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Five Tough Questions Every Entrepreneur Must Ask about Growth

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Getting a venture underway is often easier than keeping it going and growing. At each major stage from start-up to sustainable success, entrepreneurs face tough questions about shifting gears, making major changes, and letting go of people, partners, and products. For new businesses, inability or unwillingness to change can land them in the statistics about high failure rates at the five-year mark. For non-profits, clinging to the past can lead to marginality and stagnation.

To keep an enterprise on track while facing the often-pleasant challenge of growth requires making sometimes-painful adjustments in these five areas:

The People. One of the hardest questions is when to change the people — not just individually, but the whole mix. Founders often start with friends and true believers who work hard because of zeal for the cause or hope for future returns. They occupy multiple overlapping roles. But do the people with single-digit badge numbers or members of the founding generation have the skills the organization needs as it creates routines and requires depth in every specialty? Who can make the cut? A winery I knew from its beginning kept the original group longer than the business could afford, and loyalty got in the way of bringing in experienced people "above" the people who felt they were founders and thus privileged to call the shots. Raise a glass to courageous leaders willing to tell people they must either grow or go.

Finances. Whether the original source of funds is venture capital or venture philanthropy, an investor base or a donor base, each growth phase challenges organizations to shift assumptions and thus change practices. Perhaps investors expect customers to take over as funders of growth by paying more (or paying at all), a challenge dot-com companies faced in the first Internet wave and social media companies face now. Non-profits also outgrow friends-and-family angels or local sources and must find sustainable revenue and capital sources. How do you move from being discretionary nice-to-have in a portfolio to essential-to-fund? Where are the new sources appropriate to a new, larger size? A multi-site non-profit went from local businesses close to the founding city to national funders in government and foundations to a revenue model replicable in every site through ongoing school budgets on a fee-for-service basis.

Partners and Allies. The best organizations are attuned to the need for key external relationships that provide resources and support. At the same time, entrepreneurs do not want to be captive to the needs and desires of their first distribution partners, component suppliers, source of talent, or marketing allies. It is tricky to know how to nurture and draw benefits from key partners without being subsumed by them — or subject to damage if they stumble — and, at the same time, add to a partner set without creating conflicts. Which partners should be downplayed or replaced as the organization grows? How can key relationships be managed to lessen dependence while seeking new, more relevant, allies? And with growth comes the need for entirely new types of relationships — which is why Facebook now has an enlarged Washington office.

Organizational Culture. Are you making explicit what the organization stands for in tangible ways that can be transmitted and endure? Are you on guard against drifting away from the culture? Numerous studies, including my own, show that an emphasis on organizational culture is associated with continuing excellence. Values, stories, artifacts, and rituals provide a source of identity that makes the organization feel the same, in pursuit of the same mission even while everything else changes. Culture provides internal glue. As an organization grows, what was once informal must be documented, codified, memorialized, and passed on to new people. Savvy entrepreneurs ensure that their organizations are built to last by stressing culture. At every stage, they invest in preserving fundamental values and principles while adding new iconic stories that reflect them.

Outcomes and Impact. What results are being produced, for whom, and are these sufficient? In the beginning it's enough to show that it can be done at all — to address a good cause or to prove that something works in a handful of markets. In the next phase, you might look at growth indicators — we did more this year than last year. Recall the signs that McDonald's posted outside its stores during its rapid growth phase, heralding how many millions of hamburgers had been served. Sooner or later a new question arises: Are you making a difference that makes the venture more essential?

Ventures that go from proof of concept to "permanent" player have become icons, household names, or must-have players because they can show differentiated user, recipient, or national benefits — that they have impact not just on their immediate customers but on the entire industry. We all know that success provokes imitation. As the organization grows, its distinctiveness gets harder to maintain. But often many in and around the organization come to believe that existence is a sufficient sign of importance — a trap particularly for non-profits. Asking the "so what if we weren't here?" question about making a difference can provoke soul-searching and strategy change.

The bottom line: In addition to the challenges of innovation to ensure new offerings and new capabilities, entrepreneurs and organization founders must also be alert to the ways that the organization itself changes as a result of growth. It is important to anticipate those developments and ask the five big questions at every stage in order to get ahead of change and master it.