

The importance of growth to a company



**ASSIGN
BUSTER**

Growth is the thing which most companies both large and small try to accomplish. Small companies want to get big and big companies want to get bigger (reference for business, 2010). Crosby (1990; cited in reference for business, 2010) there is no other appropriate reason than the expense that has occur. Inflation increase cost of everything and it is not potential if retaliatory price increases. Salaries expense increases when the employees gain seniority. Furthermore, cost of benefits is higher because of the structure of organization and difficult to get any back, especially when the firm is profitable. Therefore, decreasing in cost and increasing in profit have to do on continuing basis and the revenue of the organization also continuing increase to expand the base.

Most of the company want to run their business prosper not just to survive. Organization growth means different things that bring to different in organizations. There are many methods to measure the company's growth. One thing that can shows the progress of company is goals. The goal of most organization is profit. The net profit, revenue and financial data are useful to indicate of organization growth. The other companies might be use sales, physical expansion, number of employee, or other criteria to show the organization growth (reference for business, 2010).

According to Kuratko and Hodgetts (2004) explain that the growth stage is changing the entrepreneurial strategies. The organization should reformulation of the competition and marketing strategies. For instance, some companies have to grow out of the business because they cannot manage the growth of their ventures. Sometimes, the highly innovative or creative are unable, or unwilling to come with the growth stage. Steven Jobs

of Apple computer was forced out in this stage. His creative ideas were damaged to the growth of organization.

The growth stage has to face with the new problem more than start-up stage (Terpstra and Olson, 1993). The challenges of develop in different skill that the entrepreneur have to face. The growth stage is a change from one person leadership to team oriented leadership (Hood and Young, 1993).

Allen (1999) describe the important part of the business life cycle is growth stage. It is the most exciting period for the business owner of entrepreneurs. If the organization do not have prepared for the growth stage, it can be terrify period because during the growth stage without plan, the company might be get out of control quickly. They will fail to the appropriate infrastructure and systems in the business, lack of manage in organization growth and lack of sufficient working capital to support during growth period.

Classification problem in the organization growth

According to the survey of the ESRC centre for business research at Cambridge University (1997), there are many real problems in organization. It is interesting that the top two of the problems from external factor which are increase competition and availability and cost of finance for expansion. The other barriers to growth are marketing and sales skills, availability and cost of overdraft finance, growth for market demand, management skills, skilled labor and so on. On the other hand, Harrison and Taylor (1996) show that the biggest barrier of organization growth is when going in to the new market then follow by “ establishing the reputation” and “ intense

competition and monopoly practices”. They also show competition and financial are general problems.

Reference for business (2010) explains about the problem that encounter with the organization growth. The organizations want to pass the period of growth stage thus, the owners of the company have to face with difficulty to looking for the ways that make the organization fast and incremental grows. While the company is small size, the owners who are set up and to be leader in an operational doing everything in an organization.

The theory of Greiner (1972) describes about five phases of growth period in an organization in term of management crisis. The figure below shows the evolution period which is management style while revolution period is management problem. In term of evolution is the slowly changing or development in an organization and it will be take long time. On the other hand, revolution is faster changing, it will make complex in an organization.

In the figure 1 present that the faster growing of an organization will be face all of five phases, while the slower growing will be encounter only two or three phases. There is the important thing of phase of growth which is “ each phase is both an effect of the previous phase and a cause for the next phase” Greiner (1972). For example, the “ direction” in phase 2 is the result of “ leadership” in revolution crisis phase 1. Moreover, it gives rise to the crisis of “ autonomy”. When the crisis of autonomy occurs, it cannot return to give instructions to the result, it has to go to the next phase.

Phase 1: Creativity

Creativity is the beginning of an organization which is creating both product and market. The characteristics of evolution creativity are the owners of the company are technically and they dislike management activities. They focus only making and selling a new product. There are very rare in communication between employees. The employees work over hours but get a little reward. The control of the market comes from feedback that the management pretends to the customer. It is the result that provokes the crisis of leadership.

The Leadership Crisis: at the period of organization growth. Running in the larger production needs the persons who have knowledge about the manufacturing in efficiently. It hard to control through the informal communication because there are increases in the number of employees. The employees do not have inspiration and motivation in doing their work. The entrepreneur also do everything in the organization same as in the past and they do not want management teams.

Phase 2: Direction

The results from the first stage are cause to have the direction. The capabilities of managers who make the organization continue growing under the instruction of leadership. This is the characteristic of evolution in phase 2 which is the structure of an organization is suggested to split up in part of marketing activities and job assignments transform to be more expertise. There are appropriate in incentives, budgets and work standards. More formal in communication and there is hierarchy. The person who gives direction in operation is new manager whereas lower levels of supervisors

are behaved towards to function specialist more than independent decision making.

The Autonomy Crisis: Directive technique is the new way to develop the organization growth in efficiently. In contrast, it is not appropriate to use in a large organization because it will become complicate in an organization. The lower level employees are not independent in their job by the centralize hierarchy. They have to become more specialize about markets and machinery than to be the leadership. Finally, they are uncertain about these that they should follow this process or start to do their own way.

The result is become the next phase which is delegation. It is hard for the top managers who are successful in the past and was commanded to have the responsibility. In addition, lower level manager never have their own decision making. The result is during the autonomy crisis period there are many companies slow down because they are more focus to the centralized technique while the lower level employees disappointed and want to leave out of the organization.

Phase 3: Delegation

This stage present about the evolution growth that comes from decentralized of the structure of organization. The characteristics are the managers have a bigger responsibility in part of market and machinery. They use bonus and profit to motivate their employees. The top executive at headquarter try to control themselves from the operation report. The management focuses more new acquisition that can line up than decentralized units. The top

manager communications are very few, normally by communicate, telephone or go to visit the field work.

Phase 3 can motivate the lower level employees to show the benefit of expansion. The motivation and power of decentralized managers can go into the large market, customers have a fast feedback and the business can develop new products.

The control crisis: This is important problem is the top executives feel that they are losing the control in an organization more than operating in the field. Autonomous field managers want to drive their own plan. They do not need coordinating plans, money, technology and people. Freedom is the cause of narrow thinking.

The revolution of control crisis is some top managers are looking for the recovery of control in the company and some top managers want to go back to the centralized management. Most of them fail because the scale of operation is huge.

Phase 4: Coordination

The characteristic of this stage is using formal system to achieve coordinate and the responsibility of top executives to running new system. For example, the product groups are combined by decentralized units. The process of formal planning are set up and seriously investigated. The start of the company-wide programs of control and manage line of managers are cause of hire for many employees and located at headquarters. The cost of capital should use in carefully and distribute among organization. The centre of

investment is each product group where can return on investment and it is the important standard to allocate money. The data processing is the examples of technique functions distribute the power at headquarter while the decision of daily operation still decentralized. The company is supported by stock option and company profit share.

Coordination is the new system that can confirm the useful to reach growth throughout the efficiently allocated the limitation resource of an organization. The number of manager looks over than their need. Moreover, they have much to make a decision. They learn to act more carefully to “watchdog”.

The Red - Tape crisis: they lack of confident to set up between headquarter and branch. Increasing in system and start new programs that more than its useful to be cause the red - tape. Managers line is strongly increase and not familiar with environment. The line managers are complained by staff people to unhelpful and uninformed. The process that has more important than problem solving and innovation will be reduces. In short term, it may not appropriate to use formal programs and strict system because the company will become larger and more complicated.

Phase 5: Collaboration

This stage focuses on management by using team and face with people who have differenced skill. They use formal control to organize social control and self - discipline. The new system is hard to specialize because they familiar in old system same as line managers who depends on this method to find the answer. The phase 5 will make a more flexible in an organization and set

<https://assignbuster.com/the-importance-of-growth-to-a-company/>

about management. This is the characteristics: the responsibility of team highlight on faster problem solving. Teams are come together when there are group activities. Reducing the number of headquarter staff specialize, give them a different duty, position or responsibility and set up teams that have different skill to be the consult team. A matrix – type structure is the combination of team that suitable for the problem. The previous formal systems are made an easy to understand and combine it together into single multipurpose systems. There is often in meeting to point out the problem that has occurred. Using educational programs to train their manager to have management skill and reach the greater teamwork and solving the argument. The daily decision making necessary to have real – time information systems. Economic rewards tend to achieve for teamwork more than individual. If there are new experiments occur, all of organization have to participate these.

The crisis: Greiner (1972) ask “ What will be the revolution in response to this stage of evolution? Many larger companies in United State give the answer is critical. He thinks the answer for revolution in this stage will be “ the psychological saturation” of employees who tired from physically and responsibility by work in team and the result of innovation makes them get a pressure.

The intuitive feeling of Greiner will be find the solution of new structures and programs to the employees have time to regularly rest, contemplate and re – energize themselves. There are some company use dual organization structures which “ habit” structure for doing their work in daily done and motivate the point of view and improvement in personality by ” reflective”

<https://assignbuster.com/the-importance-of-growth-to-a-company/>

structure. The employees should move backward and forward between two structures but they may lose the energy.

Control

Caplow (1983; cited in reference for business, 2010) describe “ understand a large proportion of the relationships subordinates have with each other and with outsiders”. The period of the organization gets bigger, absolutely there are many complicate in task. It is hard to control and the number of control increase because while the organizations are growing, the owner of the firms cannot operate everything same as the beginning by themselves. They should have representative responsibility and set up the better system to reduce the complication however, the organization also face with these altogether.

Human resource

Refers to Caplow (1983) that the business growth also bring about unavoidable. The organization get larger which means the company have to increase in a number of employees. The problem is the relationship between each other and different ideas have to be face. Those things which have occurred make the organization’s environment change. Generally, the changing as organization growth must be impact to the business, in particularly, the organization change in fast rather than incremental for example, “ opening of a second store, a new promotional blitz for a popular product, major expansion of service, introduction of an online web site, etc.”. Caplow indicate that growth stage can make the employee confuse because

many employees do not expect the anything that has occurred until they met by themselves and become their experience.

According to reference for business (2010) means from the organization change during growth stage, the entrepreneurs have to seeking the ways in communication between employees and departments. This is a good human resource management in part of hiring and training, motivate and inspire them. The key that makes the organization growth is establishing and improving standard operation. When the small business face with dramatically change in an organization, their operation have to transform in different ways. Therefore, the entrepreneur necessary to have the planning and management skills because these will be determining that growth is sustained or temporary.

Bureaucracy

For example of bureaucracy is Toyota. Toyota's Japan got the report from Toyota's United State that they have a problem in line of control. Few years later, James E. Press, the company's top - ranking U. S. executive can be able to set up the Toyota Motor North America in New York as the de facto headquarters. He is the only American that becomes board of director of Toyota in Japan. In 2007, Press leaves Toyota to join Chrysler. At this point Toyota got a problem because it makes Toyota missing the way to link between management in Japan and U. S., and capability to solve the problem in rapidly when crisis occur (bnet, 2010). Toyota believes that the bureaucracy will make the process in operate in slowly.

Overconfidence

<https://assignbuster.com/the-importance-of-growth-to-a-company/>

Overconfidence for Toyota which means they have confidence in their reputation. The American employee said something in joke that working in Toyota company same as work in the Central Intelligence Agency where can share the information just “ need to know”. Therefore, this is cause of cultural problem occur (bnet, 2010). Toyota is the organization that secretive and non - communicative. Moreover, Toyota is loser to General Motor and Ford Motor. In addition, Toyota also “ fail to recognize” from the market. They do not think that a strong public relation effort is needed.

Weak Management

According to bnet (2010) explains Akio Toyoda, the President and CEO of Toyota Motor Corporation, 53 years old. He was not ready in management said the chief executive and some insiders. When Toyoda started this job, he let the world know that he used “ genchi genbutsu” to solve the problem that has occurred. Genchi genbutsu means “ going to the source and clarifying the problem with one’s own eyes” (2. toyota, 2006). But when the problem has occurred, he still quiet and concentrate to world leaders in Davos, Switzerland. American crisis response experts were surprised. “ What is he doing in Davos anyway?” A professor of corporate communications at Dartmouth’s business school Paul A. Argenti said in The New York Times that “ if you have got a crisis of this magnitude, you get on a plane and you go to the scene of the problem.” Instead of give this problem to delegate, head of Toyota Motor Sales, James E. Lenz III (bnet, 2010).

The Fallout

Toyota solve the machine problem clearly and they open the detail of problem that the problem from the supplier of Indiana and this occur with the car that made in U. S. but these things is not prevent because in case of Lexus in California that made in Japan, it made four people died. Toyota explained about it that the problem is software (bnet, 2010).

Software and the computerized control of acceleration and braking in many Toyota cars got a problem. This problem will take long time to prepare it again. Toyota indicates that this problem cannot solve in short period (bnet, 2010).

Process of growth

Wickham (1998) explains that the growth of business is important to entrepreneurial success. There is one factor that makes entrepreneurial venture difference from small business which is the potential for growth. Organization growth is not just increase in size but it means change and develops in organization, and change in the organization environment.

Financial growth relates to the development of the making money to the organization. It involves to increases in turnover, the costs and investment to get the return which is profits. It concerns with the assets which is business own. Financial growth can indicate the value of the business that the additional value can motivate the stakeholders to invest in the business and it is important to measure the success of the business.

There are four main factors that can help the investor decision making.

The underlying performance (return on investment) of the venture, investors need to know the result of the business's operation, they not just interested in only performance of the company. They also interested in prediction of the performance to help the business keep going.

The growth in the value of the venture, the criteria of financial can indicate the growth of the business such as income, asset and capital. Moreover, changing in turnover, profit, tangible assets, total assets and shareholder's capital also show the business growth. The company can expand the business by adding value of the investment of shareholder. However the company should reduce risk in investment to make investors are interesting.

The trend in the risk of the venture, every organization focus on reduces the risk. The important factors that indicate the risk of the business is debt because if the business has more debt, it shows that the company has more risk also. While the business growth, the investor hope to the debt will be reduce.

The dividends yielded by the venture,

Strategic growth relates to the changes in the organization environment. It concerns with the capability of the business development to sustainable the competitive advantage. This is the opportunity to make the profit to the venture.

Structure growth relates to the changes in the internal system of the organization, especially, “ managerial roles and responsibilities, reporting relationships, communication links and resource control systems”.

Each organization also has their own ways structure. It is the better thing that understanding its structure. There are relationship factor in the organization in terms of the communication that occur in an organization, performing the roles and classify the power structure, support and confine that roles. Some of these factors are formal and clear definite but others informal and not clear. The entrepreneur have to learn about the manage all of these things.

The organization's structure and developing the structure as the way it goes to organization grows. To more understanding the structure, they provide contingency theory which is the factor that helps to develop the organization. It consists of size, the operational technology, strategy, environment and power, control and organizational politics.

Size of the organization, normally the large organization must more complicate than small. The large organization consists of many departments that differentiate. There is more information that needs to make the decision and send the direction back again. The complicate of the large organization might be great because it is better to separate into the department and it easy to report to the centre of the organization.

Operational technology of the organization is the basic ways that use to performing tasks. From the performing of operational technology shows that there is some organization is repeating in their task. For example, McDonald that has a large number of branches which is producing and retailing fast food. They have to face with complicated tasks but still doing repeating thing. People express provide the air transport to its passenger from one

place to another place. Whereas, some organization operates with the high technology, they face with the small complicated tasks, they also doing a few repetitive such as Microsoft's that develop the packages of software.

The contingency theory expects that the organization which has a large number of repetitive of task will be the formal structure that easy to understand and responsibility. While the less formal structure of the organization will have the less repetitive tasks. They have to concentrate with the roles that relate to the demand of the project rather than expectation of the daily tasks. The theory suggests that the organization might be developing in the part of expert roles and ad – hoc team structure.

Strategy is the ways of the business that challenges their customer's interest. It depends on what the offers and giving the reason that make customer's buy. There is some firm set up the position by themselves. They realize their products and understand the reasons of the customer that buy the product. They competitive by build differentiate of the product and serve to the niche market. Then, they just respond to the competitor when have new rival in the market.

Most of the organization have the strongly attack to its competitor by serving new innovation product for satisfy customer's need or resolve the problem from the existing product to get better. Some company uses both of these things to protect launched company. Strategy of the organization helps to develop and gain more competitive advantage especially cost advantages, knowledge advantages, relationship advantages and structural advantages.

The relationship between strategy and structure are not the simply things. It is hard to make a decision which strategy can drive the organization. If that decision making come from centralizes of the organization, it shows that the formal structure can be expected. If the decision making have to push down into low level, it shows that there is informal, more flexible, and expected might be use in structure. The organization try to achieve costs of leadership for example, the Japanese engineering conglomerate, Minebea that tend to centralize control to make sure that there is managing of costs. There are many retailer company that have strong brand such as The Body Shop, also perform to the strong control that come from centralize of the organization and make sure that the brand, the products and service are managed cautiously.

The organization that depends on knowledge advantages, they may keep away from the central control system because there are many expertise. Make a decision will be limited. By the way the organization culture was suggested. Team structure will be important because more experience employee may informal advice to less experience such as Saatchi and Saatchi Advertising.

The environment provides resources and challenges to its organization. The opportunities offer the new possibility way to the firm however, there are many risk in that opportunity and the business may loss in the future. The environment in an organization can describe by s number of factors. In particular, the complicate of the information, how fast of the development and changing in the organization and how to predict the changes are. The decision making was impact by power of the structure environment which is <https://assignbuster.com/the-importance-of-growth-to-a-company/>

strategy. As know, changing is slowly in the organization, the predictable of an environment support by centralize make a decision. On the other hand, a new environment and fast changing, it is not to pass down to the cutting edge of an organization because of unpredictable of the decision making.

Power, control and organizational politics, the factors of an organization structure consists of size, operational technology, strategy and environment. The control, deliberate and rational that depends on the extent and the entrepreneur should control the organization during it grows. The great asset of the business is the authorities centralize of company. The organization can keep focus on opportunity that will present and they can also provide vision and leadership. If they do not provide these things they may lack the development and cannot drive the business. From individuals and informal combination of individuals, can see the different of those things in an organization and its become politicized.

However, if the power of business is out of control, the organization may go to the wrong way. It is important to the organization that they need to analyze their own position and have a decision making skill because it is important to the organization growth and fast changing. Although the organization can obtain the advantage form make a decision but it also have limited. Therefore, the company is suggested by supporting the management team.

Organization growth, it concerns with the changes in the organization process, culture and attitudes while the businesses grow and develop. It also

changes the entrepreneur's role and leadership style during the business enterprise growth from small to large firm.

Designing and creating in organization are the things that entrepreneur have to face with. Contingency theory provides an important of change in the organization but the theory does not give about details guide to be the outline in an organization. Therefore, the better way is consider the resource requirement and design the structure of the organization during business growth.

The cultures of an organization that has to develop which is at first, the business consist of the entrepreneur and may be one or two persons. It difficult to make the decisions and operates task to perform in the business's activities because it has limit to operate and making decision about business's activities of the entrepreneurial venture. In the growth stages, the entrepreneur is more independent to undertake and makes the decision to perform the activities of the business because there are many staff in the venture. While the organization continue to develop, they can develop the management team because from the small move to large organization. They have to work in a team and it can support their decision making. Moreover, management team might be the core of the department or business function in an organization.

There are many models of the organization development that discuss about some caution that organization should be met. They may provide the explanation that what has happened and they also may have a little power to predict what will happen in the future. Therefore, the small business that

wants to move to the large business might be missing out some stage. Some models are limit to use in a make the decision. It hard to explain that what is the exactly time that business can move to the next stage.

The business venture decision making to design the structure of organization to make more profitable and there is one option that should consider to use in this situation which is resource requirements of the organization. The resource requirement consists of information, capital and people.

Information will be collect from the entrepreneur's experience in each part of the organization. While the business is growing and developing, market intelligence may additional the market research to provide the market information. Moreover, market information can use to develop the product and technology.

Capital is investment. At the initial, the entrepreneurs use their own money to invest in the business. When the business keeps going, they want money from the customer by selling its product to them. If customer interested in the product, it will make the business sustain and grow. Moreover, this is can attract the investor to invest in the business.

People mean employee that the organization have to employ when the business growth and the organization can gain their goodwill.

The structure of an organization that relate to those three resources, the function is in the organization to manage the acquisition resources. The “conventional” response for the large organization that set up department to definite duty for the acquisition resources. Therefore, customer goodwill is

related to marketing and sales, investor goodwill to financial part, market knowledge link to the market research, technology knowledge to the research and development, etc.

The complete organization should be adding two functions. The business operational systems normally produce the outputs such as production and service. It can add value into the inputs and, control and manage the operation in the organization as a whole.

3. Main Body

This part talk about solve the problem that based on literature review. The problem in an organization that classify which is the problem in management because in the growth stage many companies change to be larger. It sure to those companies has to develop their organization. Form the part of literature review; there are the examples of Toyota Motor's problem. Toyota Motor suggests 14 ways to solve their problem.

Liker (2004), divide the Toyota way into 4 parts that consist of long – term philosophy, the right process will produce the right results, add value to the organization by developing your people and partners and continuously solving root problem drives organization learning. This is the 4P model of Toyota way (msys. sk, 2010).

Figure: 2

According to squared. chula (2008) describe about 14 ways of Toyota that separate into 4P to solve the problem in an organization during growth stage.

3. 1 Long - Term Philosophy

Philosophy in operation is the first ste