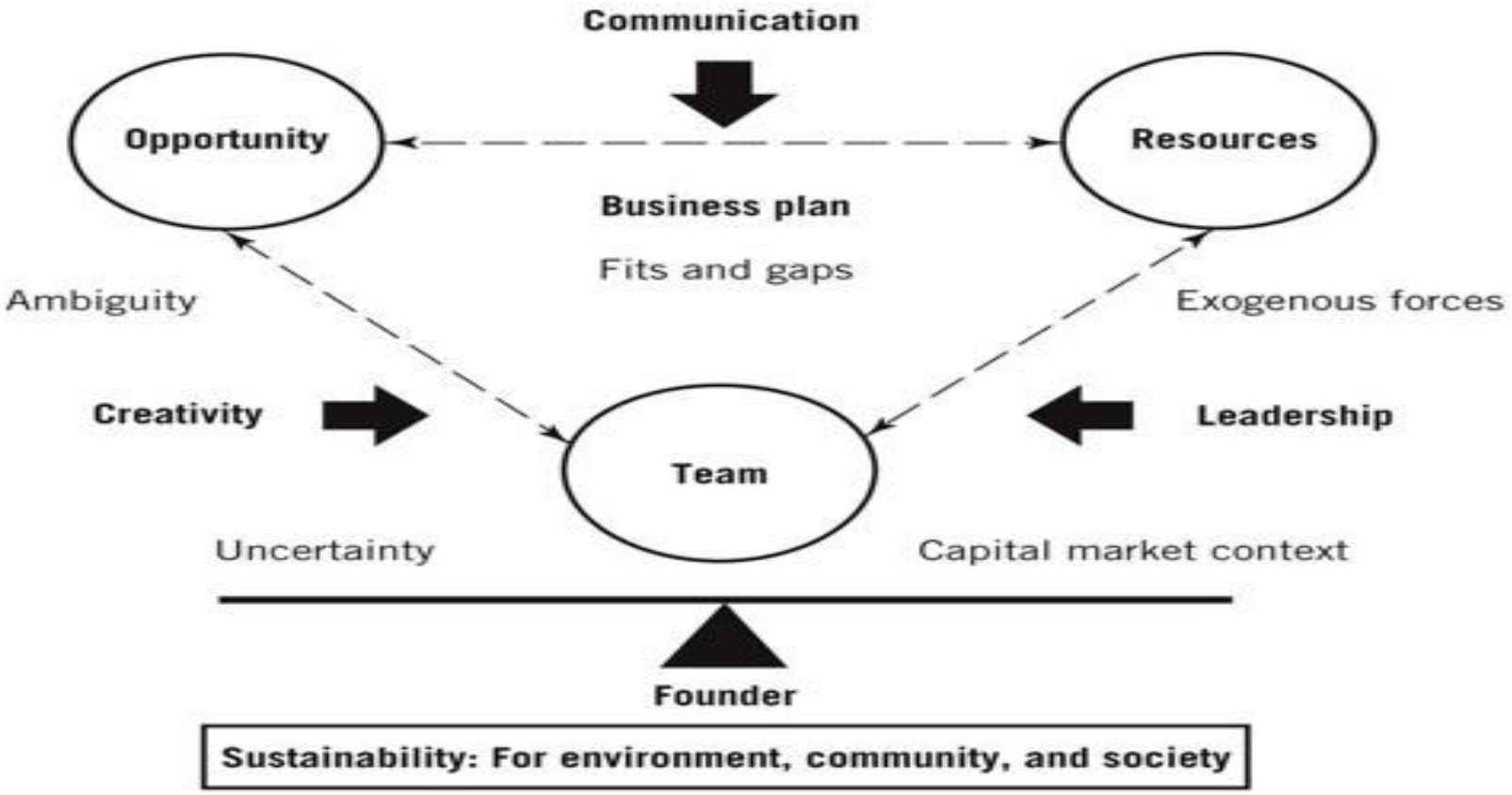
CHAPTER SEVEN

MANAGING STARTUP AND GROWTH (MSMS IN FOCUS)

- *Once companies reach to growth stage, they must continue to grow with proper management and leadership.*
- *The success of an entrepreneur in this process depends upon controllable and uncontrollable variables.*

7.2 Timmons Model of Entrepreneurship

- ***What key aspects does an entrepreneur need to manage to start and grow a business?***
- *Figure 7.1. This model identified the internal and external factors that determine the growth of business.*



- *According to Timmons, success in creating a new venture is driven by a few central themes that dominate the dynamic entrepreneurial process: it takes* ***opportunity****, a lead* ***entrepreneur*** *and an* ***entrepreneurial team****,* ***creativity****,* ***being careful with money****, and an* ***integrated, holistic, sustainable and balanced approach to the challenges ahead****.*
- *These controllable components of the entrepreneurial process can be assessed, influenced and altered. The entrepreneur searches for an opportunity, and on finding it, shapes the opportunity into a high-potential venture by drawing up a team and gathering the required resources to start a business that capitalizes on the opportunity, the entrepreneur risks his or her career, personal cash flow and net worth.*
- *According to the model, for an entrepreneur to create a successful venture, they must balance three key components changes in one factor have a strong influence on the other factors.*

7.3 New Venture Expansion Strategies

- ## 7.3.1 Introduction
- Business expansion is a stage of a company's life that is troubled with both opportunities and perils. On the one hand, business growth often carries with it a corresponding increase in financial fortunes for owners and employees alike.
- But business expansion also presents the small business ow ner with myriad issues that have to be addressed. Growth causes a variety of changes, all of which present different managerial, legal, and financial challenges.
  - Growth means that new employees will be hired who will be looking to the top management of the company for leadership.
  - Growth means that market share will expand, calling for new strategies for dealing with larger competitors. Growth also means that additional capital will be required, creating new responsibilities to shareholders, investors, and institutional lenders. Thus, growth brings with it a variety of changes in the company's structure, needs, and objectives.

7.3.2 Methods of Growth

- *The most commonplace methods by which small companies increase their business are incremental in character, i.e., increasing product inventory or services rendered without making wholesale changes to facilities or other operational components. Common routes of small business expansion include the following commo n options:*
    - *Growth through acquisition of another existing business (almost always smaller in size),*
    - *Offering franchise ownership to other entrepreneurs,*
    - *Licensing of intellectual property to third parties, (license for the use of certain innovative models on fee basis may be given to certain companies). This is very common for Software products.*
    - *Establishment of business agreements with distributorships and/or dealerships,*
    - *Pursuing new marketing routes (such as catalogs),*
    - *Joining industry cooperatives to achieve savings in certain common areas of operation, including advertising and purchasing,*
    - *Public stock offerings (selling shares to investors and to the general public),*
    - *Employee stock ownership plans (entrepreneurs may give/sell shares to employees as incentive for motivation.*

7.3.3 The Ansoff Matrix – Growth Strategy

- ***What is our business growth strategy in relation to new or existing markets and products?***
- *The Ansoff Matrix is a strategic-planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth.*
- *Ansoff suggested that there were effectively only two approaches to developing a growth strategy; through varying what is sold (product growth) and who it is sold to (market growth).*
- *"When we are in peak, we make a ton of money, as soon as we make a ton of money; we are desperately looking for ways to spend it. And we diversify into areas that, frankly, we don't know how to run very well,"*

- *Igor Ansoff created the product/market matrix to illustrate the inherent risks in four generic growth strategies as summarized here below:*
- ***Market penetration / consumption*** *– the firm seeks to achieve growth with existing products in their current market segments, aiming to increase market share. This is a low risk strategy because of the high experience of the entrepreneur with the product and market.*
- ***Market development*** *– the firm seeks growth by pushing its existing products into new market segments. Market development has medium to high risk.*
- ***Product development*** *– the firm develops new products targeted to its existing market segments. This alternative growth strategy is characterized by medium to high risk due to lack of experience about the new product.*
- ***Diversification*** *– the firm grows by developing new products for new markets. This is high risk option as entrepreneurs do not have experience about the product and the market.*

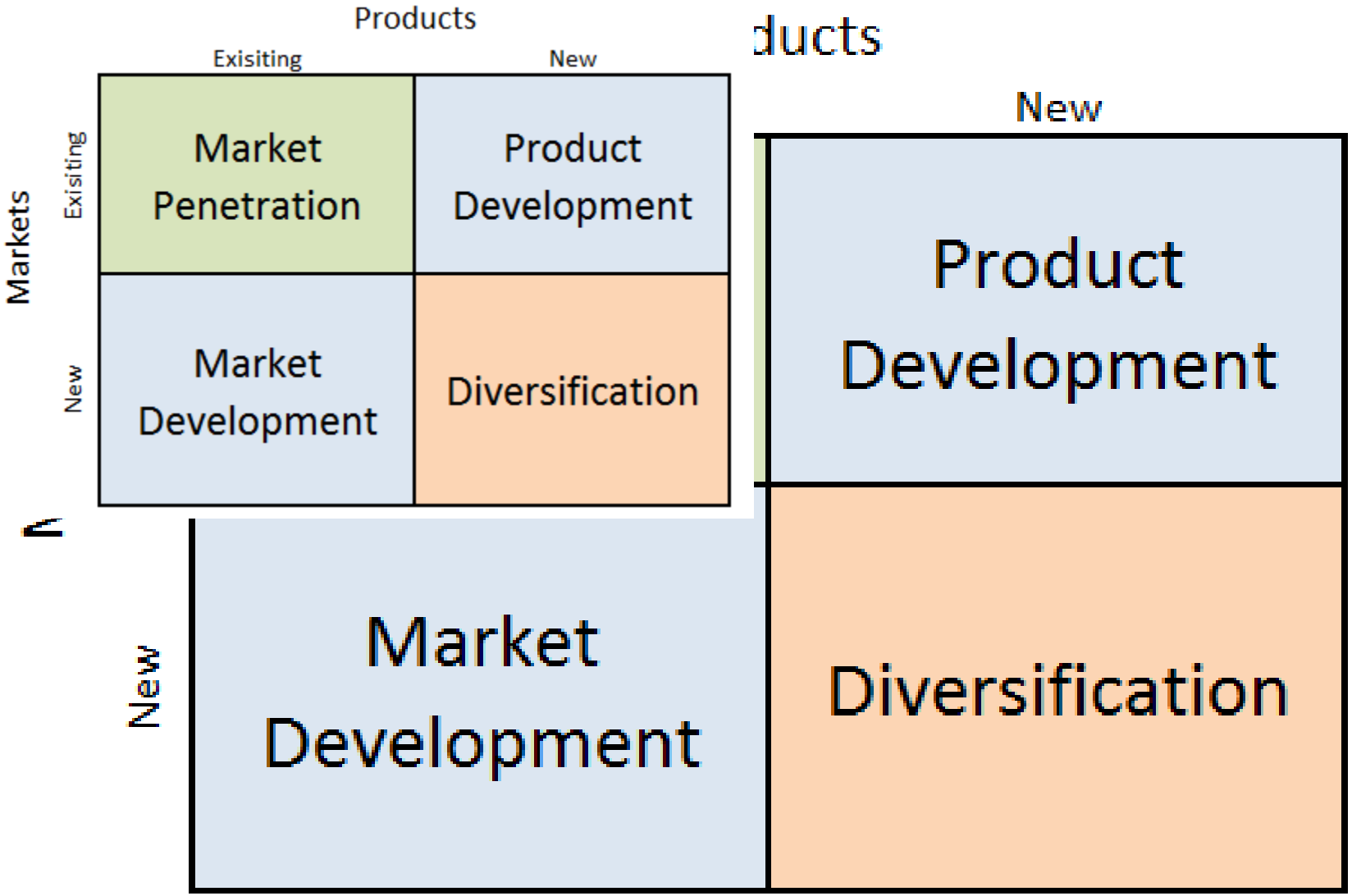


Figure 7.2 Ansoff's Matrix

7.3.3.1 Selecting a Product-Market Growth Strategy

- ***I) Market penetration / consumption:***
- *further exploitation of the products without necessarily changing the product or the outlook of the product. This will be possible through the use of promotional methods, putting various pricing policies that may attract more customers, or one can make the distribution more extensive.*
- *In market penetration / consumption, the risk involved is usually the least since the products are already familiar to the consumers and so is the established market.*

II) Market development

- *The business sells its existing products to new markets. This can be made possible through further market segmentation to aid in identifying a new clientele base. This strategy assumes that the existing markets have been fully exploited thus the need to venture int new markets.*
- *There are various approaches to this strategy, which include: new geographical markets, new distribution channels, new product packaging, and different pricing policies.*

III) Product development

- *a new product is introduced into existing markets. Product development can be from the introduction of a new product in an existing market or it can involve the modification of an existing product. By modifying the product one could change its outlook or presentation, increase the product's performance or quality. By doing so, it can be more appealing to the existing market. A good example is car manufacturers who offer a range of car parts so as to target the car owners in purchasing additional products.*

IV) Diversification

- *This growth strategy involves an organization marketing or selling new products to new markets at the same time. It is the most risky strategy as it involves two unknowns:*
  - *New products are being created and the business does not know the development problems that may occur in the process.*
  - *There is also the fact that there is a new market being targeted, which will bring the problem of having unknown characteristics.*

- *There are two types of diversification – related diversification and unrelated diversification.*
- *In related diversification, the business remains in the same industry in which it is currently operating. For example, a cake manufacturer diversifies into fresh-juice manufacturing. This diversification is within the food industry.*
- *In unrelated diversification, there are usually no previous industry relations or market experiences. One can diversify from a food industry into the personal-care industry. A good example of the unrelated diversification is Richard Branson. He took advantage of the Virgin brand and diversified into various fields such as entertainment, air and rail travel, foods, etc. Sir Branson has more than 400 companies.*

7.3.4 Expansion Issues

- *Whatever method a company chooses to utilize to expand—and whatever guiding strategy it chooses to employ its owners will likely face a combination of potentially frustrating issues as they try to grow their business in a smooth and productive manner. Growth means understanding, adjusting to, and managing a whole new set of challenges in essence, a very different business.*

VII) Growing Too Fast

- *Companies growing at hyper-speed sometimes pay a steep price for their success. According to management experts, controlling fast-track growth and the problems that come with it can be one of the most frightening tasks an entrepreneur will face. This problem most often strikes on the operational end of a business. Demand for a product will outpace production capacity, for example. Effective research and long range planning can do a lot to relieve the problems often associated with rapid business expansion.*

- ***VIII) Recordkeeping and Other Infrastructure Needs***
- *It is essential for small businesses that are undergoing expansion to establish or update systems for monitoring cash flow, tracking inventories and deliveries, managing finances, tracking human resources information, and myriad other aspects of the rapidly expanding business operation. In addition, growing enterprises often have to invest in more sophisticated communication systems in order to provide adequate support to various business operations.*
- ***IX) Expansion Capital***
- *Small businesses experiencing growth often require additional financing. Finding expansion capital can be a frustrating experience for the ill-prepared entrepreneur, but for those who plan ahead, it can be far less painful. Businesses should revise their business plan on an annual basis and update marketing strategies accordingly so that you are equipped to secure financing under the most advantageous terms possible.*

- ***X) Personnel Issues***
- *Growing companies will almost always have to hire new personnel to meet the demands associated with new production, new marketing campaigns, new recordkeeping and administrative requirements, etc. Careful hiring practices are always essential, but they are even more so when a business is engaged in a sensitive period of expansion.*
- *Business expansion also brings with it increased opportunities for staff members who were a part of the business in its early days. The entrepreneur who recognizes these opportunities and delegates responsibilities appropriately can go far toward satisfying the desires of employees who want to grow in both personal and professional capacities. But, small business owners also need to recognize that business growth often triggers the departure of workers who are either unable or unwilling to adjust to the changing business environment. Indeed, some employees prefer the more relaxed, family-type atmosphere that is prevalent at many small business establishments to the more business-like environment that often accompanies periods of growth. Entrepreneurs who pursue a course of ambitious expansion may find that some of their most valuable and well-liked employees decide to instead take a different path with their lives.*
- ***XI) Customer Service***
- *Good customer service is often a significant factor in small business success, but ironically it is also one of the first things that tends to fall by the roadside when business growth takes on a hectic flavor. When the workload increases tremendously, there's a feeling of being overwhelmed. And sometimes you have a hard time getting back to clients in a timely fashion. So the very customer service that caused your growth in the first place becomes difficult to sustain. Under such scenarios, businesses not only have greater difficulty retaining existing clients, but also become less effective at securing new business. A key to minimizing such developments is to maintain adequate staffing levels to ensure that customers receive the attention and service they demand (and deserve).*

- ***XII) Disagreements among Ownership***
- *On many occasions, ownership arrangements that functioned fairly effectively during the early stages of a company's life can become increasingly problematic as business issues become more complex and divergent philosophies emerge. For example, one or more of the cofo unders are unable to keep pace with the level of sophistication or business wisdom that the company now requires. Such a cofounder is no longer making a significant contribution to the business and in essence has become 'obsolete.' It's even harder when the obsolete partner is a close friend or family member. In this case, you need to ask: Will the obsolete cofounder's ego allow for a position of diminished responsibility? Can our overhead continue to keep him or her on staff?" Another common scenario that unfolds during times of business growth is that the owners realize that they have profoundly different visions of the company's future direction. One founder may want to devote resources to exploring new marketing niches, while the other may be convinced that consolidation of the company's presence in existing markets is the way to go. In such instances, the departure of one or more partners may be necessary to establish a unified direction for the growing company.*
- ***XIII) Family Issues***
- *Embarking on a strategy of aggressive business expansion typically entails an extensive sacrifice of time and often of money on the part of the owner (or owners). But as many growing companies especially those founded by younger entrepreneurs, are established at a time when all of the cofounders are either unmarried or in the early stages of a marriage. As the size of the company grows, so does the size of the cofounder's family. Cofounders with young children may feel pressure to spend more time at home, but their absence will significantly cut their ability to make a continuous, valuable contribution to the company's growth. Entrepreneurs thinking a strategy of business growth, then, need to decide whether they are willing to make the sacrifices that such initiatives often require.*

- ***XIV) Transformation of Company Culture***
- *As companies grow, entrepreneurs often find it increasingly difficult for them to keep the business grounded on the bedrock values that were instituted in its early days. Owners are ultimately the people that are most responsible for communicating those values to employees. But as staff size increases, markets grow, and deadlines proliferate, that responsibility gradually falls by the edge and the company culture becomes one that is far different from the one that was*
- *in place and enjoyed just a few short years ago. Entrepreneurs need to make sure that they stay attentive to their obligations and role in shaping company culture.*
- ***XV) Changing Role of Owner At The Initial State***
- *You have few employees; you're doing lots of things yourself. But when a company experiences its first real surge of growth, it's time for you to change what you do. You need to become a CEO that is, the leader, the strategic thinker, and the planner—and to delegate day-to-day operations to others. Moreover, as businesses grow in size they often encounter problems that increasingly require the experience and knowledge of outside people. Entrepreneurs guiding growing businesses have to be willing to solicit the expertise of accounting and legal experts where necessary, and they have to recognize their shortcomings in other areas that assume increased importance with business expansion.*

7.3.5 Choosing not to Grow

- *Small business owners choose not to expand their operations even though they have ample opportunity to do so. For many small business people, the greatest satisfactions in owning a business, which often include working closely with customers and employees, inevitably diminish as the business grows and the owner's role changes. Many entrepreneurs would rather limit growth than give up those satisfactions. Other successful small business owners, meanwhile, simply prefer to avoid the headaches that inevitably occur with increases in staff size, etc. And many small business owners choose to maintain their operations at a certain level because it enables them to devote time to family and other interests that would otherwise be allocated to expansion efforts.*

7.4 Business Ethics and Social Responsibility

- ***7.4.1 Introduction***
- *Business organizations, as established by their entrepreneurs, are expected to do their businesses in a sustainable and ethical manner. For this there are certain theories that we should understand.*
- *These theories have been evolving through time as business practices mature and grow as well as societal and government influence increase.*

7.4.2 Three Approaches to Corporate Responsibility

- *According to the traditional view of the corporation, it exists primarily to make profits supported by stockholder theory. From this money-centered perspective, insofar as business ethics are important, they apply to moral dilemmas arising as the struggle for profit proceeds. These dilemmas include: "What obligations do organizations have to ensure that individuals seeking employment or promotion are treated fairly?" "How should conflicts of interest be handled?" and "What kind of advertising strategy should be pursued?" "What pricing strategy should be pursued?"*
- *While these dilemmas continue to be important throughout the economic world, when businesses are conceived as holding a wide range of economic and civic responsibilities as part of their daily operation, the field of business ethics expands correspondingly. Now there are large sets of issues that need to be confronted and managed outside of and independent of the struggle for money. Broadly, there are three theoretical approaches to these new responsibilities:*

1. *Corporate social responsibility (CSR)*
2. *The triple bottom line*
3. *Stakeholder theory*

Corporate Social Responsibility (CSR)

- *Corporate social responsibility has two meanings.*
- *First, it's a general name for any theory of the corporation that emphasizes both the responsibility to make money and the responsibility to interact ethically with the surrounding community.*
- *Second, corporate social responsibility is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare.*
- *CRS is a philosophy in which the company's expected actions include not only producing a reliable product, charging a fair price with fair profit margins, and paying a fair wage to employees, but also caring for the environment and acting on other social concerns.*

1. ***The economic responsibility to make money.***

- *This obligation is the business version of the human survival instinct (to live we have to eat). Companies that don't make profits are in a modern market economy doomed to perish.*
- *there are special cases. Nonprofit organizations make money (from their own activities as well as through donations and grants), but pour it back into their work. Also, public/private hybrids can operate without turning a profit.*

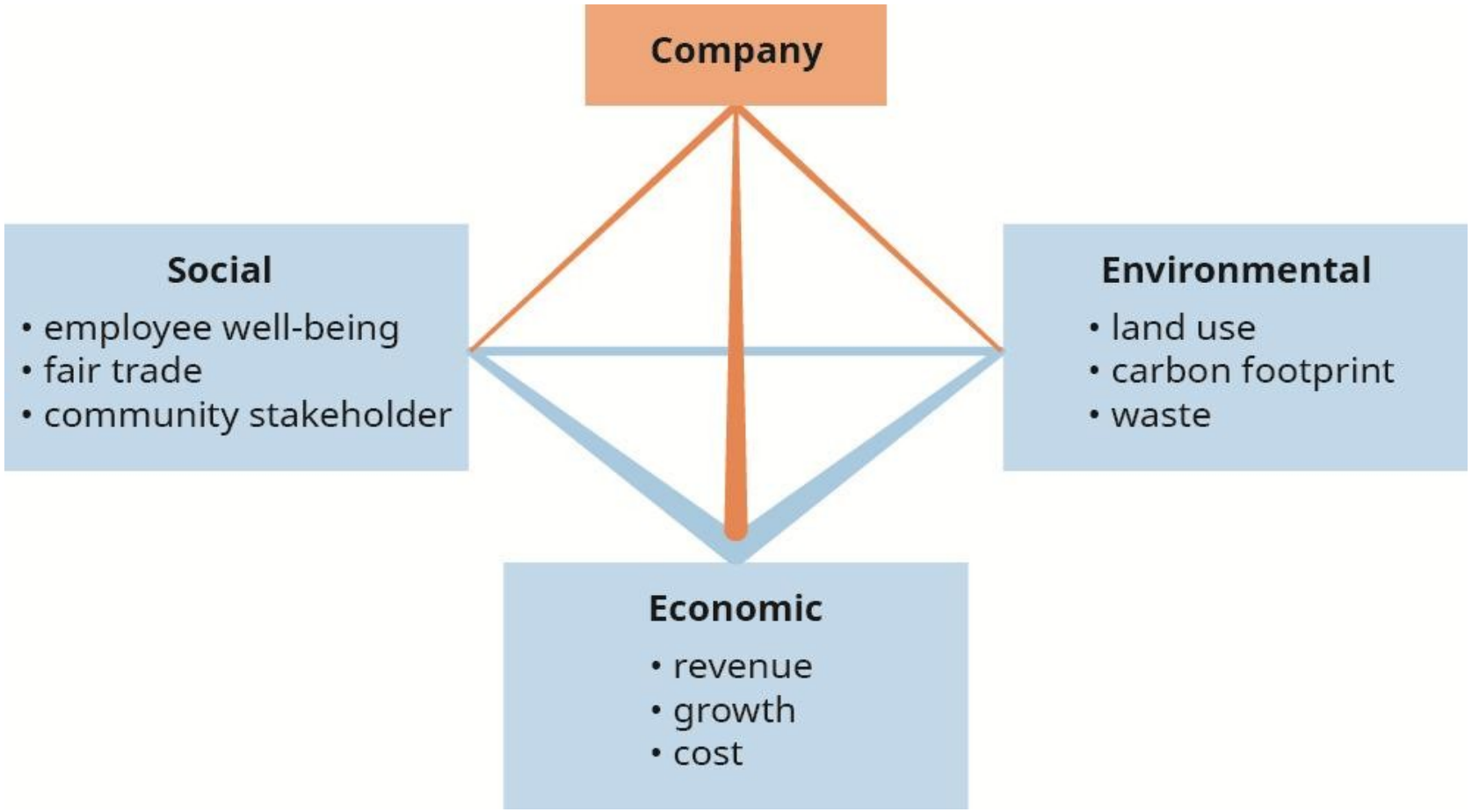
- *2. **The legal responsibility** to adhere to rules and regulations.*
- *This obligation must be understood as a proactive duty. That is, laws aren't boundaries that enterprises skirt and cross over if the penalty is low; instead, responsible organizations accept the rules as a social good and make good faith efforts to obey not just the letter but also the spirit of the limits.*

- *3. **The ethical responsibility** to do what's right even when not required by the letter or spirit of the law. This is the theory's keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship normally entails. Think of a plant producing toxin in the manufacturing process.*

- *4. **The philanthropic responsibility** to contribute to society's projects even when they're independent of the particular business.*
- *Public acts of generosity represent a view that businesses, like everyone in the world, have some obligation to support the general welfare in ways determined by the needs of the surrounding community.*

The Triple Bottom Line

- *The triple bottom line is a form of corporate social responsibility dictating that corporate leaders formulate bottom-line results not only in economic terms (costs versus revenue) but also in terms of company effects in the social realm, and with respect to the environment. There are two keys to this idea.*
  - *First, the three columns of responsibility must be kept separate, with results reported independently for each.*
  - *Second, in all three of these areas, the company should obtain sustainable results.*
- *The notion of sustainability is very specific. At the intersection of ethics and economics, sustainability means the long-term maintenance of balance.*


Company
Social
• employee well-being
• fair trade
• community stakeholder
Environmental
• land use
• carbon footprint
• waste
Economic
• revenue
• growth
• cost

- ***Economic sustainability*** *values long-term financial solidity over more volatile, short-term profits, no matter how* ***high****. Sustainability as a virtue means valuing business plans that may not lead to quick riches but that also avoid disastrous losses.*
- ***Social sustainability*** *values balance in people's lives and the way we live. As the imbalances grow, as the rich get richer and the poor get both poorer and more numerous, the chances that society itself will collapse in anger and revolution increase.*

- ***Environmental sustainability*** *begins from the affirmation that natural resources—especially the oil fueling engines, the clean air we breathe, and the water we drink—are limited.*
- *If those things deteriorate significantly, our children won't be able to enjoy the same quality of life most of us experience.*
- *Conservation of resources, therefore, becomes tremendously important, as does the development of new sources of energy that may substitute those we're currently using.*

Stakeholder Theory

- *Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility. Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world.*
- *It lists and describes those individuals and groups who will be affected by (or affect) the company's actions and asks, "What are their legitimate claims on the business?" "What rights do they have with respect to the company's actions?" and "What kind of responsibilities and obligations can they justifiably impose on a particular business?"*
- *In a single sentence, stakeholder theory affirms that those whose lives are touched by a corporation hold a right and obligation to participate in directing it.*

- *Who are the stakeholders surrounding companies? The answer depends on the particular business, but the list can be quite extensive. If the enterprise produces chemicals for industrial use and is located in a small town, the stakeholders and their interests in parentheses include:*
  - *Company owners, whether a private individual or shareholders, (reasonable profit)*
  - *Company workers (reasonable salaries that enable them to live decent lives),*
  - *Customers and potential customers of the company (quality products at fair prices),*
  - *Suppliers and potential suppliers to the company (fair prices for their inputs),*
  - *Everyone living in the town who may be affected by contamination from workplace operations,*
  - *Creditors whose money or loaned goods are mixed into the company's actions,*
  - *Government entities involved in regulation and taxation (fair tax),*
  - *Local businesses that cater to company employees (restaurants where workers have lunch, grocery stores where employee families shop, and similar),*
  - *Other companies in the same line of work competing for market share (fair competition for competitiveness of the industry),*

7.4.3 Business Ethics Principles

- There are certain universal ethical principles that managers of enterprises must adhere to. Ethical values, translated into active language establishing standards or rules describing the kind of behavior an ethical person should and should not engage in, are ethical principles. The following
- list of principles incorporates the characteristics and values that most people associate with ethical behavior.

- *1. **Honesty**. Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.*
- *2. **Integrity**. Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honorable and upright; they will fight for their beliefs. They will not sacrifice principle for suitability, be hypocritical, or unscrupulous.*
- *3. **Promise-Keeping & Trustworthiness**. Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or lega listic manner in order to rationalize non-compliance or create justifications for escaping their commitments.*

- *4. **Loyalty**. Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.*
- *5. **Fairness**. Ethical executives are fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor offensive means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.*
- *6. **Concern for Others**. Ethical executives are caring, compassionate, benevolent and kind; they like the **Golden Rule**, help those in needs, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.*

- *7. **Respect for Others.** Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.*
- *8. **Law Abiding**. Ethical executives abide by laws, rules and regulations relating to their business activities.*
- *9. **Commitment to Excellence**. Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavor to increase their proficiency in all areas of responsibility.*
- *10. **Leadership**. Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.*
- *11. **Reputation and Morale**. Ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent inappropriate conduct of others.*
- *12. **Accountability.** Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.*


Thanks !