

GROWING PAINS: STRUCTURAL CONSIDERATIONS FOR GROWING YOUR BUSINESS

For a small business to become a large business, it requires more than securing adequate financing and expanding physical office space or facilities. There are also a number of structural changes that must be put into place. These generally fall into three areas: organizational structure, policies and procedures, and systems/technology. Growing pains related to organizational structure usually necessitate the transition from a structure that is centered around one decision-maker to a vertical hierarchy through delegation. Lack of functional expertise is another common structural issue among growing companies and is often addressed by bringing in outsiders to assess specific needs. Putting in place policies and procedures is often neglected by smaller companies, but documenting HR and other policies and scheduling regular staff meetings can go a long way to setting the structural groundwork for expansion. Putting the proper systems and technology in place — and keeping them up-to-date — will also set the foundations for growth.

Key Points

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Ask any small-business owner what he sees as the major challenges to growing his business, and chances are he'll say: winning more sales. Ask any medium or large business owner what her major challenges have been, however, and she'll probably say: structural growing pains -- putting into place the necessary processes and structure to accommodate a higher volume of business. In fact, one of the most common reasons businesses plateau at a certain level is their inability -- or unwillingness -- to develop the structure needed for growth.

But aligning structural changes with sales growth is not simple. It is often more of an art than a science. The systems, processes, staff, and organization changes needed to grow are ongoing and dictated by myriad factors such as the nature of the business, its capital requirements and, ultimately, customer demands. Nonetheless, certain structural growth concerns -- excluding financing and office/production space issues -- are shared among all growing companies and fall into three overall areas: organizational structure, policies and procedures, and systems/technology.

Staffing/Organizational Structure

Among the most common growing pains small companies experience are those related to organizational structure. Organizational structure and reporting hierarchy for a 25-person company

is quite different than it is for a five-person organization. Typically, an entrepreneur can manage fine until there are about a dozen people in the organization. At this point, the initial structure -- where everyone usually reports to the owner -- breaks down. In effect, nothing can be done without involving the owner, creating a communications log jam and a barrier to growth. A telltale sign of such a situation is the line of staff outside the boss's office -- waiting patiently for a decision before work can recommence. The best way to overcome or prevent this from happening is simple: Trust your key employees and learn to delegate. A good place to start is to look at where you are spending your time. You can still have final say on any important decisions, but you need not be involved with the time-consuming, day-to-day issues that can prevent you from focusing on larger, more strategic matters. It's also important to formalize delegated authority with an organizational chart and job descriptions. These will help you better define functional expertise for a given job and for various departments across the organization, and provide the foundation for the growth of future personnel and key management staff.

Lack of functional expertise is another common growing pain of small companies. Too often, businesses fail to recognize that specific expertise is needed as they grow. Typically, small businesses are organized around the manager's area of expertise, such as marketing, accounting, or production. This specialized expertise often prevents the business owner from recognizing problems that may arise in other parts of the business. It's a good idea to periodically get an outsider's opinion of where expertise may be lacking. These need not be paid consultants, but are often trusted business acquaintances. Tapping into this same group, you can also form an advisory board to give you periodic feedback on strategic direction.

Policies and Procedures

For most smaller businesses, written policies and procedures are often nonexistent and sometimes cursed. Typically, they are associated with the bureaucracy and inefficiency of big companies and the enemy of customer responsiveness and quick time to market. Not surprisingly, most smaller businesses have few documented operational policies or procedural guidelines. But it is precisely this lack of documentation -- and the thought that goes into it -- that can put a stranglehold on rapid growth. If your business is growing fast enough to require frequent additions to staff, formalized policies are a must for training purposes. Even if you are expanding at a moderate pace, documented policies will likely be necessary once you reach 20 or more employees.

What warrants a formal policy and what should be documented? This will depend on the nature of your business and average skill level of your employees. In general, however, it's a good idea to document all HR policies in detail, expense approval authorization levels, inventory control policies, billing and collection procedures, and any operational policies that could materially affect your business if they went amiss. An annual budget and sales projection, updated monthly, are also a necessity if you are ever to obtain outside funding or sell your company. Later on, consider putting together a comprehensive policy manual where employees can get answers to questions when decision makers are unavailable.

As you grow bigger, you will also need to put into place more formalized communications channels

for employees and customers. An informed and involved staff is usually a more productive and enthusiastic one; whereas a staff that is left in the dark often feels alienated and unappreciated. Regularly scheduled employee meetings, periodic e-mail updates, and a cascade communications policy are several ways to make sure your internal communications channels facilitate, not constrict, growth.

Is your business suffering from growing pains?

Here are some sure signs that structural changes may be in order.

- Sales continue to grow but profits do not.
- Everyone is working increasingly long hours.
- People spend too much time putting out fires.
- There are constant lines outside the boss's door.
- There are no regularly scheduled meetings or employee communications.
- The "system" is constantly down.
- Aging equipment is not replaced.

Systems/Equipment

Perhaps more obvious than organizational or procedural growing pains are those associated with systems and equipment. Smaller businesses are often the last to upgrade to new technology, usually due to cost. Yet the costs of not upgrading are usually much higher. Low productivity, frequent down time, and incompatibility with newer client systems can cripple a business that's poised for growth. There's also the matter of keeping up with your competitors both operationally and across product and service offerings.

The average computer is virtually obsolete in just three years, and most of the widely used software applications come out with new versions every two years, so keeping on top of technological advances must be an ongoing endeavor. Start out by working regular capital upgrade costs into your budget. Consider dedicating a full-time person to information technology (IT), if you don't already have one, and make sure he or she is current on the latest technological developments in your field. Even though you may not be able to afford all the latest equipment, at least you'll be on top of technology trends in the industry and know what your competitors are up to -- or are capable of.

Points to Remember

1. One of the most common reasons businesses plateau at a certain level is their inability to develop the structure needed for growth.
2. Organizational structure for larger companies is necessarily different from smaller organizations.

3. It's a good idea to periodically get an outsider's opinion of where your business's functional expertise may be lacking.
4. If your business is growing, documented policies and procedures will likely be necessary once you reach 20 or more employees.
5. Regularly scheduled employee meetings, periodic e-mail updates, and a cascade communications policy are several ways to make sure your internal communications channels facilitate, not constrict, growth.
6. Smaller businesses are often the last to upgrade to new technology, usually due to cost, yet the costs of not upgrading are usually much higher.

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