PREFACE

Growing Pains deals with the problems of building sustainably successful organizations® over the long term. The first edition of this book—published in 1986 and titled, How to Make the Transition from Entrepreneurship to a Professionally Managed Firm—was written after Eric Flamholtz became aware of the paucity of theory, research, and tools for the management of entrepreneurial organizations.

Prior to the first edition of this book, most if not virtually all of business education ignored entrepreneurship and focused instead on “business administration.” This meant focusing on large established companies such as Bank of America, Boeing, Exxon, IBM, McDonald’s, Procter & Gamble, and similar institutional “blue chip” companies that had already been in existence for many decades.

There was very little literature or cases about starting entrepreneurial firms, or about what we like to think of as “organizational scale-up,” the process of transitioning from a successful start-up to a much larger size and different stage of growth. Now, three decades later, entrepreneurship is an established academic field. Entrepreneurs like Howard Schultz (Starbucks), Richard Branson (the VirginGroup), and the late Steve Jobs (Apple), and more recently Elon Musk (Tesla), Jack Ma (Alibaba), and Mark Zuckerberg (Facebook) are business icons and business heroes. However, there still remains a large gap in the published literature to explain the process of transitioning from the start-up phase of early entrepreneurship to the end game phase of becoming a sustainably successful organization (or institution) like Starbucks, Apple, or Amgen. Filling this gap is and has been (for almost 40 years) our primary academic and practical focus.

During this period, we have developed a model to explain the determinants of organizational success, another to identify the stages in an organizational life cycle, and a third to explain the origin and underlying causes of growing pains (which occur when an organization has not developed the infrastructure required by its size and complexity at a given stage of growth). Initially, these models were developed to help explain the process of transition from the entrepreneurial stage to the professional management stage (see Chapter 3) in the life cycle of a business enterprise. Later we realized that
what we had actually developed was an explanation or general theory of organizational success and failure at different stages of growth.

**Purpose and Focus**

The overall purpose of this book is to help readers understand what it takes to continue to grow an organization successfully after a new venture or entrepreneurship has been established. Specifically, it provides a lens or framework and related tools to help people understand how to manage organizational growth successfully at different stages from a start-up to a dominant world class company like a Starbucks.

Unfortunately, too many entrepreneurial companies founder after promising or even brilliant beginnings. Companies such as Boston Market, People Express, Maxicare, and Osborne Computer were all once cited as great entrepreneurial successes, yet all have failed. In the face of these failures and difficulties, some cynical observers have even begun to define an entrepreneur as someone, such as Adam Osborne (who created the first portable computer) or Robert Campeau (a Canadian shopping center developer), who can start and build a company to a given level and then watch it fail.

Similarly, many established companies such as GM, Kodak, Sears, Reuters, and Xerox experience difficulties after decades of success. Some fail and others become no more than corporate zombies, with little life left in them. Xerox was once an icon of corporate success; people would say, “We want to be the next Xerox.” Sadly, no one says that anymore. How did this happen? Can symbols of once-great corporate success be revitalized? How can this process be managed?

Our experience in doing research and consulting with many different types of companies in many different places in the world has led us to write this book to help present and potential entrepreneurs and CEOs of established companies (as well as their employees, advisers, bankers, and venture capitalists) understand the pitfalls typically faced by organizations at different stages of growth and to explain how to become sustainably successful over the long term. It is also intended to help governmental policymakers understand the causes of the premature demise of entrepreneurial companies that are so vital to our economy. Although this book will not solve all the problems faced by companies, our experience (as well as the positive feedback we received about the previous editions) indicates that if the ideas and
methods described in this book are applied, organizations will have a significantly improved likelihood of sustainable success.

While earlier editions of this book focused almost exclusively on the transition from what we have termed an “entrepreneurship to an entrepreneurially oriented, professionally managed business” (organizations from start-up to approximately $100 million in annual revenues), this edition focuses on all stages of growth. We have also included new ideas and concepts (which we have developed over the past few years) as well as new examples and cases of companies—not just in the United States, but also in several countries around the world. Stated differently, the strategic intent is to refresh the book and make it even more relevant to organizations through their entire life cycle from inception to decline and revitalization.

**Intended Audience**

This book is addressed to anyone interested in organizational success and failure. This includes the owners, managers, and employees of companies ranging from start-ups to global leaders to those in need of revitalization. The concepts, frameworks, and tools described in this book will also be of interest to investors, bankers, and venture capitalists, and to students and management scholars who are interested in answering the fundamental question, “Why, after successful or even brilliant beginnings, do companies often lose their way with many (if not most) even experiencing decline and bankruptcy?”

To answer this question, we identify the underlying factors that promote long-term success and describe what organizations must do to successfully manage the transitions they face as they grow. Case studies of companies at different stages of growth—drawn from a wide variety of industries—are included to illustrate different aspects of the transitions that must be made over the entire life cycle of organizations.

The cases also show how the frameworks provided in this book can be used as conceptual maps of what needs to be done by an organization at each developmental stage. In addition, the book specifies the adjustments the founder or the CEO of an entrepreneurial company needs to make so that he or she can grow with the organization (as Howard Schultz did at Starbucks) and not be left behind.
Overview of the Contents

While this edition of Growing Pains focuses on the entire life cycle of an organization (versus exclusively on the transition from an entrepreneurship to a professionally managed organization) and what it takes to build a sustainably successful enterprise over the longer term, its title has remained unchanged. The title Growing Pains is still very relevant, even for the advanced stages of growth, and even when growth has ceased. For the absence of growth is, in a sense, a growing pain as well.

Our research and practical experience in working with a wide variety of organizations over almost 40 years suggests that all organizations experience growing pains as a normal part of their development. Growing pains indicate that the company has outgrown its infrastructure and that it must develop new systems and processes, as well as a new structure, to support its size. When organizations ignore growing pains, significant problems and even failure can result.

The book’s underlying framework and content are applicable to all organizations, from very small startups to very large companies, nonprofits, and even mega-companies such as IBM, Johnson & Johnson, and Walmart. In earlier editions, Starbucks was used as an example of a rapidly growing entrepreneurial company that had applied many of the concepts and methods in this book. Today, Starbucks has joined the elite group of world class giants. The concepts, frameworks, methods and tools described in this book are still relevant to Starbucks and other organizations of all sizes.

This book is divided into three parts. Part One begins with a chapter that provides an overview of the issues facing entrepreneurs and CEOs as they attempt to grow their organizations. It examines both the personal and the organizational issues and related transitions required. This is followed by four chapters that focus on frameworks for understanding organizational effectiveness and transitions: an organizational effectiveness model, an organizational life-cycle model, and a model to explain the origin and underlying causes of “growing pains” that occur when an organization has not developed the “infrastructure” required by its size and complexity at a given stage of growth.
The organizational effectiveness model, termed the Pyramid of Organizational Development (discussed in Chapter 2) explains the variables that must be managed by companies to give them the optimal (most likely) chance of long-term success. The life-cycle model (discussed in Chapters 3 and 4) identifies seven stages of growth from a new venture (corporate birth) to an established organization in decline and requiring revitalization. Chapter 3 focuses on the first four stages of growth from a new venture to a mature organization, while Chapter 4 focuses on the advanced stages of growth in the organizational life cycle. The growing pains framework is discussed in Chapter 5.

Part Two presents the most significant managerial tools that can be used to build sustainably successful business enterprises: strategic planning, organizational structure, control/performance management systems, management and leadership development, and corporate culture management. Although the tools of planning, structural design, and the like may be, at least superficially, familiar to some readers, our approach to these key components of a management system differs in some very important respects from others; there is also an integrative aspect to the set of management systems components overall.

Part Three deals with some special issues and topics relating to organizational development and transitions. It includes a chapter dealing with the application of the concepts and frameworks to nonprofits. It also introduces the concept of a leadership molecule and deals with the key aspects of strategic and operational leadership. Finally, Chapter 13 presents several comprehensive case studies of companies that have used the concepts, methods, and tools described in this book to support their continued success.

Key Differences

This fifth edition of Growing Pains differs from the fourth edition in several important respects. Although the overall direction and thrust of the book have been retained, all chapters have been revised to include updated material, updated references to companies, and new case studies, as appropriate. However, in some instances we have kept certain examples because they are “classic,” or prototypical, of the points we want to make, because there are no better current examples, or because of their historical significance.
Three new chapters have been added that focus upon: (1) how to use the frameworks, tools, and methods in nonprofits (Chapter 11); (2) specific leadership challenges and how to create a “leadership molecule” (Chapter 12); and (3) comprehensive case studies of the applications of our frameworks and tools and results of those applications in selected organizations worldwide (Chapter 13). In addition, we have cited new empirical research that has been published during the past several years that supports the framework and ideas presented in the book. Specifically, we present new data on “strategic organizational development” (in Chapter 2).

Throughout the book, several new cases, examples, or “mini-cases” of companies dealing successfully or unsuccessfully with growth management issues have been added. New mini-cases and international examples of entrepreneurship have been added because of the widespread flourishing of entrepreneurship around the globe, including examples from Europe, Australia, and Asia. A number of companies (including Starbucks) are used throughout the book to provide a consistent frame of reference for the perspective being developed. To a considerable extent, we have drawn on examples of companies where we have in-depth knowledge. In some cases, to protect the privacy of individuals and organizations, we have disguised the company’s and individuals’ names.

**Conceptual Thinking**

Our experience over the past 40 years in working with and coaching leaders of many companies throughout the world has shown that there is one key thing (not typically mentioned when discussing the requirement of leadership success) in addition to all of the standard things that leaders are supposed to be able to do. Specifically, this is to be able to think conceptually about their business.

The ability of a leader or leadership group to step back from day-to-day operations and the concrete things that business involves is a critical ability that contributes to sustainable success of organizations. This same cognitive ability is often the difference between great successes in virtually any activity, including sports that are very physical in nature such as American football. For example, National Football League (NFL) teams use the so-called “combine” to test for various abilities such as running speed, jumping ability, and cognitive ability. Specifically, they use the “Wonderlic Cognitive Ability Test.” Because NFL football is one of the most physically demanding sports, the emphasis on cognitive ability might seem surprising. However, as coaches in the NFL
undoubtedly know, there is also a conceptual aspect to the game. For example, in discussing the ability of his prized recruit at UCLA, quarterback Josh Rosen, Coach Jim Mora stated: “Josh is very intelligent. He is one of those kids that the game comes to more easily than some. He understands concepts.”¹ As the reader will see, some conceptual thinking is required by this book. However, the ability to do this type of thinking will pay great dividends.

**Note**