invested time and capital; eventually, they go out of business when the owner gives up, or retires, or sells it (usually at a slight loss) 		MANAGEMENT STYLE Supervised supervision—limited number of employees supervised by a sales manager or general foreman		
KEY QUESTIONS & CHALLENGES <ul style="list-style-type: none"> In the short run, can we generate enough cash to break even and to cover the repair or replacement of our capital assets as needed? Minimally, can we generate enough cash flow to stay in business and to finance growth to a size that is sufficiently large, given our industry and market niche, to an economic return on our assets and labor? 		STRATEGIC FOCUS Survival—optimize cash flow		
EXAMPLES <ul style="list-style-type: none"> "mom and pop" stores (example of businesses stuck in this stage) 		ORGANIZATIONAL STATE 		
		STATE OF SYSTEMS & PROCESSES Systems development is minimal—formal planning consists of cash forecasting, at best		
		BUSINESS & OWNER 		

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In Stage III, Success, small business owners have an important decision—to risk it all in hopes of great success or to maintain and sustain

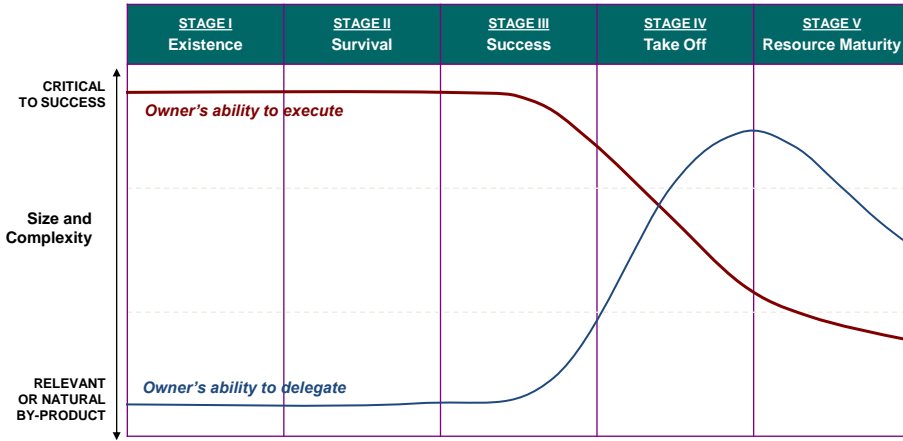
Stage III – Success

STAGE I Existence	STAGE II Survival	STAGE III Success	STAGE IV Take Off	STAGE V Resource Maturity
OVERVIEW <ul style="list-style-type: none"> At this stage, the owner is running a successful business and has options for growth Option A) the owner can expand the business <ul style="list-style-type: none"> Owner takes the cash and the established borrowing power of the company and risks it all to finance the continued growth of the company A key activity is to develop managers to meet the needs of the growing business Option B) the owner can maintain the business's success and existing operations, so he can disengage and re-focus his energies on alternate activities (e.g. start a new company, run for political office, pursue a hobby, retire early, etc.) <ul style="list-style-type: none"> The company can stay at this stage indefinitely, providing environmental change does not destroy its market niche or ineffective management reduces its competitive abilities 		MANAGEMENT STYLE Functional—functional managers take over certain duties performed by the owner		
KEY QUESTIONS & CHALLENGES <ul style="list-style-type: none"> Do I choose Option A) continue to invest and grow the company or Option B) maintain the business and begin to disengage? 		STRATEGIC FOCUS Option A) – maintaining profitable status quo Option B) – Get resources for growth		
EXAMPLES <ul style="list-style-type: none"> The virtual, minimal effort companies advocated by Tim Ferriss in the Four Hour Work Week (example of companies that choose option B in this stage) 		ORGANIZATIONAL STATE 		
		STATE OF SYSTEMS & PROCESSES Systems installed bearing forthcoming needs, operational planning in the form of budgets, strategic planning is extensive		
		BUSINESS & OWNER 		

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As the owner grows its business, there is a clear trade-off in critical between the owner's ability to execute versus his ability to delegate

Critical Success Factors – Owner's Abilities



The owner needs to recognize the need to delegate and relinquish responsibilities to ensure the company's continued growth.

Source: Churchill & Lewis, The Five Stages of Small Business Growth, Harvard Business Review

The Adizes Model:

From Entrepreneurship to Professional Management

