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BUSINESS is a big word. Or more appropriately, it is a word that means a big things — big ideas, plans, revenue, and presence.

For many business owners, the growth trajectory from the point of inception, right until the period of sustainability, can become a journey that provides valuable insights on what works and what doesn’t in the world of small and medium sized enterprises (SMEs).

While each business can be entirely different in nature, their growth phases display similar patterns based on their specific growth stage. And this year, at Leaderonomics, we developed a CEO accelerator programme, called the Leadership Digs. We had the opportunity to get up-close and personal with almost 20 CEOs who ran varying sizes of businesses. What we learnt was that there is a pattern and formula for business growth. From the start-up stage till the IPO or exit stage, there is an organisational developmental element and also an owner development piece. In the organisational piece, there are numer- ous constraints faced but if we look at it in a macro sense, it is very similar. Leaderonomics CEO, Roshan Thiran, wrote a piece on the four constraints faced by organisation, which can be referenced at: http://bit.ly/4Constraints.

THE RESEARCH

As I was having a conversation recently with Roshan, he shared with me a Harvard Business Review (HBR) magazine article written by Neil C. Churchill and Virginia L. Lewis depicting the five stages of growth for an SME and I thought parts of it were relevant to the Malaysian SME context.

Let’s take a look at these stages and see what it is that companies need to make it through the fifth and most desired phase of growth. The five stages are below.

STAGE I: EXISTENCE

At the point of inception, business owners conceptualise the big idea, test the market, raise funds, identify product and services they need to deploy to become an authentic organisation.

It is also in this start-up phase that what the most amount of energy is spent – determining the target audience for an organisation’s product or service, understanding market dynamics and believing in the longevity of a business plan.

This is also in this start-up phase that small organisations see the least reporting lines; owner-operators frequently run the show themselves, setting the tone for culture and targets. They often work directly with employees, keeping systems – as well as formal, complex strategies – out of the picture until the business proves that it can sustain itself. The simplicity of process can be both a blessing and a curse.

Leaderonomics went through a similar phase when we were a one-person organisation and together with Ang Hui Ming, would spend countless hours working directly with customers and vendors, and with each employee to teach, incubate and drive new products and services. They would also have to manage inventory, payroll and order fulfillment from Starbucks to build content, a website and even marketing collateral.

Some companies, however, experience a hit at this point, forcing them to close or sell. In the case of business owners, the investor money or capital runs out because they have failed to secure the targeted client or consumer base. In fact, research in Malaysia shows that more than 90% of organisations fail at this stage.

STAGE II: STAYING ALIVE

Companies that make it to this phase are those that have demonstrated that there is demand for their product or service, and that this market is the key to ensuring their survival in the next business stage. In other words, these companies have shown viable business models that can compete within the greater market.

According to HBR, the key challenge in this phase relates to revenue and expenses: “Can we generate enough cash to break even and to cover the repair or replacement of our capital assets as they wear out? Can we, at a minimum, generate enough cash flow to stay in business and to finance growth to a size that is sufficiently large, given our industry and market niche, to earn an economic return on our assets and labour?”

At this stage, the company operates in a manner only slightly more complex than Stage I: direction still comes from the owner, while managers are put in place to ensure that targets are met; concerns are still centred around revenue and profitability.

This is one of the toughest stages to be in. Every day, operational details are the centre of attention. It was the same at Leaderonomics when we were in this stage. As a social enterprise, our key metric and measurement was our social impact. But to remain sustainable, revenue and expenses were our key secondary metrics. Also, when I dialogue with numerous CEOs who are in this stage, many of them feel helpless andcrippled by the daily grind to keep the organisation afloat. And whilst some organisations transition from this phase to Stage III, many get stuck in this virtuous and unending cycle.

STAGE III: SUCCESS

Here, success can come with a con- cumdrum: do companies continue with its stable and profitable business or do they make the most out of their achieve-

ments thus far and begin to scale and grow?

This phase is divided into two sub- stages: Success-Oisengagement (D) and Success-Growth (G).

Companies at the D stage are described as those that have ‘attained true economic health, have sufficient size and product-market penetration to ensure economic success, and earn average or above-average profits’.

This means that the company would most likely choose to stay this way, which then creates the need to hire managers who would maintain smooth-sailing business based upon linear company goals. HBR states: “Basic financial, marketing, and production systems are in place. Planning in the form of operational budgets supports functional delegation. The owner and, to a lesser extent, the company’s managers, should be monitoring a strategy to essentially maintain the status quo.”

While hands-on and involved in previ- ous stages, owners of companies in this stage would likely be more distant, handing over daily operations to other managers.

Over at the G stage, companies are those that harbour ambitions for growth. This means that while the owner gathers all its resources to invest in expansion, the organisation also has to ensure that the business stays profitable and its talent pool is developed to meet the demands of the next stage of growth.

Staging managers, according to HBR, have to act with the company’s future strategy in mind, and not so much the current business, as the owner now takes on heavy-strategic pounds of the business that would drive the intended growth for the company.

STAGE IV: TAKE OFF!

At the G stage are companies that have the intent to take the business to the next level — however, if the venture fails, G companies should be able to detect this in time to scale back to D stage and stick to what is currently working.

HBR specifies that Stage IV companies should address two pertinent issues: del- egation and cash.

Here, owners must know if they are capable of delegating responsibility to others in order to improve the overall effectiveness of a new complex, and growing enterprise. And, if they have the capacity to cope mistakes being made. At this stage, where growth is intense and necessary for bigger gains, owners must ascertain if there is enough cash to man- age changing demands and investments.

Businesses become increasingly seg- mented at this stage, with the creation of departments and divisions which, according to HBR, are usually in sales or production.

STAGE V: SUSTAINABILITY

As companies enter this stage, man- agement becomes decentralised, and sys- tems are well-developed. The owner and the business are now comforts separate from each other and the business has reached a stage where it has more than sufficient financial resources and executive talent.

One of the speakers at the upcoming SME CEO Conference 2017, Datuk Chang Khim Wah, CEO of EcoWorld will also be sharing his suc- cess secrets in the upcoming SME CEO conference. If you carefully analyse their story, you will see similarities to the five stages and their growth patterns. Some of their growth is accelerated whilst oth- ers take more time.

The difference between the acceler- ated growth and the slow growth organi- sation is underlined by two key areas — owner challenges and organisational constraints. Owner challenges include their personal clarity of goals for self and the business and also how they can grow into better leaders, and upgrade their capability to drive operations and business strategy. Organisational issues include dependence on their business model, culture, processes and structure and other factors like financial resources and people issues. And so, the SME CEO who addresses these key challenges would likely accelerate growth.