MODULE 7: MANAGING TRANSITION: FROM START UP TO GROWTH

In business, change is the way things will be different, and transition is how you move people through the stages to make change work. Efforts at leading change, however, can be serious, if not outright disastrous, unless the entrepreneurs manage transition. Yet managing transition well is often the most neglected part of a change initiative (Stevens, 2008). The steps involved are identifying the needs, setting up the transition team, laying out the plan, getting inputs from stakeholders, finalising the plan, clearing the path and marking the progress of the transition by milestones.

TRANSITION IN BUSINESS AND PHASES OF BUSINESS GROWTH

The Phases of Business Growth

Most people agree that organizations have a life cycle; that, like people, businesses pass through some identifiable stages.

Phase one: Start up/infancy (growth through creativity)

An overview for this phase is that the entrepreneurs who founded the firm are busy creating products and opening up markets. There aren't many staff, so informal communication works fine, and rewards for long hours are probably through profit share or stock options.

Major functions of a Start-up Entrepreneur:

1. Mentoring and Being Mentored
2. Teaching everything he knows to his employees that will make the business to grow
3. Setting business targets

To transit from start up to growth, the entrepreneur must:

i. be flexible- for instance, flexible to try different marketing strategy;
ii. ask for advice from smart people;
iii. make sales his top priority; and
iv. discover their optimum selling strategy- this might be a combination of media, pricing and quality.

Basic challenges of Start-up phase: Completing a sound business plan; pitching the business plan with confidence to people who can help; finding the first customers; having a team that work together well; delays in processing intellectual property protection claims; managing cash flow effectively; finding the funding required for your business start-up costs;

insufficient cash; creating a business not a job; gaining marketplace acceptance and support – from your family, friends and customers.

Phase two: Fast growth/childhood (growth through direction)

An overview for this phase is that growth continues in an environment of more formal communications, budgets and focus on separate activities like marketing and production. Incentive schemes replace stock as a financial reward. The fast growth/childhood phase of business is characterized by an increase in employee size and income. The main task should be on aggressive proliferation of new products or goods and services. The manager/entrepreneur is to focus on how to double the business revenue.

How to manage fast growth/childhood and double business revenue:

1. Create new adaptations of products/services that customers already know and love
2. Work hard
3. Work with smart people
4. Find a productive way to engage your employees so that you become a group that reproduces great products/services
5. Increase the speed in the delivery of goods and services

Formula for Creative Brainstorming:

1. Have a team of 3-8 persons
2. Have a limited amount of time (1-3 hours)
3. Have an agenda/goals and objectives
4. Let everyone contribute
5. Have strict rules- such as time limit for each contribution, no specific criticism, be positive
6. Encourage a culture of creativity in solving problems

Basic challenges for fast growth/childhood phase: Having the discipline to maintain a narrow strategic focus; transitioning from owner to leader; confronting future growth; managing cash flow effectively; founder conflicts on roles and tasks; sticking to product schedules; building and growing a customer base; having the right business leadership skills; and getting overwhelmed by growth.

Phase three: Adolescent (growth through delegation)

This is characterized by more employees and revenue. The focus of the Entrepreneur is fostering growth through delegation.

Functions of the Entrepreneur:

1. Create an organizational chart or a corporate structure for the organization

2. Spend more time with the marketing manager and less time with others like 80% to 20%
3. Explain business objectives to the corporate managers, draft a report format and meet with each one every week

Basic challenges for Adolescent phase are: Evolving from being a manager of employees to a manager of managers; insufficient cash; keeping communications open; managing customers' expectations; delay in milestones delivery and running out of funds.

Phase four: Maturity (growth through coordination and monitoring)

An overview for this phase is that growth continues with the previously isolated business units re-organized into product groups or service practices. Investment finance is allocated centrally and managed according to Return on Investment (ROI) and not just profits. Incentives are shared through company-wide profit share schemes aligned to corporate goals. It is characterized by large number of employees.

Roles of an Entrepreneur:

1. Employee- contribute positively
2. Manager- develop procedures to get work done, supervision etc.
3. Business builder- articulate values, philosophy and vision, supervision
4. Wealth builder- determines what the company is worth and what to do to increase its worth.

Basic challenges for Maturity phase: choosing right kind of investors; managing customers' expectations and bureaucracy- team conflict.

Phase 5: Growth through collaboration

The formal controls are replaced by professional good sense as staff group and re-group flexibly in teams to deliver projects in a matrix structure supported by sophisticated information systems and team-based financial rewards. Further growth can only come by developing partnerships with complementary organizations.

Phase 6: Growth through extra-organizational solutions

Greiner's sixth phase suggests that growth may continue through merger, outsourcing, networks and other solutions involving other companies. Growth rates will vary between and even within phases. The duration of each phase depends almost totally on the rate of growth of the market in which the organization operates.

Managing Transition from Start up to Growth: The STARS Model

Business owners must make necessary changes from time to time and know how to manage transition effectively. The number one reason why most businesses (small and large) are failing today is that they do not recognize the need for a transition nor did they manage the transition effectively. Some business leaders, who know that there is a need to manage transition, do not know where to get started and how to make the changes that will ultimately lead to sustainable business success. Where to start is to acknowledge that all business ventures must have a start–up.

The STARS Model

The STARS model (Watkins 2003, 2009) provides a perspective on business evolution and development that identifies the most common business transition:

- Startup
- Turnaround
- Accelerating growth
- Realignment
- Sustaining success.

The ability to navigate successfully in each situation is crucial to the success of individual businesses.

Start-up stage: When starting a business, your focus should be on generating cash, gathering skilled labour for your business, product and marketing development, securing adequate inventory, and acquiring production technology. The challenges are in designing new production systems and business structures, selecting business strategies, recruiting, and building teams, all with limited resources. These are some of the most important aspects to be effectively managed during the start- up phase:

- Have good vision, get your vision right, get your strategies right and get your action plans right.
- Assemble a talented business team.
- Gather sufficient capital and operating cash.
- Work to remove problems in your production system.

Turnaround stage: A turnaround is critical when there is a need to save a failing business. It is similar to radical surgery to save the life of the business. The focus should be on business restructuring and obtaining external advice as needed.

Thus, what you need is to re-evaluate your business plan and make the necessary changes to the strategies, markets, products, or technologies that are not working. More importantly, you need to:

- Learn and understand what went wrong in the business and communicate it to your employees
- Remove any non-core business activities
- Make faster and bolder moves
- Clean house at the top
- Secure early wins
- Create supporting alliances

Managing and accelerating growth: There are times when entrepreneurs have to deal with the challenges and opportunities of increasing demand. Your focus should be on managing the pressures of scaling up production by ensuring the resources required, improving the existing systems, and creating new business structures.

Modify your business model for quicker response to market needs as follows:
- Organize to learn what is working
- Improve production systems
- Design new business structures as a way to ensure financing for expansion
- Implement new technologies
- Integrate new employees
- Establish priorities and focus on a few vital goals
- Build team leadership.

Sustaining growth/success: Some businesses reach their desired level of growth/success but struggle to sustain it. The focus should be on business- model innovation – developing a persistent competitive advantage through continuous improvement of the business model. An emphasis on innovative new products and plant quality has also helped companies to sustain their successes.

In order to sustain growth/ success, you also need to:
- Focus on your most productive areas for innovation
- Provide sustained benefits for all stakeholders
- Expand business-model innovation
- Pursue higher potential business-model improvements
- The entrepreneur should put in place: marketing plan and marketing strategies; a financial planning; a production plan; and a business plan.

Transition Managers and the Transition Management Process: Transition managers are in a unique position to facilitate the Transition Management Process, working simultaneously with new business development project teams, divisional interfaces and senior management. The steps to guide this process include:

- Setting/managing expectations among the interfaces including senior management and the project team;

- Encouraging open discussions about the challenges of transition;
- Establishing the strategic context for managing innovations;
- Identifying transition stages and issues;
- Building the transition management plan; and
- Facilitating business transition process.

Pitfalls in Managing Transitions from Start up to Growth: Success in business is never automatic. Starting a business is always risky, and the chance of success is slim. Regardless of the industry, failure is the result of either the lack of management skills or lack of proper capitalization or both. The common causes of failure in business transitions include:

- Choosing a business that isn't very profitable
- Inadequate cash reserves
- Failure to clearly define and understand your market, your customers, and your customers' buying habits
- Failure to price your product or service correctly
- Failure to adequately anticipate cash flow
- Failure to anticipate or react to competition, technology, or other changes in the marketplace
- Overgeneralization
- Over reliance on a few key customers
- Putting up with inadequate management
- Lack of experience of managers
- Poor cash flow management
- Absence of performance monitoring
- Over borrowing and poor debtor management
- Lack of financial skills and planning
- Failure to innovate
- Poor inventory management
- Poor communications throughout the organization
- Competition
- Poor location and low sales
- Over investments in fixed assets
- Personal use of business funds and
- Unexpected growth (Mason, 2012).

DECISION MAKING IN BUSINESS TRANSITION

A decision is a choice made from at least two alternatives while decision- making involves the selection of one alternative from two or more possible alternatives, based upon some criteria. Decisions can either be programmed or non-programmed. However, to make an effective decision, a manager should create a constructive environment, generate good alternatives, explore these alternatives, choose the best alternative, check the decision, communicate the decision, and take necessary actions.

Definition of Decision Making: Decision-making is the process of identifying and selecting a course of action to solve a specific problem.

Simple decisions usually need a simple decision-making process. But difficult decisions typically involve issues like these:

- Uncertainty - Many facts may not be known.
- Complexity - You have to consider many interrelated factors.
- High-risk consequences - The impact of the decision may be significant.
- Alternatives - Each has its own set of uncertainties and consequences.
- Interpersonal issues - It can be difficult to predict how other people will react.

The Characteristics of Decision-Making

- Decision-making permeates all management.
- It is essential to the operation of the management process in any form of organizational setting.
- It involves judgment.
- It includes risk and uncertainty, since it deals with future values.

The basic process of rational decision-making involves diagnosing and defining the problem, gathering and analysing the facts relevant to the problem, developing and evaluating alternative solutions to the problem, seeking the most satisfactory alternative, and converting this alternative into action.

Conditions under which Managers make Decisions
In general, managers make decisions under three possible conditions, namely: certainty, risk and uncertainty. Each of these conditions is briefly discussed below.

BUSINESS CONTROL

What is business control? This is the process of measuring and correcting the activities of subordinates to ensure that plans are completed and goals are achieved. Control is implemented by comparing actual results to planned results and correcting any significant differences. Managers control their organization by continually monitoring the use and performance of resources especially money and people.

Controlling can be defined as the task of ensuring that the firm's objectives are being achieved. It entails establishing standards, comparing performance against these standards and correcting deviations. Standards are set during the planning process. Standards form part of the objectives of the company. Standards are therefore set as at the time the objectives are set. The control process can therefore be said to start with the formulation of objectives.

Different types of control include the following:
1. Financial control
2. Inventory control
3. Quality control
4. Credit control

Controlling Techniques

A variety of tools and techniques have been used over the years to help managers in controlling their operations. Three of such tools are:
1. Budgeting
2. Break-even analysis
3. Financial analysis

The business control process involves several activities:
- establishing performance standards;
- reporting or monitoring performance;
- comparing performance against standards;
- identifying unsatisfactory performance; and
- pursuing appropriate action to correct significant deviations in performance.

PERSONAL DISCIPLINE IN BUSINESS TRANSITION

Self-discipline will ensure that your thoughts are translated to actions during the most difficult times in business. It involves deciding what you want, writing it down, setting a deadline, organising the lists of things to do to achieve your goal by sequence and priority, taking steps daily in the direction of the goal