Strategic Organizational Development, Growing Pains and Corporate Financial Performance: An Empirical Test

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In a previous paper, Flamholtz (1995) proposed a framework for strategic organizational development. This framework included an organizational effectiveness model (the six factor pyramid of organizational success), and a life cycle model (seven key stages of organizational growth, which uses revenues as a surrogate measure of organizational size. In this framework, strategic organizational development equilibrium occurs when there is a fit between the organization’s strategic development of the six key building blocks of organizational success and its size or stage of development. When this fit does not occur, the organization will experience a variety of ‘organizational growing pains.’ These growing pains are symptoms of organizational distress and an indication of the need to change, if the organization wants to continue to operate successfully. The ultimate criterion of organizational success is the ability to continue to operate profitably, and therefore the ultimate measure of organizational success is financial performance.

The current paper builds upon this previous framework and presents an empirical test of the hypothesized relationship between ‘organizational growing pains’ and corporate financial performance. It also provides evidence that there appear to be certain threshold levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable. Although there has been research to test the overall relationship between the organizational effectiveness model and financial performance (Flamholtz and Aksehirli, 2000; Flamholtz and Hua, 2002), there has been no previous empirical research on the relationship between growing pains and financial performance, as reported in the present study. Another question of interest in this study is: are there benchmark levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable? The hypothesized relationship between growing pains and performance in previous literature has been conceptual in nature; in contrast, this study presents some very specific ‘benchmarks’ for growing pains in relation to successful organizational financial performance.

The current paper reports the results of a test of the hypothesized relationship between growing pains and financial performance within a US manufacturing firm, using a set of 15 relatively comparable divisions. Each division’s growing pains was measured by a questionnaire (Appendix A). This score and these measures of financial performance (‘EBIT’) were used in a regression analysis to test the predictive validity of the hypothesized relationship. The results of the analysis suggest that there is a statistically significant relationship between growing pains and financial performance.

An analysis of the relationship between specific growing pains scores and financial performance was also conducted to determine benchmark levels.
of ‘safe’ versus ‘unsafe’ growing pains. The results suggest that there appears to be a maximum level of growing pains beyond which organizational financial health is at risk. These findings have potentially significant implications for management theory and practice.

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Keywords: Organizational development, Financial performance, Strategy, Growing pains, Bottom line

Background

This paper builds upon previous research on strategic organizational development and financial performance (Flamholtz, 1995; Flamholtz and Aksehirli, 2000; Flamholtz and Hua, 2002).

Our basic premise is that when an organization grows it will almost inevitably experience a classic set of ‘growing pains.’ These growing pains are ‘symptoms’ that something has gone wrong in the process of strategic organizational development, and an ‘early warning’ of significant future problems. More specifically, strategic organizational development equilibrium occurs when there is a fit between the development of the six key building blocks of organizational success and the organization’s size or stage of development (Flamholtz, 1995). When this fit does not occur, the organization will experience a variety of ‘organizational growing pains.’

As we shall see below, organizational growing pains can directly influence financial performance or the so-called ‘bottom line.’ As a result, management needs: (1) to understand the nature and causes of growing pains, (2) to have a method of measuring them, and (3) a template to assess their severity. Our intent is to provide this set of managerial tools below.

We shall also present the results of an empirical study designed to: (1) test the hypothesized relationship between ‘organizational growing pains’ and corporate financial performance, and (2) to provide evidence that there appear to be certain threshold levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable.

First, we will describe the ten classic or most common ‘growing pains,’ which we have identified in our work and research with organizations (Flamholtz, 1995; Flamholtz and Randle, 2000). Next we will explain the causes of growing pains in organizations. Then, we shall present an empirical test of the predictive relationship between growing pains and financial performance in a medium-sized company with several divisions. We will also show how growing pains can be used as leading indicators of future organizational performance, and especially organizational distress. Specifically, we shall provide evidence that there appear to be certain threshold levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable. Finally, we will suggest the implications of this study for managers and future research.

The Theoretical Framework: Classic Growing Pains

Based upon our experience in working with a wide variety of organizations, we have identified ten classic symptoms of organizational growing pains (Flamholtz, 1995) and Flamholtz and Randle (2000). These growing pains, which are summarized in Table 4, Appendix A and described below, were derived from observations and assessments conducted with a wide variety of organizations (different sizes and industries).

1. People feel that ‘there are not enough hours in the day’.
2. People spend too much time ‘putting out fires.’
3. People are not aware of what other people are doing.
4. People lack understanding about where the firm is headed.
5. There are too few good managers.
6. People feel that ‘I have to do it myself if I want to get it done correctly.’
7. Most people feel that ‘our meetings are a waste of time.’
8. When plans are made, there is very little follow-up, so things just don’t get done.
9. Some people feel insecure about their place in the firm.
10. The organization continues to grow in sales but not in profits.

People Feel That There Are Not Enough Hours In The Day

People feel they can work 24 hours a day, seven days a week and still not get all the required work done. When employees believe that they are being endlessly overworked morale problems can occur. People may simply decide they can no longer operate under these conditions and may leave the organization. This will result in significant turnover costs and replacement costs related to recruiting, selecting, and training new people.

People Spend Too Much Time ‘Putting Out Fires’

This means that people are faced with an almost endless series of crises or ‘fires.’ Examples of ‘putting out fires’ problems are easy to find. ‘Fires’ or crises were so prevalent at one $50 million manufacturing company in the US, that thirty-three managers began to
People Are Not Aware Of What Other People Are Doing

This creates a situation in which people and departments do whatever they want to do and say that the remaining tasks are ‘not our responsibility.’ Constant bickering between people over responsibility for things not getting done may ensue.

People Lack Understanding About Where The Firm Is Headed

Employees may complain that ‘the company has no clear direction.’ When insufficient communication is combined with rapid changes, employees may begin to feel anxious. If anxiety increases to the point where it becomes unbearable, employees may begin leaving the firm. It should be noted that turnover of this kind could be very costly to the company.

There Are Too Few Good Managers

Although the organization may have many people who hold the title of ‘manager,’ it may not have good or effective managers. Rapid growth at Apple computer led Steven Jobs to bring in ‘professional managers’ to help manage the company because it had not developed a cadre of managers as it grew. However, this led to the inevitable culture clash, and to Jobs’ resignation.

People Feel That ‘I Have To Do It Myself To Get It Done Correctly’

Increasingly, as people become frustrated by the difficulty of getting things done in an organization, they come to feel that ‘if I want to get something done correctly, I have to do it myself.’ Operating under this mindset departments become isolated from one another and teamwork becomes minimal.

Most People Feel ‘Our Meetings Are A Waste Of Time’

Unfortunately, at many companies, meetings have typically no planned agendas, and often they have no designated leader. As a consequence, the meetings become a free-for-all, tend to drag on interminably, and seldom result in decisions.

Other complaints about meetings involve lack of follow up on decisions that are made. Meetings are also ineffective if people ignore the goals that have been set or fail to monitor their progress toward these goals.

When Plans Are Made, There Is Very Little Follow-up So Things Just Don’t Get Done

Recognizing that the need for planning is greater than in the past, a CEO may introduce a planning process. People go through the motions of preparing business plans, but the things that were planned just don’t get done. In some cases, there is no follow-up because the company has not yet developed systems adequate to monitor its goals. In other cases, follow-up does not occur because personnel have not received proper training in setting, monitoring, and evaluating goals.

Some People Feel Insecure About Their Place In The Organization

Sometimes the Board has become anxious about problems facing the organization and has therefore hired a ‘heavy-weight’ manager from outside. This action may have been accompanied by the termination of one or more current managers. Employees begin to wonder whether they will be the next to get the axe. In an attempt to protect themselves, they keep their activities secret and do not ‘make waves.’ This results in isolation and a decrease in teamwork. When anxiety becomes too high, it may result in morale problems, turnover, or a very political environment.

The Organization Continues To Grow In Sales But Not In Profits

If all the other growing pains are permitted to exist, this final symptom may emerge. In some instances, sales continue to increase while profits remain flat, so that the company is succeeding in only increasing its workload. In the worst cases, sales increase while overall profits decline.

This set of classic growing pains are not only problems in and of themselves, we believe that they are symptoms of a deeper problem, and a ‘signal’ or warning that the organization needs to make a fundamental change in its infrastructure, as explained below. Although it is tempting to look at growing pains from a binary (‘yes’ or ‘no’) perspective, as we shall explain below it is more useful to view them on a continuum, i.e., the degree to which they exist in a particular organization.
Nature And Causes Of Organizational Growing Pains

Growth, though essential to organizations over the long term, creates its own set of problems: the growing pains described above. These growing pains are symptoms that something has gone wrong in the growth and development of a business enterprise. They are a symptom of organizational distress, and an early warning or leading indicator of future organizational difficulties, including financial difficulties.

We believe that growing pains indicate that the ‘infrastructure’ of an enterprise (i.e., the internal operational and management systems it needs at a given stage of growth) has not kept up with its size, as measured by its revenues. For example, a business with $200 million (US) in revenues may only have an infrastructure to support the operations of a firm with $50 million in revenues, or one-fourth its size. This type of situation typically occurs after a period of growth, sometimes quite rapid growth, where the infrastructure has not been changed to adjust to the new size and complexity of the organization. The result, as shown in Figure 1, is an ‘organizational development gap,’ (that is, a gap between the organization’s actual infrastructure and that required at its current size or stage of development) which produces the growing pains.

As a rule of thumb, whenever an organization doubles in size (as measured by its revenues), it is essentially a different company and requires a new infrastructure to support its operations. If the infrastructure has not been adjusted to reflect the increased size a variety of classic growing pains will be experienced.

Growing pains can and do occur in organizations of all sizes, including the largest industrial enterprises. However, they are most characteristic of early stage entrepreneurial companies, even in those organizations where revenues exceed $1 billion. Although growing pains are the result of organizational success (i.e., successful development of a market and product), they can lead to great difficulties and even foreshadow failure. For example, Osborne Computers, a pioneer in the portable ‘personal’ (micro) computers business, achieved $100 million in revenues after being in business for only two years, but went into bankruptcy in year three!

Measuring Growing Pains

What happened to Osborne Computers is not an isolated incident; rather, it is a predictable, classic reaction to ‘hyper growth.’ It would have been useful to Osborne to have had a tool to measure their growing pains and to also have had some benchmarks of ‘safe’ and ‘unsafe’ growing pains.

We have developed a technique for measuring growing pains and the degree of organizational distress they represent (see Appendix A). This technique involves using a Likert scale to measure the extent to which people perceive that the ten classic growing pains exist in their enterprise or business unit. This enables us to measure the growing pains on a continuum, i.e., the degree to which they exist in a particular organization.

Growing Pains and Financial Performance

Based upon our experience in working with organizations, we have long believed that organizational
The current paper reports the results of a test of the hypothesized relationship between 'organizational growing pains' and corporate financial performance. Another question of interest in this study is: are there benchmark levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable? The hypothesized relationship between growing pains and performance in previous literature has been conceptual in nature; in contrast, this study presents some very specific 'benchmarks' for growing pains in relation to successful organizational financial performance.

An analysis of the relationship between specific growing pains scores and financial performance was also conducted to determine benchmark levels of 'safe' versus 'unsafe' growing pains. The results suggest that there appears to be a maximum level of growing pains beyond which organizational financial health is at risk.

**Research Site Description: 'Banner Corporation'.** The company (for which we shall use the pseudonym, 'Banner Corporation') is a U.S.-based, medium-sized industrial enterprise. Banner represents the classic 'old economy.' The company is a parts manufacturer for industrial, truck and other automotive businesses. It is a supplier of parts for such companies as Ford Motor Company, Navistar, and Dana Corporation.

**Reasons for the Study.** The company was formed primarily through acquisitions in a classic 'roll up' strategy, a strategy of industry consolidation through acquisitions. It consisted of several different 'divisions,' each of which had been stand alone entrepreneurial companies, with revenues ranging from about $25 million annually to about $100 million. Altogether, the divisions totaled about $800 million in annual revenue at the time of this study. These divisions consisted of a set of reasonably related technologies, such as foundries and forges. The foundries ranged from processing capacity for 'grey iron' to 'ductile iron' to 'lost foam' to other similar technologies. The nature of the business of such entities is 'job order manufacturing.'

The similarities between the divisions present a relatively unique opportunity for comparison. The company had been formed from a set of stand-alone companies. Each of the individual companies, or 'divisions,' as they were termed, operated in various parts of the United States.

The company was engaged in making a fundamental change in corporate strategy. Specifically, the 'old' strategy had been to consolidate a fragmented industry and allow the individual companies (divisions) to operate autonomously, with a few corporate policies and systems. The 'new' strategy was to leverage the company’s critical mass and use its combined resources to serve large clients, such as Ford, Navistar, Dana, etc. This required a cooperative effort among the divisions of sales and order fulfillment.

**Research Question and Methodology.** The primary research question this article addresses is: Is there a predictive relationship between the degree of organizational growing pains (as measured above) and the financial performance of an organization?

The following hypothesis was used to assess this:

**H1:** The lower the growing pains of an organization, the higher its financial performance and *vice versa.*

Organizational growing pains are like cholesterol: with respect to human health, lower cholesterol is better than higher cholesterol. Similarly, with respect to organizational health and success, lower growing pains are better than higher growing pains.

*Related Research Question.* Another question of interest in this study is: are there threshold levels of growing pains which might be used to predict which organizations will be profitable versus those which are likely to be unprofitable?

**Research Strategy.** This section describes the methodology for the research. This study was part of an overall program of strategic organizational development at Banner Corporation. Since the company had grown rapidly through acquisitions, it had experienced a great many growing pains. One of the first
steps in the program of strategic organizational development was to conduct an organizational assessment. This involved a combination of interviews as well as the administration of an ‘organizational growing pains questionnaire’ (see Table 4, Appendix A).

Measurement of Variables. Data on the financial performance of the divisions was available as part of the normal accounting process, and was the measure used to evaluate divisional performance. In this study, financial performance was measured as ‘EBIT,’ or ‘earnings before interest and taxes,’ as a percentage of revenues (% EBIT). ‘Growing Pains’ were measured by means of the organizational growing pains questionnaire (see Table 4, Appendix A). The questionnaire lists ten classic symptoms of ‘Organizational Growing Pains.’ Each division’s growing pains was measured by the growing pains questionnaire. The questionnaire was administered to a total of 149 people across all of the company’s divisions. All respondents were managers.

This score and measures of financial performance (‘EBIT’) were used in a regression analysis to test the predictive validity of the hypothesized relationship.

Findings

As discussed below, the results of the analysis suggest that there is a (very strong) statistically significant relationship between growing pains and financial performance. The results also suggest that there appears to be a maximum level of growing pains beyond which organizational financial health is at risk.

Growing Pains and % EBIT. The growing pains scores and the related % EBIT for 15 divisions are shown in Table 1. By inspecting this table we can see that the divisions with the lowest growing pains scores tend to have the highest EBIT numbers. This suggests that there is an inverse relationship between growing pains and EBIT. Stated differently, the lower the growing pains the higher the EBIT, and vice versa. The relationship or correlation between these two sets of variables (growing pains and % EBIT) is shown graphically in Figure 2 (Flamholtz and Randle, 2000).

To study whether there is a statistically valid predictive relationship between growing pains and EBIT, we calculated a regression equation based upon these two variables. The results of this statistical test indicate that there is a statistically significant relationship between growing pains as a predictor of EBIT. The data suggest that approximately 49 per cent of EBIT is explained by the organizational growing pains. This relationship is significant at the 0.0035 level, a very high level of statistical significance. This means that growing pains are a predictor of financial performance or the ‘bottom line’ (EBIT).

Growing Pains and Levels of Profitability. An analysis of the relationship between specific growing pains scores and financial performance was also conducted to determine benchmark levels of ‘safe’ versus ‘unsafe’ growing pains. The results suggest that there appears to be a maximum level of growing pains beyond which organizational financial health is at risk.

As seen in Table 1, all of the divisions (1–9) with growing pains scores less than 28 are profitable. However, for those divisions with growing pains greater than 28 (divisions 10–15), 50 per cent are profitable and 50 per cent are unprofitable (negative EBIT). This suggests that there is a ‘maximum healthy growing pains score’ to provide the highest probability of success, and confirms that there do appear to be threshold levels of growing pains which might

<table>
<thead>
<tr>
<th>Table 1 Growing Pains and % EBIT*</th>
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<tbody>
<tr>
<td>Division</td>
<td>Growing Pains</td>
<td>% EBIT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Score</td>
<td>Rank</td>
<td>Score</td>
<td>Rank</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>16.88</td>
<td>1</td>
<td>15.23</td>
<td>1</td>
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<tr>
<td>2</td>
<td>18.50</td>
<td>2</td>
<td>10.22</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>20.00</td>
<td>3</td>
<td>7.25</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>20.38</td>
<td>4</td>
<td>14.31</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>21.86</td>
<td>5</td>
<td>11.89</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>22.50</td>
<td>6</td>
<td>8.47</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>24.00</td>
<td>7</td>
<td>6.24</td>
<td>8</td>
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<tr>
<td>8</td>
<td>25.38</td>
<td>8</td>
<td>2.41</td>
<td>11</td>
</tr>
<tr>
<td>9</td>
<td>27.90</td>
<td>9</td>
<td>3.11</td>
<td>10</td>
</tr>
<tr>
<td>10</td>
<td>28.12</td>
<td>10</td>
<td>−11.17</td>
<td>15</td>
</tr>
<tr>
<td>11</td>
<td>28.60</td>
<td>11</td>
<td>11.13</td>
<td>4</td>
</tr>
<tr>
<td>12</td>
<td>31.91</td>
<td>12</td>
<td>−1.77</td>
<td>13</td>
</tr>
<tr>
<td>13</td>
<td>32.02</td>
<td>13</td>
<td>4.25</td>
<td>9</td>
</tr>
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<td>14</td>
<td>33.00</td>
<td>14</td>
<td>0.87</td>
<td>12</td>
</tr>
<tr>
<td>15</td>
<td>34.43</td>
<td>15</td>
<td>−2.24</td>
<td>14</td>
</tr>
</tbody>
</table>

*EBIT is measured as a % of revenues for each division.
Figure 2  EBIT vs Growing Pains.

\[ y = -0.8857 \times 28.107, \quad F = 12.68, \quad p = 0.0035, \quad R^2 = 0.50, \quad \text{adj}R^2 = 0.54. \]

Table 2  Average Growing Pains Score Versus Average % EBIT for Two Sets of Divisions

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Growing Pains Score</th>
<th>%EBIT</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
<td>Range</td>
</tr>
<tr>
<td>1–9</td>
<td>21.93</td>
<td>16.88–27.90</td>
</tr>
<tr>
<td>10–15</td>
<td>31.35</td>
<td>28.12–34.43</td>
</tr>
</tbody>
</table>

be used to predict which organizations will be profitable versus those which are likely to be unprofitable.

This is also shown in summary form in Table 2, which presents the average growing pains and related average %EBIT for the two sets of divisions (1–9 and 10–15). Upon inspection, we can see that there is a clear difference between the average % EBIT for the two sets of divisions.

Another way to look at the relationship between the level of growing pains and EBIT is presented in Table 3. Using a ‘2×2 table’ growing pains scores are categorized as either ‘low’ (less than 27.90) or ‘high’ (greater than 28.12), and EBIT is categorized as either ‘positive’ or ‘negative’. Table 3 shows the distribution of these 15 divisions in this way.

Based upon these observations, we ran a series of statistical exercises to test for significance and to derive theoretical values of benchmark levels of ‘safe’ versus ‘unsafe’ growing pains. To test for the statistical significance of the relationship between growing pains score and EBIT, we ran a t-test and a threshold calculation by the regression equation. First, to test for significant differences between the average growing pains score between division 1–9 and division 10–15, we ran a t-test for equality of means. The result is: \( t = -5.725 \) (\( df = 13, \quad P = 0.0035 \)). This means that division 1–9 has a statistically significant lower average growing pains score than division 10–15.

Second, we ran a t-test for equality of means for EBIT in these two groups. The results is: \( t = 2.806 \) (\( df = 13, \quad P = 0.015 \)). This means that division 1–9 has

Table 3  Relation Between Growing Pains (Low/High) and EBIT% (Positive/Negative)

<table>
<thead>
<tr>
<th>Growing Pains Score</th>
<th>EBIT</th>
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<tbody>
<tr>
<td></td>
<td>Negative</td>
<td>Positive</td>
</tr>
<tr>
<td>Low</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>High</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>
a statistically significant higher average EBIT than divisions 10–15.

Then we used the regression equation derived between EBIT and growing pains score: EBIT = −0.8857 × Growing Pains Score + 28.107. Statistically, we let EBIT equal zero to calculate the threshold level of growing pains score. The value turned out to be 31.73. In other words, given a population of firms with continuous Growing Pains Scores, any firm with a score less than 31.73 will yield a positive EBIT (being profitable), while any firm with a score more than 31.73 will yield a negative EBIT (being unprofitable).

Thus although the actual data set shows that the threshold for safe growing pains is 28, these tests indicate that the true theoretical value for safe growing pains is 32. This means that to optimize the chances of being profitable an organization needs to keep its growing pains score less than 32.

Conclusions, Implications, And Future Research

The data derived from this study provide empirical support for the notion that growing pains have an impact on financial performance, and that there are threshold levels of growing pains that are 'unsafe' or 'unhealthy' for future financial performance. Each division's growing pains was measured by a questionnaire (Table 4, Appendix A). This score and these measures of financial performance (EBIT) were used in a regression analysis to test the predictive validity of the hypothesized relationship. The results of the analysis suggest that there is a statistically significant relationship between growing pains and financial performance. The results also suggest that there appears to be a maximum level of growing pains beyond which organizational financial health is at risk. Specifically, the maximum 'healthy' level of growing pains appears to be 32. This means that to optimize the chances of being profitable an organization ought to keep its growing pains score less than 32. In terms of the color-coding scheme used with the growing pains questionnaire (Table 4, Appendix A), this is at the beginning level of the 'orange' zone\(^6\) (the zones are: green, yellow, orange, red, and purple). These findings have significant implications for management theory and practice.

Implications For Management, Boards, And Auditors

Given these findings, it appears that growing pains can be used as leading indicators of future financial performance. The U.S. Federal Reserve monitors leading indicators of economic activity to predict the direction of GNP and inflation. Similarly, growing pains might be used as leading indicators of future changes in organizational financial performance. In addition, our findings concerning the maximum level of growing pains in relation to the levels of profitability are, at a minimum, suggestive of the need to control or at least minimize growing pains.

Our findings also have implications for Boards of Directors and external auditors. Recent experiences in the US, with Enron, Waste Management, and other publicly traded enterprises suggest the need for improved methods of control (Flamholtz, 1996; Nilsson and Olve, 2001). There are complex issues involving the balance of power among management, Boards, and auditors not only in the US, but throughout Europe and Asia as well (Hooghiemstra and Van Manen, 2002). What is required are tools that can help identify potential problems before they occur.

Since growing pains can be measured and we have shown that they are clearly linked to financial performance, it would be useful to report growing pains to the Board. This would be done on a comparative basis across time. Independent auditors might also find this information useful as a signal to look for organizational problems.

Managing Growing Pains

What should an organization do to minimize or avoid the problems associated with growing pains? Most entrepreneurs are concerned with the risk of failure if revenues are insufficient to cover expenses. However, many ignore the equally damaging risks of choking on their own rapid growth. To avoid the problems accompanying hyper-growth, a company must have an infrastructure that will absorb that growth. If a company anticipates rapid growth, then management must invest in building the required infrastructure before it is actually necessary. It is very difficult, and sometimes impossible, to 'play catch-up' with organizational infrastructure.

Some companies, such as Starbucks Coffee, Compaq Computer, and PacifiCare had a strategy of having
their infrastructure in place prior to their explosive growth and reaped the benefits of this investment. In contrast, Boston Markets, Osborne Computers, and MaxiCare, did not have their infrastructure in place prior to explosive growth and all three have experienced bankruptcy.

Thus the ideal strategy for a firm that anticipates rapid growth is to build an infrastructure sufficient for the size of the organization it anticipates becoming prior to actually reaching that size.

This strategy of building the infrastructure prior to growth is not merely appropriate for large companies, but for relatively small entrepreneurships as well. For example, several years ago, one of the authors met with the president of a US service firm specializing in insurance-based benefit programs for executives when the firm had approximately $3 million in annual revenues. At that time, the authors of this article advised the CEO that it was probably premature to build the infrastructure to the extent that was being contemplated. However, the CEO indicated that he wanted his firm to grow to $50 million in revenue within five years. He then proceeded to invest in building the infrastructure of his company before it was actually necessary. This was a wise move, because the company actually grew to more than $65 million in revenue within five years.

Future Research

From an academic perspective, the results reported here are preliminary but promising. It would be valuable for future research to replicate the current study, not only in a North American environment but in Europe and Asia as well. However, this will require a research site comparable to Banner Corporation, which offers the benefits of a set of comparable business units. This is not easy to find in practice.

Conclusion

This article has examined the relationship between growing pains and financial performance. It has identified the most common organizational growing pains. It has also presented a method for assessing the extent to which a company suffers from these growing pains. The company’s score on the Organizational Growing Pains Questionnaire can suggest both the extent of its problems and specific needs for action. It has provided information on the levels of organizational growing pains that differentiate profitable from unprofitable enterprises. Finally, it has also examined the relationship between growing pains and financial performance, and shown that there is a statistically significant predictive relationship. The results have significant implications for managerial theory and practice.

Variations exist here, but it is clear that organizations of all sizes and types experience some growing pains.

Severity of these problems can be affected by the rate of growth experienced by the organization. Managers of rapidly growing companies of any size or type must learn to recognize organizational growing pains and take steps to alleviate them so that their organizations can continue to operate successfully. The payoff will be reduced growing pains and an increased likelihood of a positive ‘bottom line.’

Acknowledgements

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Appendix A

Measuring Organizational Growing Pains:

To assist in measuring the extent of the growing pains in entrepreneurial companies, a questionnaire has been developed (Table 4, Appendix A) from work with a wide variety of entrepreneurial companies with annual sales revenues ranging from less than $1 million to over $1 billion. By placing check marks in the columns ranging from ‘To a Very Great Extent’ to ‘To a Very Slight Extent,’ the respondent can measure the extent to which he or she feels each of the ten growing pains characterize his or her company.

Score Interpretation:

Scores ranging from 10 to 14 are color-coded ‘green,’ representing a fairly healthy organization. It suggests that everything is functioning satisfactorily for the organization at its current stage of development.

A score ranging from 15 to 19 corresponds to the color ‘yellow,’ signifying that there are some things to watch. The organization is basically healthy, but there are some areas that may need attention.

A score ranging from 20 to 29 is color-coded ‘orange,’ indicating that some organizational problems require attention. They may not be serious yet, but corrective action should be taken.

Scores ranging from 30 to 39 are color-coded ‘red,’ indicating that some very significant problems exist within the organization. Immediate corrective action is required. A ‘purple’ score with numbers ranging between 40 and 50 indicates a dangerous, perhaps deadly situation. The organization is in distress and may be on the verge of collapse. There may not be enough time to save it.
Table 4 Appendix A: Growing Pains Questionnaire

<table>
<thead>
<tr>
<th>Growing Pains</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. People feel that there are not enough hours in the day</td>
<td>To a Very Great Extent</td>
<td>To a Great Extent</td>
<td>To Some Extent</td>
<td>To a Slight Extent</td>
<td>To a Very Slight Extent</td>
</tr>
<tr>
<td>2. People are spending too much time ‘putting out fires.’</td>
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<td>3. Many people are not aware of what others are doing.</td>
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<td>4. People lack understanding of where the firm is heading.</td>
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<td>5. There are too few good managers.</td>
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<tr>
<td>6. Everybody feels ‘I have to do it myself if I want to get it done correctly.’</td>
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<tr>
<td>7. Most people feel our meetings are a waste of time.</td>
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<tr>
<td>8. When plans are made, there is very little follow-up and things just don’t get done</td>
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<td>9. Some people feel insecure about their place in the firm.</td>
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<tr>
<td>10. The firm has continued to grow in sales but not in profits.</td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

A score higher than 20 may very well signal that the firm has reached a new stage in its development and must make major, qualitative changes.

Notes
1. The regression equation is: \[ y = -0.8857x + 28.107. \] \[ R^2 = 0.4936, \] and is statistically significant at 0.0035.
2. This is consistent with what we have been telling our consulting clients for some years: that, based on our experience, growing pains should not exceed the lower orange zone, or else an organization can be at risk. Now there is statistical confirmation of this observation.

References


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