Chapter Seven

Managing Growth And Transition

Chapter Objectives

- ☑ Identify factors that affect business growth
- ☑ Understand business expansion strategies,
- ☑ Know & internalize business ethics & social responsibilities





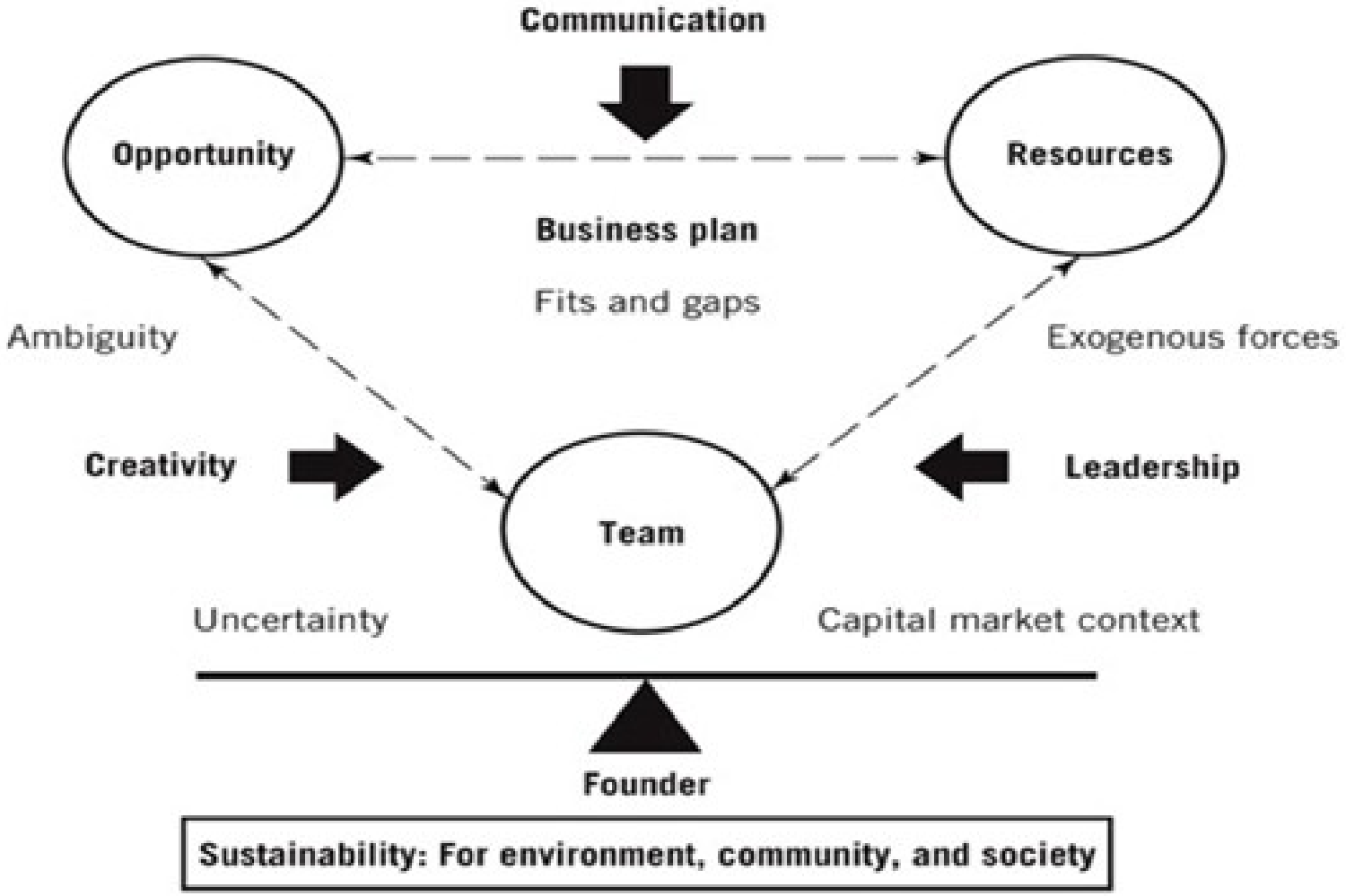
Timmons Model of Entrepreneurship

- ☑ This model identified the internal and external factors that determine the growth of business.
- ☑ Entrepreneurs at the initial stage focus on resource mobilization. However, 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.
- ☑ What key aspects does an entrepreneur need to manage to start and grow a business?





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Communication
Opportunity
Resources
Business plan
Fits and gaps
Ambiguity
Exogenous forces
Creativity
Leadership
Team
Uncertainty
Capital market context
Founder
Sustainability: For environment, community, and society

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- ☑ Jeffry Timmons (2006) developed the Timmons model of entrepreneurship through his doctoral thesis.
- ☑ 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**





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- ☑ According to the model, for an entrepreneur to create a successful venture, they must balance three key components indicated earlier as elaborated here below:
- ☑ **Opportunities**: rather than developing a perfect business plan, Timmons suggests that the entrepreneur's first and most important step is to identify and evaluate a solidly viable market opportunity, where after the business plan and funding will follow. Problems in the environment become opportunities for entrepreneurs.





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- ☑ **Teams**: once an opportunity has been identified, it is critical to gather a good team of people to unlock the potential of the opportunity. Team members do have defined roles.
- ☑ **Resources:** finding and managing appropriate resources requires different skills than finding and managing good people, but it is equally important for eventual success.
- ☑ Resources may include tangible and intangible resources. Knowledge, goodwill, information, etc., are intangible resources. Buildings, land, information technology, human resource, money, etc., are tangible resources.





New Venture Expansion Strategies

- ☑ All successful small business startups eventually face the issue of handling business expansion or growth.
- ☑ Business expansion is a stage of a company's life that is troubled with both opportunities and perils.
- ☑ Growth means that new employees will be hired who will be looking to the top management of the company for leadership.
- ☑ Growth means that the company's management will become less and less centralized, and this may raise the levels of internal politics, protectionism, and disagreement over what goals and projects the company should pursue.





Methods of Growth

- ☑ Common routes of small business expansion include the following common 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).
- ☑ Establishment of business agreements with distributorships and/or dealerships,
- ☑ Pursuing new marketing routes (such as catalogs),





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- ☑ 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.





The Ansoff Matrix – Growth Strategy

- ☑ **The Ansoff Matrix** is a strategic-planning tool that provides a framework to help executives, senior managers and marketers devise strategies for future growth.
- ☑ It is named after Russian American Igor Ansoff, who came up with the concept.
- ☑ **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.





The Ansoff Matrix – Growth Strategy…

- ☑ 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.





The Ansoff Matrix – Growth Strategy….

- ☑ **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.





The Ansoff Matrix – Growth Strategy

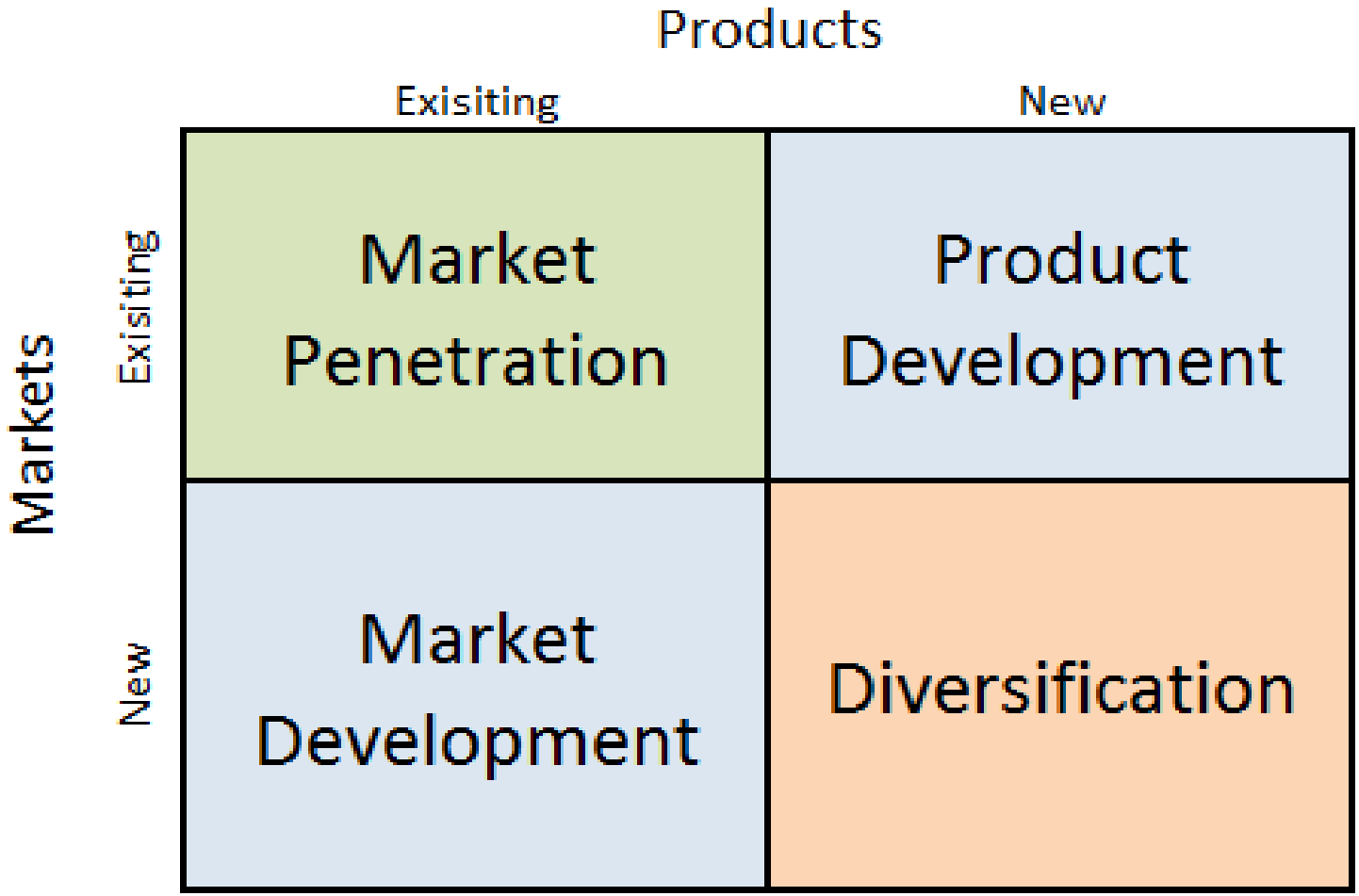


Figure 7.2 Ansoff's Matrix

Selecting a Product-Market Growth Strategy

- ☑ **Market-penetration:-**It covers products that are existent in an existing market. In this strategy, there can be further exploitation of the products without necessarily changing the product or the outlook of the product.
- ☑ Market penetration or consumption can also be increased by coming up with various initiatives that will encourage increased usage of the product. A good example is the usage of toothpaste.
- ☑ 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.





Selecting a Product-Market Growth Strategy…

- ☑ **Market development :-** In this strategy, 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 into new markets. A good example is Guinness.
- ☑ **Product development:-** With a product-development growth strategy, 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.
- ☑ A good example is car manufacturers who offer a range of car parts so as to target the car owners in purchasing additional products.





Selecting a Product-Market Growth Strategy…

- **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.





Selecting a Product-Market Growth Strategy…

- ☑ **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.
- ☑ **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.





Expansion Issues

- ☑ *Growth* means understanding, adjusting to, and managing a whole new set of challenges in essence, a very different business.
- ☑ **Growing Too Fast:-**Success is wonderful, of course, but rapid growth can sometimes overwhelm the ill-prepared business owner.
- ☑ **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.





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- ☑ **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.
- ☑ **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





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- ☑ **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.
- ☑ **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.





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- ☑ **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).
- ☑ **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.
- ☑ **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.





Business Ethics and Social Responsibility

- ☑ 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.
- ☑ Broadly, there are three theoretical approaches to these new responsibilities:
  - ☑ Corporate social responsibility (CSR)
  - ☑ The triple bottom line
  - ☑ Stakeholder theory





Business Ethics and Social Responsibility…

- ☑ As a specific theory of the way corporations interact with the surrounding community and larger world, corporate social responsibility (CSR) is composed of four obligations:
- ☑ **The economic responsibility to make money**. Required by simple economics, this obligation is the business version of the human survival instinct (to live we have to eat).
- ☑ **The legal responsibility** to adhere to rules and regulations.
- ☑ **The ethical responsibility** to do what's right even when not required by the letter or spirit of the law.





Business Ethics and Social Responsibility…

- ☑ **The philanthropic responsibility** to contribute to society's projects even when they're independent of the particular business.
- ☑ **The Triple Bottom Line:-**it 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.
- ☑ At the intersection of ethics and economics, sustainability means the long-term maintenance of balance. As elaborated by here below how the balance is defined and achieved economically, socially, and environmentally





The Triple Bottom Line

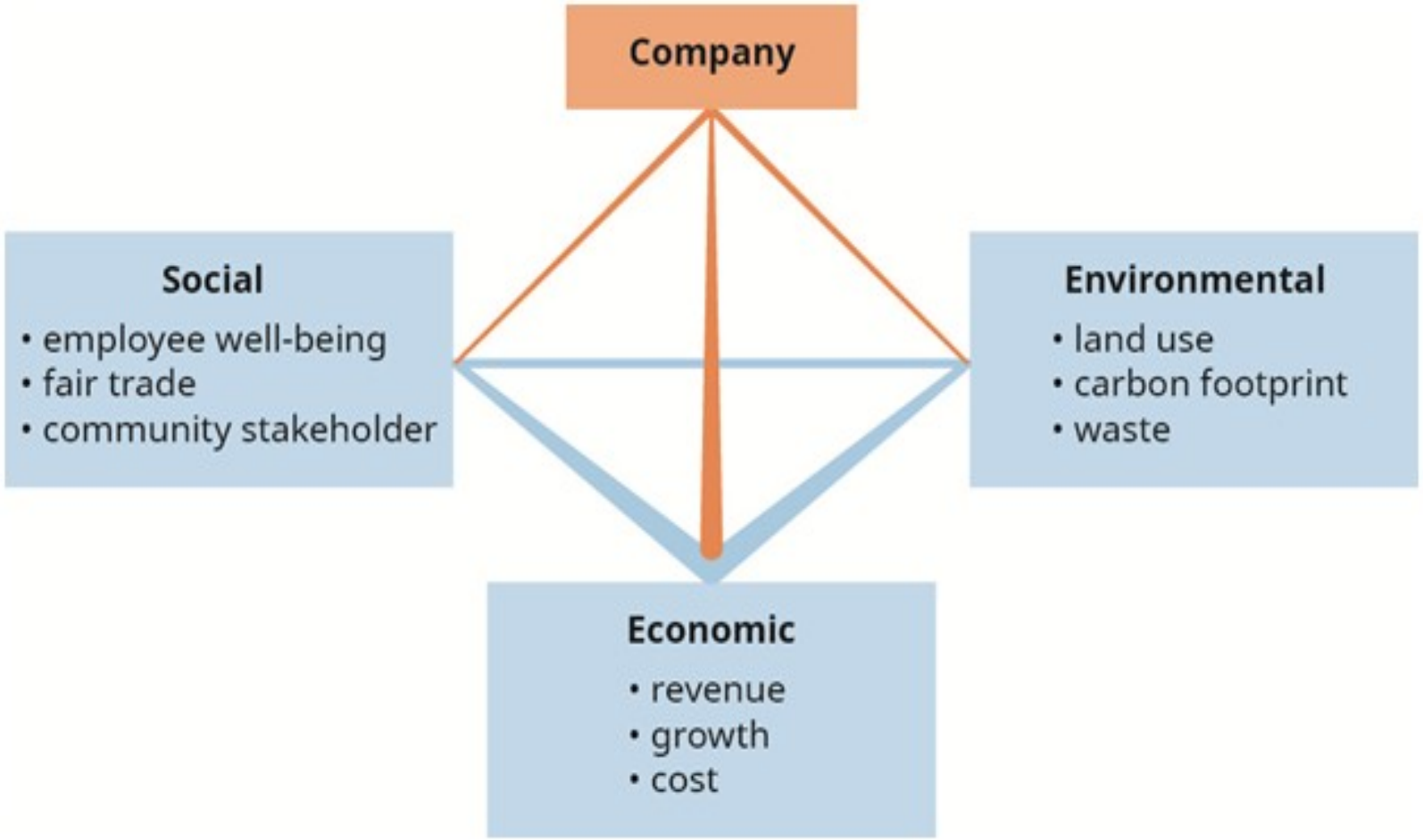


Figure 7.3 Triple bottom lines

Business Ethics and Social Responsibility…

- ☑ **Economic sustainability** values long-term financial solidity over more volatile, short-term profits, no matter how high. According to the triple-bottom-line model, corporations have a responsibility to create business plans allowing stable and prolonged action.
- ☑ **Social sustainability** values balance in people's lives and the way we live. The **fair trade movement** fits this ethical imperative to shared opportunity and wealth.
- ☑ **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 limite





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?"





Business Ethics Principles

- ☑ There are certain universal ethical principles that managers of enterprises must adhere to.
- ☑ **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.
- ☑ **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.





Business Ethics Principles…

- ☑ **Promise-Keeping & Trustworthiness**. Ethical executives are worthy of trust.
- ☑ **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.
- ☑ **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.





Business Ethics Principles…

- ☑ **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.
- ☑ **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.





Business Ethics Principles…

- ☑ **Law Abiding**. Ethical executives abide by laws, rules and regulations relating to their business activities.
- ☑ **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.
- ☑ **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.





Business Ethics Principles…

- ☑ **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.
- ☑ **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.





End




Entrepreneurship
business
creations
small
venture
new
Wealth
innovation
entrepreneur
entrepreneurial
Definition