Bloomberg Businessweek
Available on the iPad

**SMART ANSWERS** August 24, 2010, 10:45AM EST

# Your Perception of Business Growth Is Wrong

Don't assume that bigger is always better, says B-school professor Edward D. Hess. Steady improvement is much more crucial than expansion

By Karen E. Klein

Much of the perceived wisdom about business growth is mythology, says Edward D. Hess, professor of business administration and Batten-Executive-In-Residence at the University of Virginia's Darden Graduate School of Business. The former executive has spent years studying the concept of business growth and written myriad articles and books on the topic, including *Smart Growth: Building an Enduring Business by Managing the Risks of Growth* (Columbia Business School Publishing, 2010). He spoke about his latest research with Smart Answers columnist Karen E. Klein. Edited excerpts of their conversation follow.

**Karen E. Klein: What interests you about business growth?**

**Edward D. Hess:** What most business people think about growth, like "grow or die" or "growth is always good," is not supported by research. Most business executives accept without question that bigger is always better and that they should have growth that is continuous and linear. But that's just flat wrong. The data show that consistent, above-average growth is the exception, not the rule.

**How did you do the research for your new book on growth in private companies?**

In 2008, as part of the Darden Private Company research project, we identified 54 high-growth private companies in 23 states. Their CEOs agreed to participate in surveys, interviews, and case studies. They included product and service businesses that had been in business 9.6 years, on average, and at the time had average revenue of $60 million.

**One result of that research is the warning that growth can destroy a business. How did you determine that?**

Many of the CEOs we interviewed were on their second try at building a successful business. Their first try had imploded because they took on too much growth and found that they had quality, people, management, and financial problems as a result.

**Are you against growth in general?**

I am not anti-growth, but I do know that growth that's not managed properly can lead to dilution of your customer value proposition and risks to your reputation and brand. I think you should approach growth not as an assumption but as a well-thought-out decision. Understand the difficulty involved and go into it with eyes wide open, knowing that you can stop at any time. We found that companies don't necessarily have to grow or die, but they must improve or die, meaning they have to continuously improve their customer value proposition or risk going out of business.

**What is the downside if growth is not managed prudently?**

If you take on too much growth, it can overwhelm your processes, people, and controls. What we recommend is managing the pace of growth with something like a gas-pedal approach. You push on it, then let up, and let your company catch up to that growth. You can't simply take on all the growth possibilities that walk in the door.

**You make the case that growth is particularly risky for smaller companies. Why?**

Smaller, privately held companies usually don't have the financial safety net to withstand quality control issues or negative publicity or a legal downside. They have to be even more sensitive to risk than the big companies, and they have to manage it better. Gold is glittery, and it can blind you, but small companies that take on too much growth and mishandle it can't always recover, because they don't have the resiliency of larger companies.

**How does growth typically happen in a small company?**

There are four basic ways to grow your business. You can improve, innovate, scale, or do acquisitions. Innovations and acquisitions represent low probability, high-risk growth. Improvements are a given—you must make them in order to stay in business.

Scaling, the key to growing a private business successfully, means doing more of what you're already doing with better distribution and more customers. But you can't scale correctly unless you've got the right processes in place and you've done the right hiring and training of your personnel.

**Your research shows that hiring mistakes are one of the high costs of growth.**

Yes. I was surprised at the number of times it took CEOs to find the right culture and competency in their technical hires. Many of them took two to five tries to get the right CFO in place. They couldn't properly evaluate individuals' competencies coming in, so that led to a lot of churning, which is very costly.

As a company grows, the people often do not grow as fast. Sometimes the personnel that manage fine at a company of 25 employees can't manage in a company of 75 employees. But continuously upgrading your staff creates loyalty and morale issues.

**What's the solution?**

One CEO told me, "I have learned that I have to hire slowly and fire quickly." Most people do the opposite. Also, in order for a company to grow, the entrepreneur must grow. He must learn to delegate, manage, lead, and change roles nearly every day. Many whom we interviewed found those transitions difficult.

The other thing we heard was that the bigger the company, the more time the entrepreneur had to spend solving emotional problems and personality conflicts. Many of them told us they did not enjoy that kind of thing and were not good at it. The basic entrepreneur is a pretty driven, my-way-or-the-highway type. Dealing with people takes emotional intelligence and a different set of skills, maybe a more feminine mentality.

**Did you include female CEOs in your high-growth cohort?**

At least 10 percent were women. One had taken on too much too fast, and she struggled. But the others were very successful—even though they were not all great relationship people.

*Karen E. Klein is a Los Angeles-based writer who covers entrepreneurship and small-business issues.*