Overcoming the Growth Plateau

Emphasizing the Right Entrepreneurial Practices to Achieve Sustained Growth

November 2006
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Graduate School of Business Polsky Center for Entrepreneurship
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Introduction

Consider two companies in the same industry during the same ten-year period: 1996–2006.

One, the industry pioneer praised for its innovative business model, initially experiences revenue growth of more than 20 percent annually, only to see growth tail off and then plummet to negative 3 percent per year. By 2006 it ends up with an operating loss of $427 million after having closed almost 300 stores.

The other, a family-owned business, experiences more than five-fold revenue growth in the same period and expands from 58 stores in 4 states, to 450 stores nationwide. It grows from regional niche player to third-largest chain in the country.

Same industry – bricks-and-mortar video rental. Same set of competitive challenges and market-force changes, from new entrants like NetFlix to new substitutes like digital cable and Internet video. Yet vastly different outcomes. The pioneer and early market leader, Blockbuster, stumbles. The family-owned business, Family Video, soars. [See Figure 1.]

The question is: why? Why does one company sink into the Growth Plateau (and even deeper), while the other bypasses it altogether?

Doubtless there are many explanations. But a key way that companies like Family Video are able to sustain growth over time is through a laser-focus on maintaining the entrepreneurial practices that made them successful in the first place. Conversely, when innovative or early-stage companies lose their entrepreneurial edge as they mature and scale, they court the Growth Plateau … or worse. Blockbuster provides a case in point.

Can entrepreneurial practices really make the difference between sustained growth and the opposite? Just as important, can resuscitating entrepreneurship in a maturing organization rescue the company from stagnation? Market Strategy Group and the Polsky Center for Entrepreneurship have sought to answer these questions first by identifying five practices that characterize successful entrepreneurialships, and then by evaluating their use among more than 20 leading entrepreneurs whose maturing companies have (a) managed to avoid the Growth Plateau altogether, or (b) fallen into the Growth Plateau following initial strong growth and then succeeded in breaking out of it.

![Figure 1](image1)

The study shows that of the five core or “pillar” entrepreneurial practices that characterize successful start-ups, two need to be nurtured and emphasized as a company grows. First and foremost, companies must maintain a bias for action – a willingness to take bold and decisive action with imperfect information or resources. Second, companies must continue to be customer-centric, to keep building their business around customers by anticipating and responding to customers’ ever-changing needs. The practices of frugality, sacrifice, and culture of everyone knowing everything worth knowing, while critical in a company’s early stages, become more secondary in importance as a company matures.

The study also suggests that two additional practices are integral to both sustaining and reigniting growth. One is selective recruiting, the practice of continuing to hire people who are deeply committed to the growth and long-term success
of the company. The other is refreshed leadership – a commitment to continually bring in or develop leaders with skill sets, perspectives or market insights that allow a company to effectively adapt and respond to change.

These four practices, two core and two new, can help growing companies sustain their growth trajectories and can reinvigorate companies stalled on the Growth Plateau.

The Growth Plateau

The concept of “hockey stick growth” has become a euphemism for being unrealistic. While many successful early-stage companies do experience meteoric growth, they almost always cool off after a relatively short period of time; within a few years, their growth curves flatten. They settle into the Growth Plateau.

The Growth Plateau has many causes. New competitors enter the market, the product becomes commoditized, the market grows saturated, complacency sets in. Ed Kaplan, founder of Zebra Technologies — which grew from concept to $700 million barcode printer manufacturer over 24 years — suggests that growth itself is often responsible. “You start to see [the Growth Plateau] when you add another tier of management,” he says. “When the headcount gets to the point where you have to work through another level of management just to get the job done…that changes the way you do things.”

“...that changes the way you do things.”

---Ed Kaplan, Zebra Technologies

How can companies avoid the fate of TiVo, Netscape, Blockbuster and other fallen stars? Answers and lessons can be learned from the 21 companies in the Market Strategy Group/Polsky Center study, all of whom managed to retain or resuscitate the entrepreneurial practices that led to their initial success, and avoid or escape the Growth Plateau as a result.

Click Commerce, an enterprise software company, offers an example of a Growth Plateau “avoider.” In the 10 years it has been in existence, Click Commerce’s growth rate has held steady in the double-digit range. CEO Michael Ferro says he sidestepped the Growth Plateau, which he compares to junior year of high school, by seeing it on the horizon and navigating around it. “By junior year, you’ve been successful and need to start thinking about the future. Some entrepreneurs plateau here either because they’re comfortable or because they’re afraid of senior year, [when you become] part of the ‘establishment.’” Staying entrepreneurial helped Ferro and his company avoid both pitfalls.

An example of a Growth Plateau “escapee” is Richardson Electronics, which first made vacuum tubes when it was founded in the 1950s and now engineers and produces a wide range of electronic equipment. In the 1990s, Richardson Electronics’ growth had stalled. It had fallen victim to a “decision by committee mentality,” as CEO Ed Richardson puts it. In response, the company changed its organizational structure to encourage greater entrepreneurship. It created a number of “Special Business Units” charged with operating like start-ups to develop new, meaningful, and differentiated products. This reversion to its entrepreneurial roots sparked a growth resurgence. Today Richardson has annual revenue in excess of $635 million and is still achieving near-double-digit revenue growth.

Market Strategy Group, LLC is a Chicago-based consulting firm that specializes in helping clients set plans, drive results and close performance gaps to achieve operating profit growth.

The Polsky Center seeks to advance the study, understanding and practice of entrepreneurship, venture capital and private equity.

Examples abound of companies that didn’t overcome these challenges and became stuck on the Growth Plateau. When was the last time you used a Netscape browser? And even though you might TiVo your television programs, which manufacturer’s nameplate is on your DVR? In their youth these companies came to define their industries. But like Blockbuster, they were unable to sustain their dramatic early success for the long term. They lost their entrepreneurial way and in the process lost their market leadership.
Research Method

Retaining or losing an entrepreneurial edge can be the difference between growth and stagnation – but just what does that edge consist of? To determine the answer, Market Strategy Group and the Polsky Center compiled a list of the five pillar practices that define successful early-stage companies. The list has three main sources: (1) Interviews with entrepreneurship professors at the University of Chicago Graduate School of Business; (2) Our collective experience running entrepreneurial firms and working with successful entrepreneurs; and (3) Entrepreneurship-focused business literature. The five key entrepreneurial practices emerging from this analysis are:

1. **Bias for Action** – Early-stage companies take action without requiring exhaustive analysis or deliberation. They are willing to act before all the facts are in, and are willing to adjust to new insights on the fly.

2. **Customer-centricity** – Successful early-stage companies find innovative ways to serve new or underserved markets. They are highly perceptive of customer needs that others – particularly large companies – miss. They’re also structured to quickly mobilize resources in response to customer needs.

3. **Frugality** – Successful early-stage companies are famously frugal. They scrimp and save wherever possible and spend every dollar judiciously.

4. **Culture of Everyone Knowing Everything Worth Knowing** – In an early-stage firm, virtually everyone knows everything worth knowing about the business. Not just information, but values, decisions, and ideas. This free flow of information also tends to create a stimulating and innovative work environment.

5. **Sacrifice** – People in successful entrepreneurial firms – particularly the founders – tend to be fanatically committed to the business. They are willing to make extraordinary personal sacrifices so that the business does in fact succeed.

With the five core practices of successful early-stage entrepreneurial businesses established, we sought input from successful entrepreneurs themselves. Our primary targets were entrepreneurs whose businesses had (a) experienced strong long-term growth, and (b) successfully scaled to mid-market size or larger. (Some successful young firms or firms in niche markets, like Amsysco and Invenergy, also participated.) Companies were recruited from the INC. 500 and from a list of businesses that had appeared multiple times on Crain’s “Best in Chicago.” A total of 21 companies participated.

Market Strategy Group/Polsky Center goals in the study were straightforward:

1. First, from the perspective of executives with first-hand experience, which (if any) of the five core entrepreneurial practices are critical to sustaining or, if necessary, reigniting growth as a company achieves scale in size and resources?

2. Second, if these five practices or some subset of them aren’t the keys to successful growth, what practices are?

3. Third, what examples and lessons could the executives share with respect to putting the right practices to use in their organizations?

### Primary Practices For Sustained Growth

According to study participants, all five core entrepreneurial practices identified by Market Strategy Group and the Polsky Center are, in fact, pivotal to the success of an early-stage company. While they all remain important as a company scales and matures, two in particular emerge as critical to sustaining growth over the long term: bias for action and customer-centricity. These are the primary practices among the original five pillars that companies need to emphasize for growth.

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1. “Spend with the multiples effect in mind” was the original name of this practice. It refers to the tendency of successful start-ups to view expenditures in terms of the impact on a potential acquisition or initial public offering. For example, if a firm’s value is 10x earnings, or a 10x multiple, hiring someone for $60,000 is looked at as the equivalent of $600,000. Respondents preferred to define this practice as cost consciousness taken to the extreme. “Frugality” is the term that most accurately captures their view.
Bias for Action

For early-stage firms, the importance of a bias for action is self-evident: without it they can’t get off the ground. As Michael Polsky, founder of Invenergy, puts it, “The early stages are all about action.” Initial success almost always depends on breakout moves that start the company on the path to growth. Sometimes those breakthroughs are literal, not just figurative. Family Video, which began life as Midstates Appliance in Springfield, Illinois in 1946, got its start when, on a whim, Charles Hoogland, son of the company’s founder, blasted a hole in the side of the company’s warehouse in Springfield in 1978. Somehow in the course of selling appliances, the company had “got stuck” with a large supply of videos. With a critical mass of inventory, an idea, and a little extra space, Hoogland broke through a warehouse wall to form the Video Movie Club of Springfield. A name change and billions of dollars in revenue later, his bias for action has clearly paid off.

For Mark Seigle and his brother, Harry, owners of Seigle’s Lumber, bias for action meant deciding to completely change their business model not after months of market analysis, but after a single business trip. The two owners had heard of a regional player with national ambitions in the same business they were in: retailing home building supplies to consumers. They were considering significant expansion themselves, and they wanted to gauge whether the regional player – a company named Home Depot – posed a serious competitive threat. So they flew to Atlanta to see for themselves. As Mark Seigle says, “We got to the parking lot, saw that it was totally packed, and turned around and went home. We knew that we couldn’t compete with that.” Other Midwest hardware chains like Handy Andy and Hines Lumber kept trying to do just that and all but went out of business. Seigle’s Lumber, by contrast, decided to redefine itself by focusing exclusively on suppliers. The results – growth to more than $250 million and 1300 employees when the company was acquired by Stock Building Supply in 2005 – speak for themselves.

It’s the entrepreneurial credo: Ready, fire, aim. Just do it. It’s also the consensus view of everyone in our study: for an early-stage firm to get the growth ball rolling, the company must err on the side of decisive action. It can’t afford to miss an opportunity by over-analyzing possibilities or waiting for all the facts to come in.

But is that same boldness useful or appropriate as a company matures? Michael Sachs, founder and president of Sg2, a health care consulting firm, points out that part of the reason an early-stage company can make quick and bold decisions is that there are fewer people involved in deciding. That makes it easier not just to set a course, but also to change or reverse it. He likens an early-stage firm to a speed boat and a larger firm to an aircraft carrier:

“Speed boats are easy to direct and turn around when a change is needed. It’s easy to communicate between the people on it to chart the immediate future. Aircraft carriers take more people to decide where to go and longer to get on course. Once the course is set, it’s difficult to change directions.”

In other words, growing in size can dull a bias for action simply because more people are involved, which means decisions and course corrections take longer. Moreover, because the stakes are higher and mistakes are more difficult and costly to correct, there can be a natural inclination for people to become more cautious and hesitant. It’s not as easy as it used to be to understand what needs to be done and who needs to be involved. The resulting uncertainty and complexity can serve to further discourage people from acting. In time, a bias for action is lost altogether, replaced by a culture and employee profile that values stability and safety over risk and reward.

Staving off a descent onto the Growth Plateau is one reason why a bias for action is so important over the long term: when it’s present, so is the ability to nimbly seize opportunity. When it’s gone, some degree of growth – and more important, the company’s ability to grow – inevitably goes with it.
Because scale and bias for action can be considered natural enemies, the key is finding ways for them to co-exist. Dennis Keller, founder of the Keller Graduate School of Business and chairman of DeVry Institute, recommends a solution that at first sounds counter-intuitive. As a company grows in size, he says, “action must be supported by planning.” In Keller’s view, planning done the right way creates a compelling, well-reasoned rationale for why an initiative should be pursued, which in turn generates employee buy-in throughout the ranks. When employees see that actions can pay off, they’re more inclined to want to act. In contrast, if they feel the company is pursuing “just another hare-brained idea” they’re likely to be unengaged and unenthusiastic about bringing meaningful new ideas forward.

The trick is not to let more planning and analysis bog down decision-making. John Geocaris, founder of Little Lady Foods, says his company relies on a variation of the 80/20 rule. “We get 80% of it figured out and then we go,” he says. “We figure out the other 20% as we go along. We’ve learned through experience that everything cannot be perfectly engineered, nor does it pay to take the time to do that.” That approach has helped Little Lady Foods, a Chicago-based formulator and private-label producer of baked foods, grow from $100,000 in sales in 1984 to $200 million in sales in 2006.

John Lee, president of Hostway, a web hosting company, offers another tip for fostering a bias for action in a maturing company: setting hard deadlines for decisions. By setting deadlines, Hostway ensures that it can evaluate implications of decisions without prolonging the process unnecessarily. If all the desired information isn’t available or in place by the deadline, the company makes the decision anyhow. Putting off decisions, Lee says, is generally more detrimental than deciding and then making necessary course corrections afterward.

A bias for action is worth the risk that some decisions won’t pan out as expected. “I’d rather make a poor decision quickly,” says Mark Seigle of Seigle’s Lumber, “than take too long trying to make a good decision.” The trick is to recognize immediately when a project is headed into the danger zone and to turn back as soon as possible, rather than being determined to rescue a lost cause. “Admit failure, dust yourself off and move on,” Seigle recommends. Steve Baird, CEO of the $175 million real estate firm Baird & Warner, echoes this point. “I’d rather try and fail than wait and copy.” One approach breeds growth while the other invites stagnation.

Customer-centricity

Many early-stage firms first taste success by focusing on customer needs that no one else has either noticed or considered important enough to respond to. Zebra, for example, discovered a pervasive dissatisfaction among users of barcode labels. Apparently the print quality was quite poor, leading to blurry barcodes which in turn led to inaccurate scanning. By building a product line around thermal transfer printing, which produced barcodes in a clearer, finer, deeper black, the company eliminated the scanning problem and addressed a significant customer pain point. Now, 24 years later, the company has $700 million in sales.

Other successful firms have found re-focusing on customer needs to be the stimulus for growth—and for escaping the Growth Plateau. Middleby Marshall, which designs and manufactures commercial ovens, illustrates this principle. In 1998 Middleby lost $4 million on $132 million in sales; it was growing in the wrong direction. Under the leadership of new CEO Selim Bassoul, who arrived on the scene in 2000, Middleby began to transform itself by focusing not only on what customers need, but on what they should expect from their suppliers.

One of Bassoul’s discoveries was a relatively simple insight that had powerful implications. Middleby Marshall mostly serves restaurants. In the restaurant industry, the prime revenue hours are nights, weekends and holidays—hours when most restaurant suppliers are closed. Bassoul’s company was one such supplier. As a result, if an oven went down during a dinner rush, the restaurant was out of luck until the next day. The watershed moment came when Bassoul realized, “We need to be open when our customers are open.” Simply by extending its hours to help customers troubleshoot problems, Middleby Marshall could provide a
service that customers had every right to expect, but that no supplier was providing. Innovative moves like this have differentiated Middleby from competitors and helped propel it to 18% sales growth year over year, from $132 million in sales in 1998 to more than $300 million today. [See Figure 2.]

Middleby’s example shows that it’s never too late to be customer-centric—the company is now almost 120 years old—and that finding an untapped customer need and quickly responding to it might just be the quickest escape route from stagnation. But as with a bias for action, a company’s increased size and maturing age does present challenges for maintaining customer-centricity. Or, more accurately, it forces customer-centricity to evolve in order to counteract the tendencies of increased scale and size to weaken it.

Just what are the tendencies that need to be countered? For one, as a company adds employees and grows in size, internal company needs can begin to compete for attention with external customer and market needs. For another, the initial customer insights that fueled growth may lack the freshness and power they once had. And then there is the fact that as a company’s customer base grows, customer needs inevitably become more diverse, making it impractical to customize solutions the way the company might have done in its early stages.

Regarding this last point, Jai Shekhawat, founder and CEO of Fieldglass, an enterprise software procurement company, observes that to be successful early on, a company must adopt the credo of “What the customer wants, the company must deliver.” As the company grows, Shekhawat says, “it must become more disciplined in how it listens to customers—in other words, the customer is not always right! The company must learn how to say, ’No. We’re not going to do that.’ Although of course the conversation can’t end there. Rather, the company must explain why it isn’t going to do what was requested and why it is instead going to lead the customer toward something even better.”

Shekhawat says that as a company scales, it must transition from serving customers’ needs to guiding them toward adept decisions. In his business, that sometimes means saying “no” to certain software feature requests from customers by explaining the larger impacts. He cites the example of a feature change request that would have simplified timesheet entry for a customer’s employee, but compromised one of the customer’s compliance policies. “We held firm in saying [that denying the request] was the right thing to do for the corporation as opposed to the convenient thing to do for the individual employee.”

Middleby Marshall offers another example of this guidance. Selim Bassoul, the CEO, recognized that reducing costs was a key customer need. He also recognized that energy was a main source of restaurants’ cost structures. Looking out a few years into the future, he analyzed energy prices and predicted that they would rise significantly. At the time, customers wanted energy-intensive, self-cleaning ovens. Yet mindful
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that what customers really valued was cost reduction, Bassoul chose to focus Middleby’s product line on energy savings. He went against the prevailing voices in the market, opting instead to guide his customers toward a better solution. Energy prices did, of course, rise dramatically and Middleby’s line of energy-efficient ovens was a smash success. The ovens now save customers hundreds of dollars a month— which no self-cleaning oven can match.

As far as counteracting other tendencies that pull against customer-centricity as a company grows in size, part of the answer lies with organizational structure. Specifically, the company needs to be sure that it is organized in such a way as to (a) keep a pulse on customers’ ever-changing pain points and (b) have the capability to respond accordingly. At Little Lady Foods, CEO John Geocaris likes to say that “everything centers around the customer”— and he has organized his company accordingly. Each major customer or cluster of 3-4 smaller customers has its own multi-disciplinary account team. Team members hail from different areas within Little Lady Foods, such as account management, customer service, product development, and operations. Each team has a comprehensive understanding of Little Lady Foods’ capabilities so that when a team goes out on a sales call, they know exactly what their company can and can’t do. This enables them to steer customers towards mutually beneficial solutions. It also cuts significant lag time out of the product development process. A team can visit a potential customer and be decisive, without having to go back to senior management and coddle the customer’s request through layers of bureaucracy.

If the nature of customer-centricity changes over time, its importance is constant. Patrick Ryan, executive chairman and founder of Aon Corporation, says that even today, 24 years after Aon was founded and where annual revenue now tops $8.5 billion, “Everything begins and ends with the client.” But Ryan also acknowledges that this takes an especially concerted effort when a company has scaled to Aon’s size. Being close to customers presents a much more formidable logistical challenge for a company of close to $10 billion than a firm a fraction of that size, and it means that customer focus has to be a priority for every employee. It also means that customer focus has to be something people do rather than simply give lip service to. That’s why Ryan himself makes twenty calls each week to existing clients and new prospects. The contact enables him to “feel the pulse” of the marketplace and thereby guide Aon in a way that reinforces its customer commitment.

Secondary Practices For Sustained Growth

The other three pillar practices of successful early-stage companies— frugality, sacrifice, and a culture of everyone knowing everything worth knowing— don’t play as central a role in maturing companies as bias for action and customer centricity, but they do remain important. Rather than principles that companies actively seek to find new ways to strengthen or reinforce, they become more secondary, perhaps even symbolic.

Frugality

Ed Kaplan of Zebra Technologies relates a story from the company he founded before Zebra, called Data Specialties, Inc. Kaplan had to travel outside Chicago to drum up business for the company, and one of his target markets was Detroit. To get there he first borrowed his brother’s car and went to the bank, where he stocked up on coin rolls. Then he drove to Detroit and stood in a phone booth all day, dropping in nickels and dimes and calling potential customers. Kaplan recalls, “The reason I did that is that I couldn’t afford to make phone calls from Chicago.” When the day’s calls were done, he adds, “I’d go to a little convenience store, buy donuts, sleep in the back of my car and then get up and make more phone calls the next day.”

“Everything begins and ends with the client.”
Pat Ryan, Aon Corporation

“As a company matures... crazy frugality... becomes unnecessary.”
Jai Shekhawat, Fieldglass
Jai Shekhawat of Fieldglass recounts another engaging example. His company, then in its nascent stage, needed whiteboards for its engineers. He received a quote of $100 per board, which struck him as exorbitant. So he set out to find a substitute. A little research uncovered a thick shower lining product at Home Depot that was a perfect substitute—at only $9 for a comparable amount.

But as a company matures, that kind of “crazy frugality,” as Shekhawat refers to it, becomes unnecessary, even counterproductive. Today, he says, he’d just buy the $100 whiteboards. As a company matures, he explains, it must become more cognizant of opportunity costs. At this juncture, it makes far more sense to have his people focused on their core responsibilities than to send them off on a shopping expedition to save a few dollars.

Among study participants, the consensus is that companies must remain financially disciplined as they grow and mature, and trade a fanatical focus on spending for a more balanced view. Michael Sachs of Sg2 cites the example of never letting his employees scrimp on a cheap hotel room when they travel, because he recognizes that a poor night’s sleep could jeopardize a bigger investment—the purpose of the trip itself.

Spending smart doesn’t mean abandoning cost consciousness. “Capital outlays are almost always worth the investment,” explains Mark Seigle. “But expenses should always be controlled—as much in good times as in bad.” Seigle focuses on little things like turning the heat and lights down at night. The company also has its janitorial service come every other night. These simple gestures not only cut expenses without incurring opportunity costs, but also become symbols that communicate a standard. They say, in effect, we spend money where it’s needed, but we never waste it.

**Sacrifice**

When a company is first getting off the ground, sacrifice, like frugality, is the rule more than the exception. Michael Ferro of Click Commerce puts it succinctly: “You need to lay it all on the line.” Indeed, stories of entrepreneurial sacrifice abound among study participants. In one case, a company founder worked 20-hour days in her garage, maxed out four credit cards, and ate ramen noodles for six months. Marty Singer, Chairman and CEO of PCTEL, a leading producer of antennas for mobile technology, recounts that when his company was founded, he and his partners moved to an apartment in California and left behind their families in Chicago for two to three weeks a month. The partners worked day and night and even did their grocery shopping together.

Many of the executives in our study went through this phase, and emphasize that it was exactly that: a phase. It’s a phase that they are unanimously happy to be out of. Without a doubt, the long hours and tough experiences endured by leaders and employees of many start-ups contribute either directly or indirectly to their companies’ successes. The sacrifices they undergo build camaraderie, get a lot of needed work accomplished, and often end up creating symbolic touchstones that can be tapped and referenced throughout a company’s life. But if a company wants sustained growth, the early levels of sacrifice simply can’t be—and probably shouldn’t be—maintained.

The central issue is that once a company reaches a certain degree of stability, attention needs to shift from sacrifice to retention. Selim Bassoul of Middleby Marshall explains: “Once a company is beyond the start-up phase, people don’t just sacrifice—they need to have incentives to work and to stay.”

“Once a company is beyond the start-up phase, people don’t just sacrifice - they need to have incentives to work and to stay.”

_Selim Bassoul, Middleby Marshall Corporation_

product supply company, is a critical enabler not just of retention but of building the business. “When the leader treats employees well,” she says, “the employees naturally start to take care of the place and treat it like it’s their own.”

How does a company treat people well? One way is through respect for lifestyle. As Steve Baird of Baird & War-
ner puts it: “I love that my number two person is off hiking in Michigan and I cannot even get a hold of her.” By giving employees the freedom to take the proverbial bicycle trip, companies create lifestyle incentives for people to stay.

Financial incentives are also critical. At Amsysco, every employee that has been with the firm at least a year is entitled to participate in a 25% profit-sharing plan, part of CEO Ratan Khosa’s attempt to “encourage employees to feel ownership in the company.” Generosity with equity and creative bonusing (e.g., giving out bonuses before major holidays instead of once a year) are other incentive techniques study participants mention.

In the end, sustained growth appears to depend more on “balanced sacrifice” than absolute sacrifice. Company leaders still want people to work hard and do the extraordinary when needed, but they also have to acknowledge two realities: (1) that people won’t sacrifice simply because that’s what the company’s leaders do or once did, and still want from everyone else, and (2) that people have other priorities. One executive puts it succinctly: “You want to say 110% commitment or get out, but there are practical limits. People have families.”

Culture of “Everyone Knowing Everything Worth Knowing”

When Hostway, a web hosting company, was founded in 1998 by Lucas Roh, John Lee and colleagues, the firm set up shop in Lee’s Chicago apartment. When the firm migrated to new space and began to add employees, it intentionally retained a loose, garage-business feel. It eschewed a formal command and control structure and operated through purposely informal communication, interaction and information sharing. “Keeping it informal was how things got done,” Lee recalls, “since among other things it increased people’s involvement with and commitment to the business.” But, as Lee readily acknowledges, that approach “just isn’t scalable” as a company matures beyond the initial stages of growth.

Like Hostway, many early-stage firms experience initial success by keeping things loose and exploiting a primary virtue of being small: it’s easy for everyone to be in sync with one another and with the goals of the firm. The open flow of information, strategy and tactics, decisions, customer issues, and ideas creates a culture that is both freewheeling and focused. Everyone knows what has to be done to succeed. They all pull together toward the same goal. And they enjoy a lot of latitude to make it happen.

Also like Hostway, most companies find that as they grow larger in size, a culture of openness and “everyone knowing everything worth knowing” is tough to scale.

More than anything it becomes a matter of logistics: there is more information to share, with more people, often in more and sometimes far-flung places. Disseminating what’s worth knowing gets increasingly complicated because of the volume of data involved and the number of people who have to be reached. Speaking from experience, Jai Shekhawat of Fieldglass, whose company expanded from a single site to multiple locations throughout the world, identifies the crux of the issue: “It’s much simpler to get everyone on the same page when you’re seeing everyone on a daily basis.” Technology, in the form of email, electronic newsletters, idea forums, knowledge management exchanges and more, can help approximate that level of contact and interaction, but in the end it’s just that: an approximation.

Another issue that makes it difficult to scale a culture of “everyone knowing everything worth knowing” is that “what’s worth knowing” tends to be more narrowly defined, or at least more selectively defined, as a company matures. Instead of sharing everything of value, companies increasingly share information on a need-to-know basis. This occurs for reasons of both confidentiality and practicality. With regard to the first, as a company grows in size, so can the amount of information deemed too sensitive to share outside a small circle of top management. Regarding the second, it can become too inefficient to cover everything critical to a business with everyone involved. “Until we got...
to $20–25 million,” says Mark Ain, founder of software maker Kronos. “We would all have lunch together every Monday. We’d buy sandwiches and talk about what we needed to do. Then we would put out a memo saying what everyone needed to do by the next week.” Once a certain size threshold is reached it’s impractical to be that comprehensive or all-inclusive.

What seems to happen as a company matures and grows is that a culture of openness and “everyone knowing everything worth knowing” gives way to a culture of participation based on selective communication and information sharing. To keep growing, the company must find ways to selectively disseminate critical information and to the extent possible, selectively invite dialogue and interaction from employees on issues critical to the success of the business. But to expect the free-flow of information and ideas typical in early-stage days seems neither workable nor realistic.

**Additional Practices For Sustained Growth**

When discussing the five core pillar practices of entrepreneurial success, the importance of people arises again and again. In the view of study participants, the five core practices all involve or revolve around people, but none completely captures just how essential people are to ongoing growth and success. In synthesizing what the study participants consider missing, Market Strategy Group and the Polsky Center suggest two additional practices to emphasize for sustained growth: selective recruiting and refreshed leadership.

**Selective Recruiting**

As a company grows, hiring decisions have a tendency to be made less carefully and less with growth in mind than when the business was first getting off the ground. There are any number of reasons: the pace of growth is too fast to permit careful evaluations of each new hire, fit becomes too difficult or time-consuming to judge, leaders of the business are less directly involved, and so on. However it happens, “the bar just gets lower,” observes one study participant. A company that wants to avoid the Growth Plateau can’t let that occur. If it wants to keep growing, it needs to place a premium on continuing to hire people who will drive that growth.

Who are those people? Typically they will be more like the early hires of the business than later hires. “Early hires are by nature more risk loving,” explains Jai Shekhawat of Fieldglass. They are drawn to “a venture that is fraught with economic and career risk” because they see the potential for high reward. Later hires, he says, “are generally more conservative” and thus less likely to be strong drivers of growth.

In addition to hiring with a higher-risk profile in mind, the other key to selective recruiting is fit. Michael Polsky of Invenergy thinks companies always need to be hiring for the long term—as if they were adding to a family or forming partnerships. As they grow they have to be as attentive to fit as the founders were when they brought together the original team. “You have to like the people,” Polsky explains, “so you want to go back to work [as much as you like] going home. It’s like marrying a spouse … It’s about whether people enjoy each other.” This is especially critical as a company matures beyond the initial stages of success. “Early on, it’s about individual leadership,” he points out. “Later on, it’s about having the right people, having them accept your company culture, and using that to hire more people that fit and can move the company forward.”

When the right people are also highly talented, it can create a powerful combination that helps self-perpetuate a growth culture. As Dennis Keller of DeVry observes, “Extraordinary managers tend to bring in other extraordinary people. High-quality new recruits recognize the caliber of those managers and are more inclined to join. It creates a ripple effect in the quality of human capital.”

Mark Ain of Kronos offers one more piece of advice. “Always try to hire people who are smarter and more capable than you. Early on I ran everything—manufacturing, finance, and engineering. [As we grew] I was always very conscious...
about hiring people who were better at those disciplines than me. [In my view] that’s a key practice to retain.”

**Refreshed Leadership**

Leaders who have guided their businesses to early growth and success need to be constantly vigilant about their continued effectiveness. Although it’s human nature to believe that what worked in the past will continue to work in the future, leaders committed to long-term growth must be chameleon-like in their willingness to adapt to changing needs and demands. They need to practice “introspective leadership,” always seeking to stay fresh through personal development initiatives or new leadership hires who bring enthusiasm and vibrant new perspectives to the organization. If instead they choose to keep returning to the playbook that led to early success, they are likely to lead their company straight onto the Growth Plateau.

Mark Ain of Kronos ran head-on into this realization in the late 1980s with the help of the Predictive Index, a 20-minute psychological test. “My executive board members and I went to take the test,” Ain recalls, “and when the results came in, I realized that I had to completely change my management style if I wanted to take the company to the next level.”

Next level indeed. At the time of Ain’s realization, Kronos had annual revenue of about $25 million. Today it has sales exceeding $575 million. Ain realized the company couldn’t grow like that unless he himself changed.

Willingness to change at the very top needs to be accompanied by the same commitment at executive and middle management levels. As companies discard old programs for new, leaders throughout the organization need to get on board. If they resist change, they become detrimental to the company’s growth objectives. And they should leave sooner rather than later. (One CEO relates that he has gone through 7 CFOs in 15 years because “they didn’t want to move as quickly as I did to get things done.”) Ed Hamburg, former CFO at SPSS, the software company, advises a company to “actively search and destroy” detractors and poor fits throughout its leadership ranks. If that doesn’t happen, he says, those executives and managers “become a blockage to moving forward.” The humane and positive thing to do for both sides is to counsel these people out of the company at the earliest opportunity, so both the company and the individual can progress.

Hamburg knows the growth value of flexibility and change firsthand. He started with SPSS in business development—even though he had no experience in the field and had been hoping to use his PhD in political science to become a professor. Within a short time he migrated into a role directing SPSS’s human resources. Hamburg then became CFO—though he had no prior financial experience—and shortly thereafter oversaw SPSS’s initial public offering. During his time at SPSS he saw the company grow from $25 million to $200 million in size. Yet he himself stepped aside in 2004. He left, he said in the SPSS press release announcing his retirement, because “Simply put, a different skill set is required to take this company to the next level.”

The need to refresh skill sets, perspectives, and people in a company’s leadership ranks is a key enabler of sustained growth. Learning new skills and leadership styles, weeding out detractors or poor fits, and bringing in new talent when necessary are all proven techniques for achieving that goal. With regard to the last, one CEO advises giving senior-executive new hires two months, period, to prove themselves. “You hire someone, and within 30 days you should decide if they are going to work or not. If they are on the border, put them on a 30-day probationary plan. If they can’t cut it, you have to make a decision and let them go.” Perhaps that is the real key to keeping leadership fresh and effective: being willing to make candid assessments of oneself and others, and being willing to make the tough decisions that kind of candor requires.

“I realized that I had to completely change my management style if I wanted to take the company to the next level.”

*Mark Ain, Kronos*
Summary: Overcoming the Growth Plateau

Countering the growth-inhibiting side effects of scale and maturity requires more than a rallying cry to “be more entrepreneurial” or “regain our entrepreneurial edge.” Instead, a company needs to take actions and use practices that keep its entrepreneurship alive. Or, if the company has allowed those practices to languish, it needs to make a conscious effort to revive them.

To return to our first example, Family Video offers a case in point of a firm that has consistently used entrepreneurial practices to sustain growth, even as it has scaled significantly. The bias for action that led to its formation (remember blasting through the warehouse wall?) continues to this day. “We still believe it’s important,” says one executive there, “to be able to have an idea on Friday and take action on Monday.” Over the years, the firm has made a number of bold moves. Some have paid off, such as a decision to focus on secondary markets and stay out of first-tier urban markets. Others, such as a recent foray into the ice cream business – co-locating ice cream stores with existing Family Video locations – have had less success. Whether the initiatives succeed is secondary to the willingness to act on and test them in the marketplace quickly – that’s the bias for action that stimulates growth.

Family Video is also highly customer-centric. Knowing that its customers value convenience and low prices, the business keeps stores open from 10 AM to midnight, 365 days a year, and charges a dollar for most rentals. It uses selective recruiting to hire people willing to make “Herculean” efforts, as one executive puts it, work six-day weeks, and be flexible – people who offer a strong fit with the company’s distinctive culture. It’s also a business that has refreshed its leadership team. Although the company is still run by the son of the founder, it regularly adds new talent – like John Furton, the Vice President of Technology, hired just a few years ago – to make sure it has the new skill sets and perspectives necessary to succeed.

These same entrepreneurial practices can be used to resuscitate a faltering company. Take Middleby Marshall. The company experienced a near-complete and positive rever-

sal of fortune through new leadership and growth-focused recruiting (by CEO Selim Bassoul and the team he brought in), decisive action in the market – like cutting two-thirds of its product line at one point – and continued anticipation of and focus on customer needs, from added convenience and creative cost-saving approaches to “no-quibble” guarantees.

The precise manner in which companies apply these four key entrepreneurial practices will depend on the organization’s unique circumstances and growth trajectory. But to the extent there is a roadmap for overcoming the Growth Plateau, it begins with an honest appraisal of where the company is today and where it’s headed, encapsulated in the following questions:

- What is our historical growth rate?
- What is the current trend – is the growth rate increasing or decreasing?
- What are the predictions for future growth?
- Are we on a Growth Plateau now? Is there one on the horizon?

The second step involves an evaluation of the practices that stimulate growth – namely the entrepreneurial practices discussed in this article. The overarching questions that should be asked are:

- Do we have the entrepreneurial mindset and infrastructure in place that can fuel growth?
- Specifically, do we demonstrate a bias for action? Are we willing to launch initiatives and make difficult decisions even when the information at our disposal is imperfect?
- Are we customer-centric – do we continue to focus intently on the needs of our customers? In spite of our scale, are we listening to what the marketplace is telling us?
- Are we selective in our hiring practices? In other words, are we bringing entrepreneurial people into the organization that can help us continue to grow?
- Are our leaders constantly evolving their perspectives and management styles to reflect the growth goals of the company?
Maintaining a bias for action, continuing to keep customers at the center of the business, selectively recruiting and hiring people who can drive growth, and refreshing the leadership ranks with executives able and willing to achieve growth goals — implementing these practices is how companies can avoid or escape the Growth Plateau.

For more information or follow-up questions regarding the study, please contact Michael Krauss, President, Market Strategy Group, at 312-356-5737 or michael.krauss@mkt-strat.com
Project Team

Linda Darragh
Ellen Rudnick

Joyce Glaid
Michael Hoffman
Sims Hulings
Joel Krauss
Michael Krauss
Avi Stopper

Polsky Center for Entrepreneurship
Market Strategy Group, LLC
Participating Companies

Amsysco, Inc.
AON Corporation
Baird & Warner
Click Commerce, Inc.
Current Technologies, Inc.
DeVry, Inc.
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Lisle Technology Partners, LLC
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Middleby Marshall Corporation
PCTEL, Inc.
Richardson Electronics, Ltd.
Seigle's Lumber
SG2
SPSS Inc.
Zebra Technologies

Special Thanks

Linda Darragh
Director of Entrepreneurship Programs and Adjunct Associate Professor of Entrepreneurship

Waverly Deutsch
Clinical Assistant Professor of Entrepreneurship

Tanya Menon
Assistant Professor of Behavioral Science

Arthur Middlebrooks
Adjunct Professor of Marketing

Robert Potter
President and CEO, R.J. Potter Company

Ellen Rudnick
Polsky Center Executive Director and Clinical Professor of Entrepreneurship

James Schrager
Clinical Professor of Entrepreneurship and Strategic Management

David Weinstein
President, Chicago Entrepreneurial Center

Robert Weissbourd
President and Founder, RW Ventures, LLC