THE WORKING JOURNEY

WHEN A BUSINESS GROWS… or fails

Andrew Olivier and Adam Thompson

A growing business is a nice problem and one which faces many organisations in our constantly changing world.

The Working Journey has the understanding and experience to know that when a business grows it moves through different stages. Each of these brings its' own challenges and to manage the business the same way it was once managed will lead to frustration, stress, a drop in service and (like all living systems) potential demise.

This is nothing new. We are all subject to Life Cycles, but with insight and action we can help minimise the pain and sustain growth potential and efficiency.

What we do at the Working Journey is determine *the increased complexity brought on by growth*. We can identify the structure that will be needed to thrive in the new environment and the type of leadership talent needed at each cycle of growth. By seeing what will happen and what to do, we can give ourselves every chance to take advantage of the opportunities in the market.

LEVELS OF WORK

The key to understanding what will happen when a business grows is part of a body of work that has evolved for over 60 years. It was started by the late Elliott Jaques, who derived that work itself divides into layers, strata or levels, each with its own type of complexity. The term 'derived' is used deliberately, as Jaques went about his work using scientific principles of observation, hypothesis, testing and reviewing.

Jaques discovered work divides into seven levels, which are shown in Figure 1[1]. Gillian Stamp, a researcher who built on the work of Jaques identified certain 'themes' for each level which help us understand what the level is about.

A key issue to be aware of in Figure 1 are that each level is distinct. It is not a spectrum that segues from one to the next; instead there is a definitive difference in complexity if we change levels.

The other point is timespan, which refers to the time that passes before the most complex tasks in a role can be completed, or until results of decisions will be sufficient to be able to know with certainty whether the decision was correct. We can use this to provide a ready-reckoner for the complexity of different levels of work with a high degree of accuracy, particularly for the first three levels.

GROWING THROUGH THE LEVELS

Company growth is not a given. However, if a company gets past start-up, the growth of the business will follow a predictable pathway.

So let's look at what this may look like. Typically a start-up happens usually at Level I where a person is self-employed or a member of a team. Here work is about doing something yourself and making judgement about the best way to do it. Often entrepreneurs start here with an idea and making it happen. They may work with a small team and everyone can work interchangeably. For example a carpenter who will over time, grow an international furniture business. He or she will do their apprenticeship and then start up a small business. However he or she becomes interested in design and starts making some innovative pieces which prove very popular and can't keep up so employs help.

Transition to Level II *occurs as the entrepreneur making the furniture sees potential in the market*

[1] See Olivier A (2013); *Organisational Design: What Your University Forgot to Teach You*; Xlibris Corporation

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FIGURE 1: LEVELS OF WORK & UNIQUE VALUE ADDING IN AN ESTABLISHED WORK SYSTEM

Level of Work	Type of Work	Unique Value Add	Time Span
I	Quality (Direct output to skilled production)	Direct physical output. Quality and cost reduction. Shopfront image and reputation. Work to procedures, outputs clearly known. Self Employed/ Member of a team.	Immediate – 3 months
II	Service (Output team leadership and first level professional specialist)	Service and cost control. Problem-solving within the existing processes and assuring compliance. Managing a team to produce to established processes. Analysis using established tools, techniques.	3 months – 1 year
III	Practice (Directing production and senior professional specialist)	Best practice and cost efficiencies in delivery to current customers. Production unit or project management. Process improvement to best practice. Leading team of teams.	1-2 years
IV	Strategic Development (develop and implement strategy as required to achieve the Strategic Intent)	Strategy development and value control. Creating and developing new markets, key account customers, shutting down old. Functional leadership or major project/program management. Translating the business strategy into operational plans, designing and implementing company-wide systems.	2-5 years
V	Strategic Intent (Business Purpose and Direction)	Sustainable competitive performance, viability and direction, involving anticipating and directing responses to environmental changes.	5-10 years
VI	Corporate Citizenship (coordinate business purpose with corporate intent, build global image and brand)	Coordinate multiple unified systems in the global environment. Read international contexts to support, alert strategic business units, recommend invest, disinvest across portfolio of activities	10+ years
VII	Corporate Prescience (shape the corporation for change still to come, yet present)	Direct multiple systems in the global environment. Sustaining long term viability, defining and acting on values, moulding contexts, wealth control in the broadest sense	20+

for greater sales than they can produce themselves. Longer term he or she wants to sell their clever designs in a kit form via a catalogue. However in reality they can't get funding as they are still too new and are battling to meet short term growing demand, while maintaining quality.

What the entrepreneur does is create checklists or guidelines for making certain items of furniture and employ more skilled people to help. The work of the entrepreneur has now moved into Level II as it involves managing people and solving production issues as they occur, with very little time spent now on doing the "actual work" themselves. They may do it in their spare time as they experiment and take an active interest in quality, but their focus in now involved with the business and its future. Planning now goes well beyond 3 months.

A Two Level Organisation structure is referred to as **a *Mutual Knowledge Unit*** because everyone knows everyone else and what they do is often interchangeable, except for the leader, who is the key decision maker.

*The interesting part of the company growth is because the entrepreneur has lots of capability for envisaging how their business may develop, they are trying to think five years out. This may mean he or she is now less foc*ussed on the quality work and more on sales, marketing, distribution and building internal systems to maintain operations.

Transition to Level III will occur as growth and further potential in the market sees the necessity for restructuring the business to cope with current demand *and* projected growth. The entrepreneur has opened a retail outlet (which is doing great!!) and is now actively working on a catalogue of kit form products. He or she has now needed to employ managers to cope with the growth. There are now formal systems in place like a payroll; a sales incentive scheme, a production scheduler, a financial system and an active marketing system. Differentiation may even now see a core

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production team, but in addition there may be a specialist who orders in materials, a sales team and a design team working on the catalogue and products. The administration load has increased drastically.

The entrepreneur's role is now in Level III as where the focus is on deciding how their whole business operates – how it is going to be put together, and how the work will flow. What will be outsourced, what will be done themselves?

Decisions need to consider what the business will look like *next year*, with money put aside accordingly. Effectiveness and best practice now become competitive advantages to get better products to customers. The business may be operating in more than one locale at this stage.

Entrepreneurs often don't do this well, but if the business is to flourish, the internal and external balance is essential.

A Three Level Organisation is referred to as a ***Mutual Recognition Unit*** where there are now three tiers of reports and specialisation means work is not readily interchangeable *but it is still possible to know everyone on the work system.*

Transition to Level IV will be seen as opportunities to find new customer bases with new products become apparent and the entrepreneur has moved from being effective in what we do to *deciding what markets we want to be effective in.*

Strategic decisions regarding capabilities and capital allocation are now required in order to protect the value of the business by making sure it is competing in markets where it can capitalise on its growing market base and take full advantage.

Decisions will take over up to five to take full effect, with market success being on how combinations of product sets serve their different markets. The business is now operating in a number of states and may have branches or outlets in numerous locales. It may have one or more strategic partners or alliances with retail chains to increase its distribution, but it has decided to build its own brand by opening its own outlets and now has plans for seven major stores in different cities.

The catalogue channel has been launched and is proving a cash cow to the business.

The entrepreneur has appointed a number of senior managers to head various functional divisions like design, sales, marketing, production and corporate services. A COO may have been appointed to handle operations.

At any point on its growth curve there are the points of transition when the organisation is vulnerable to failure or acquisition if the founder does not possess the capability to grow the company to the next Work Level. So for the entrepreneur or CEO to ensure the business flourishes and remain in "flow" he or she needed to decide on an active growth plan (which meant adding another work level) or choosing one of consolidation and deepening the product sets and continuing improvement. Nature does not like equilibria, and so by consolidating and holding a position, the business will shine brightly for a period, then dim and fade. Or be bought and taken to the next work level.

Transition to Level V occurs as the enterprise business becomes fully national or a significant and dominant player within a State. It may even operate in another country under certain conditions. It now has a range of products and revenue streams which may represent different businesses with different market channels.

Investments in infrastructure are significant and the enterprise has an established but actively growing brand awareness and growing customer / membership base. It may be a public or private company and a player in its industry with significant weight. It is likely to have been in existence for ten years and its original founder may no longer be involved in its leadership or management. In our example the founder is still very present.

It is no longer enough to determine which markets to enter, maintain and exit, the entrepreneur or CEO is now determining the appropriate response to changes in the total business environment, which provides the context to allow each area of the business to make its strategic decisions. It will take over five years before the wisdom of decisions can be determined, with visions up to 10

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years describing the role of the organisation in its society.

Transition to Level VI and VII may occur when the entrepreneur sees opportunities out of their home country for their products and services. In our example our entrepreneur having built their brand through the catalogue could rapidly expand to other countries in Europe, the USA and South America. They may relocate their head-office. This growth often occurs over a fifteen years + period.

Along the journey the catalogue business, now online, was spun-off into a separate business, as was a children's range of furniture. A new brand of office furniture was floated some seven years ago. The spin-offs have their own CEOs, some are listed and registered independently.

Now the Group CEO (still our entrepreneur) and an independent board manage a portfolio of multiple P&L across 35 nations. Issues of where to invest, disinvest, alliances, government regulations, international harbingers are their focus, as is group culture, values and the active management of brand and reputation. Group succession planning, talent management are all factors now.

The fates of these independent entities while no longer intrinsically linked are bound by brands, image, cultures and issues of image and reputation. Use of child labour in India or China or underpaying workers could have severe implications as well as the question of how raw material is sourced. The Group established another strategic business at Level V to resources itself through sustainable forestry. For the director and executives, at Level VI sustainability is a key issue.

KEY PRINCIPLE OF ORGANISATON GROWTH

STRUCTURE

The number of levels of work a business needs depends on its complexity, which can be judged by its timespan and how it adds value. Many entrepreneurs grow their business to their comfort level of the work they feel "in flow" doing. If the business has real potential it may be bought or sometimes stagnate if it does not transition to a more complex structure. If the entrepreneur or managerial leader has an ineffective structure, i.e. a missing level of work, plans will not be translated effectively; the whole work of the organisation will not be able to occur without undue effort. For a growing business, the missing level of work is often found be at the top, or one level down.

If times become tough and the business has to downsize this needs to be done with logic so as to ensure that the ability of each level of work to function is not impaired due to retrenchments or spilling all jobs.

INDIVIDUAL CAPABILITY TO LEAD

We all have our "sweet spot" or position where we like to contribute *and this changes for each person at different rates over time*.

For example, a business may be successful in its market at Level IV, operating with a five-year plan and successfully allocating capital and adjusting its products and customer-base to respond to changing conditions. Seizing an opportunity, an acquisition might be made which allows entry into a completely new market.

If this is a significant size acquisition, the business may have find itself moving into a new ball game, as the new complexity of the operation would indicate it has just moved into Level V. Its size and scope of operations now requires a different approach to deal with its parts. In other words, it's not enough to only respond to possible new markets, a business of it's the new size now needs a defining purpose so each business within it can make its strategic decisions.

This may not be where the entrepreneur or CEO is comfortable. They are not in flow with complexity now required. If the person who was managing the business at Level IV is not able to now add value at Level V, the new size will see issues of service, quality and frustration. This will be caused by a lack of overall intent, which will see areas not be able to develop themselves with a common view. In-fighting will increase which will gradually be seen in customer quality.

If, alternatively, the person managing the larger entity is comfortable with working at Level V, but not all of their management team can lift to work at Level IV, there is now a missing level of work. In

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the case of missing Level IV, the translation of the business intent into relevant business plans at Level IV will be ineffective. This will see either business stagnate, or the Level V manager now having to step in and do the work of their management team. In the latter case, we return to the previous situation where Level V management is now not occurring as the person is now spending their time in Level IV.

In addition, the enterprise needs to be developing new businesses and needs entrepreneurial talent to do this. It needs new products, new markets to prevent decay and ossification.

It is useful to note that while it is idea to have each level of work filled with a role, in a rapidly growing business one person may handle more than one level of work**. What is important is that the top level is in place and filled with someone with the necessary capability to handle the uncertainty and role complexity.**

Why do these gaps occur? Organisational structure is one reason – if the right number of levels hasn't been worked out, and roles defined to make sure each level of work is in place, gaps can appear (which can also result in two people in a reporting relationships doing the same level of work – also frustrating and ineffective).

Even if, however, the organisational structure sees each level of work in place, *the individual capability of the people in the role may not match the complexity that is required*.

The Levels of Work in Figure 1 are an outcome of natural information processing capability. *At any given time, a person is going to be at a level of capability that corresponds to a Level of Work.* Each person progresses through different levels of capability at their own rate, and the remarkable discovery by Elliott Jaques was that each person's progression is predictable and can be mapped over time[2]. The general rule is people grow or shrink work back to where they feel comfortable and in control of events. This may or may not be what is needed.

For example, a person who enjoys the challenge (that is, finds it neither boring nor stressful) of work at Level II at 56 years of age is not going to transition into Level IV thinking, or Level V. And a person who is comfortable at Level II at the age of 21 is unlikely to still find work at that level interesting in 10 years' time. This is found in the research.

We can only apply the type of thinking to a role that our current capability allows. So a person who is comfortable at Level IV who is suddenly thrust into a Level V role due to a large acquisition will naturally continue to apply their thinking at Level IV. Even if the structure adjusts to include a role at Level V with a team of Level IV executives, the *capability gap* will still see a lack of decision-making occurring at Level V, leading to the same problems as if the role was not fully there.

A fascinating study by Dr Atilio Penna tracked a number of SMEs over twenty three years. He found that those SMEs with CEOs/partners who had the capability to do more complex work grew their companies from two levels to five over that time period, employing more people and generating significantly more revenue. CEOs/ Entrepreneurs who were in flow with less complex work kept their organisations positioned competitively with two work levels over the same period of time, with relatively constant staff size and income.

UNDERSTANDING GROWTH ON THE SIGMOID CURVE

Figure 2 illustrates this from a different perspective. Growth through the Work levels must be matched and driven by the capability of the entrepreneur or CEO. Successful companies, or "Requisite companies" can be found at any work level. They can also fail at any level.

The secret is keeping them in touch with the complexity of its market and often this means moving to a new work level, especially when the company is still on an active natural growth cycle.

[2] Jaques, E and Clement, S. (2002) . *Executive Leadership: A practical guide to managing complexity*. Blackwell Publishers. (First published 1991)

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This need not be upwards, it can be creating start-ups; going back to work level II and sponsoring an innovation. This is especially necessary for larger companies where a bureaucratic culture has set in.

The real challenge for the future is of course shifting to a zero carbon footprint and who knows now who the victims and beneficiaries will be?

This allows the decisions to move from "what structure do we need" to "when is the right moment to fill the new structure" or for the entrepreneur, "I need to stop doing this and start doing that" or even "I need to sell"

For companies "inflow" or who have slipped on the downward side, its becomes "we need to get into this new idea yesterday"

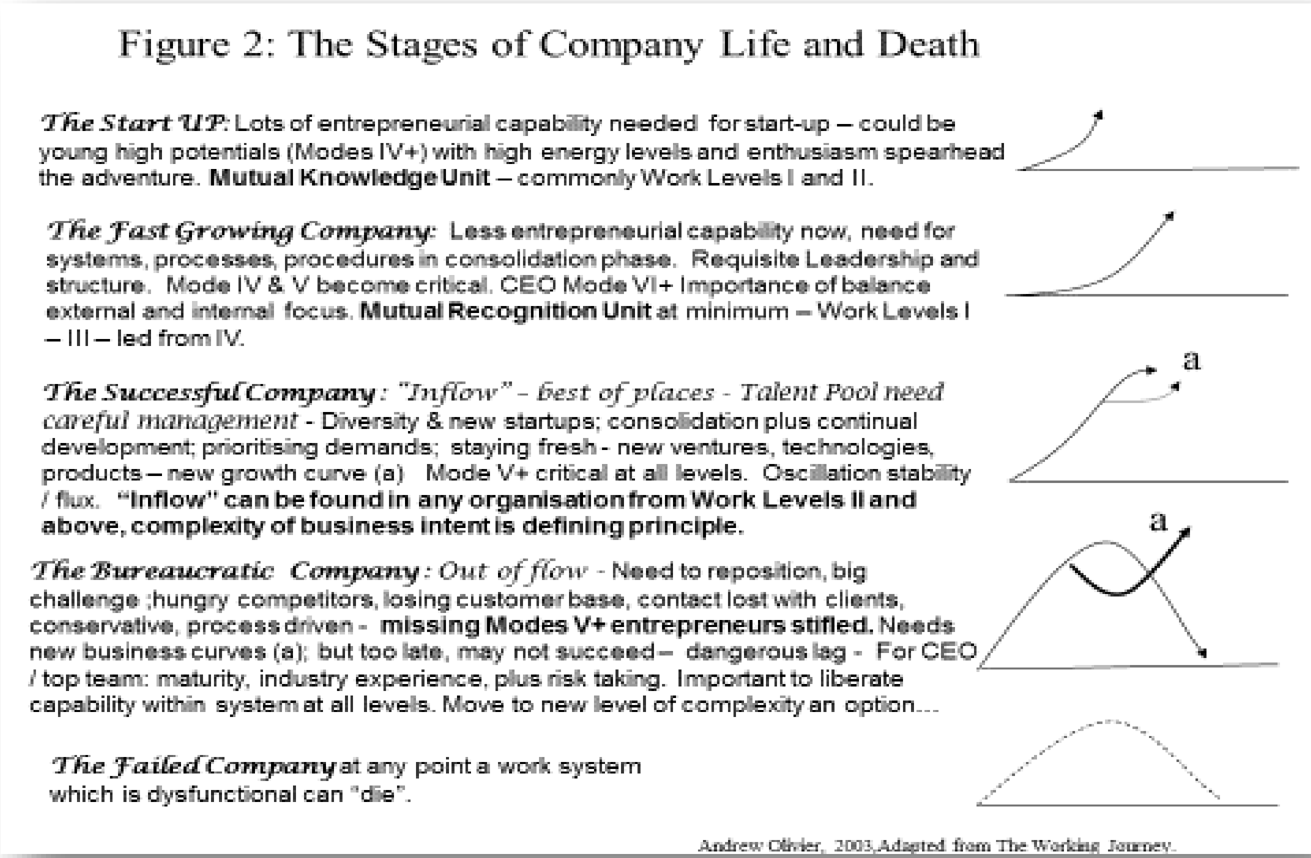

Figure 2: The Stages of Company Life and Death

CONCLUSION

A growing organisation can find itself quickly moving into new levels of work, which the current GM/ CEO and their team may not be ready for. This often happens with entrepreneurs who grow their business to their level of comfort.

Having awareness of the distinct output of each level, and knowing that the business has moved to a new one can help see the structural changes that need to be made. In turn, this can help identify the people requirements needed to be able to handle the business at its new size.

ABOUT

The Working Journey advises and provides resources to leaders who want their organisations to be more effective and grow successfully, including educating and implementing principles of work complexity.

We run a series of programmes around these ideas called Introduction to Requisite Enterprise.

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Andrew and Adam are partners of The Working Journey. Formed in 2001, The Working Journey is linked to Bioss Australasia, Global Organisation Design, EDAC and others.

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