Mapping the Startup to Maturity Path

Alan S. Gutterman

It is generally believed that companies go through several identifiable stages of growth, each of which has its own set of "typical" business characteristics and accompanying management issues and problems. Entrepreneurs have described the evolution of a startup as a vertical learning curve, a journey that seems like a never-ending conveyor belt of challenges and a series of steep walls that have to be conquered. Drew Houston, one of the founders of Dropbox CEO explained: “You have to adopt a mindset that says, ‘Okay, in three months, I’ll need to know all this stuff, and then in six months there’s going to be a whole other set of things to know — again in a year, in five years. ‘The tools will change, the knowledge will change and the worries will change.’”

While a single model of growth and development certainly cannot explain or predict everything for the management of a particular firm, it can be useful in providing them with a sense of where the company stands and the challenges that are likely to require their immediate attention and in the foreseeable future. Armed with that information, management can make intelligent choices about acquiring the necessary resources for the business, establishing priorities for work activities, and designing and managing the organizational structure of the firm.

There is no single theory regarding the stages of development of a business that is universally accepted and there is real controversy as to whether or not firms really do need to go through a single, predictable path as they grow and mature. Various factors, notably significant advantages in communications technology and rising standards of living in foreign markets, have pushed young businesses into global markets soon after formation and created challenges for their managers that were traditionally deferred until the firm had gone through an extended period of domestic growth and expansion. Companies are also becoming involved in acquisitions and strategic alliances with outside business partners before they have had an opportunity to fully build and stabilize their own internal business infrastructure. As a result, management may be overwhelmed by the size and scope of the human and physical assets that they need to oversee and the challenges of coordinating activities and strategic goals with new stakeholders who were not part of the original team that conceived and launched the company in the first place.

The most useful stage models are based on observations of a number of actual companies that have undergone business and organizational maturation as they moved from a group of founders to an established firm. This facilitates identification of patterns of challenges, mistakes and timing and also increases the knowledge base that founders can tap into to anticipate what is ahead and borrow from successful solutions of others. Preferred characteristics of these companies would include high growth driven by

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1 How to Win as a First-Time Founder: A Drew Houston Manifesto (First Round Review), http://firstround.com/review/How-to-Win-as-a-First-Time-Founder-a-Drew-Houston-Manifesto/

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technology-based products and/or services and active involvement from professional investors, such as venture capitalists, fairly early in the evolution. Some of these companies literally explode, doubling in size in less than a year, and quickly find themselves with access to significant amounts of investment capital and considering forays into widely dispersed markets at home and in foreign countries.

One model for the development of an emerging company is based on the five stages of development: concept; formation and organization; crisis and survival; initial growth; expansion; and mature and sustainable. For those who find it difficult to think of an emerging company as “mature,” simply apply that description to a specific product line or business unit within a larger firm that is hopefully continuously growing, expanding and integrating new products, technologies and markets that must themselves go through their own formative growing pains and challenges before they become an integral and permanent part of the company’s business. Another stage model suggested by Laughlin relied on the size of the organization, as measured by the number of employees, to distinguish different steps along the evolutionary path:

- Early: Under 15 employees
- Momentum: 15-30 employees
- Expansion: 30-50 employees
- Growth: 50-75 employees
- Scale: 75-150 employees
- Dunbar: 150+ employees

Laughlin argued that organizational size was a strong predictor of the then-current challenges confronting the startup, even if there were differences among similarly sized companies with respect to other key business and operational characteristics such as revenue, amount of capital raised, type of company, size of audience and product maturity. Her growth stages model included insights on where companies “should be” at each point in terms of what they already accomplished, the issues and problems in front of them at that time and the new questions that were awaiting them on the other side of the wall when they arrived at the next stage. She pointed out that knowing what is likely to come next is an invaluable planning tool, explaining that if a company already had 15 employees and reasonably anticipated the need to add at least 30 more over the next six months it was time to start thinking about hiring an office manager or an experience human resources person and identifying and testing more advanced payroll and insurance tools.

While every business is different, there are certain common streams that can be identified and used to prepare for change and identify the resources that will be needed in order for companies to be successful as they mature. Each of the stages has its own key business characteristics—immediate business objectives, predominant management style, organizational structure, and the state of the company’s product and market activities—

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and comes with its own set of typical managerial challenges in areas such as resource management, sales and marketing, and communications and cooperation within the organization. For example, in Laughlin’s model each stage has one or two core areas of concern and focus: hiring and operations in the momentum stage; analytics and infrastructure in the expansion stage; management and retention in the growth stage; executive team and profitability in the scale stage; and expansion and leadership in the Dunbar stage. In addition, as companies go through the stages of the startup cycle they must continuously be prepared to engage with different financing sources and deploy different strategies for market penetration, business development, retaining market share and efficient operational activities. While each stage has its own challenges, companies must continue to monitor the solutions to challenges from previous stages. Even more complexity comes from realizing that strategies that were successful before may not be sufficient during another stage, which means that the founders will be continuously adjusting their business and operational plans.

The sections that follow discuss a number of issues that arise as companies move along a continuum that begins with concept identification and initial development, with a team limited to a handful of founders, and moves forward through progressively larger sizes as measured by number of employees. The comments and observations of Laughlin have been incorporated into the discussion; however, the experiences of the author have also been included based on decades of working with emerging companies. Of course, the commentary below can and should be supplemented by reference to the empirical work relating to growth stage models discussed elsewhere in this publication.

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**Forget the Stages: Basecamp Founders on Building a Sustainable Business**

While the growth path for an emerging company is the central focus of the discussion in the text, growth for its own sake is not necessarily universally accepted as the appropriate strategy for entrepreneurs, particularly those people who are interested in and committed to building a sustainable business that endures on its own without the need or desire to be sold to others. The founders of Basecamp, which developed and distributed one of the most popular web applications for project management and team collaboration, have become evangelists for considering sometimes radical alternatives to the typical startup strategy of continuously pushing for growth through long hours and constant fundraising from outside investors. In a series of best-selling books, including *REWORK* and *It Doesn’t Have to Be Crazy at Work* (see basecamp.com/books), Basecamp has preached a gospel of principles that fly in the face of what entrepreneurs leading emerging companies think needs to be done in order to achieve success:

- You don’t need an exit strategy, what you need is a commitment strategy. Many emerging companies plan on an exit via acquisition from the very beginning, and make decisions along the way based on that goal; however, the reality is that only a small number of startups ever reach the point where they can harvest sufficient value by selling themselves to an outside party. Focusing on exiting distracts from servicing customers and building long-term relationships.
- Eschew the anxiety to become the next “hot thing” and instead focus on creating and maintaining products and services with features that are simple, eloquent and timeless, capable of supporting a sustainable business that will extend for decades and not just the short lifecycle of a venture capitalist’s payback period.
- Commit to the “long slow run” and define success by the personal satisfaction associated with creating a legacy of offering useful solutions to the problems of many people (i.e., your customers) and
providing employees with a purposeful and meaningful career and opportunities to contribute and experience their own growth and development.

- Be wary of innovation for its own sake and remember that customers don’t necessarily require something new and novel but instead will insist that a product or service be useful, provide value and be delivered in a manner that meets the highest standards of quality. While one of the overriding purposes of the company might be to “change the world” over the longer term, that doesn’t mean that everything needs to be a breakthrough. Instead, strive to be useful to customers to the point where they will not be interested in or intrigued by upstarts offering alternative solutions.

- Practice “lean management” including not hiring until it hurts, thereby deliberately putting a brake on the push to achieve size, and avoiding outside financing (and the corresponding loss of control) until all bootstrapping alternatives have been exhausted.

- When designing and re-designing products and services, companies should think small and focus on doing a great job on the things that customers really care. Don’t assume that more features make a better product and encourage designers to ruthlessly cut whatever is not truly essential to delivering the experience that customers are expecting and demanding.

- Even when there are no apparent constraints on resources for a project, impose them anyhow by asking questions that limit the set of available options (e.g., do we really need a budget or a certain size and/or a schedule of a specified length to achieve the objective that will satisfy customers?).

The Bootcamp founders are ruthless in their search for productivity killers that can be eliminated, with a special appetite for eliminating needless meetings and other interruptions that take people out of the flow they need in order to be the most creative and efficient in their work. Another recommendation that can knock entrepreneurs off of a mindless pursuit of the next stage in the growth models discussed in the text is regularly stopping to assess where everyone, and the company as a whole, is at the present moment. Simple questions that should be asked everyday include why are we working on this, what is it for, what problem will it solve, who will benefit from the solution and will they realize it, what could we be doing instead and, most critically, is it time to quit (which means facing down and letting go of “sunk costs”).

Finally, the Bootstrap founders would likely be aghast at relying on a stages model that has startup and concept stages: they call for entrepreneurs to abandon the “startup” label and act like a real business from the very beginning, which means not using “well, we’re just a startup” as an excuse for not getting paying customers, generating revenues and making payroll. In other words, entrepreneurs must never stop worrying about the bottom line, which can be easy to do when investors have thrown in a lot of money and the pace of new hires and other projects becomes dizzying and out of control.

A good summary of the ideas discussed above was prepared by Elitsa Dermendzhiyska in her March 28, 2019 post on Medium.com titled “How Basecamp Built a $100 Billion Business by Doing Less on Purpose”. See https://medium.com/the-mission/how-basecamp-built-a-100-billion-business-by-doing-less-on-purpose-5f978ce6478c

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**Concept Stage**

Laughlin’s model starts with a company that has at least five employees; however, many important decisions and activities occur even earlier during what is referred to as the concept, development or seed stage. This first stage in the growth and evolution usually occurs well before the company, as a formal legal body, is formed and ready for recognition in the marketplace. The company begins with an idea identified by a founder or group of founders and this idea becomes the basis for developing and refining a plausible business concept—how the idea can be converted into a business and what they business will do to bring value to all interested stakeholders. Accordingly, it is not surprising that this initial early period of contemplation and organization is referred to as the “concept stage.”
At this initial stage, the main asset of the fledgling business is essentially an “idea” and the challenge and primary focus at this point should be to subject the idea to rigorous testing using techniques such as the “lean startup” and “customer development”. Formal industry and market research is important, as is soliciting feedback from colleagues and specialists; however, there should be no substitute for direct interactions with potential customers in order to validate the original idea or pivot to something new that itself can be tested. The goal at this point is to determine whether a viable business model can be identified and fleshed out in detail as a condition for deciding whether it is worth it to continue forward with pursuit of a full-blown launch of a new company. The business model should address a number of issues and topics including the existence of a market, initial customer satisfaction and demand, organizational structure and financing requirements. At some point during this stage, the company will develop an initial product to the point where it can be marketed and, hopefully, sold to paying customers. While this process can generate revenues for the fledgling business, just as important is the opportunity to assess market demand and elicit feedback from the initial customers that can be used for learning purposes and adjust the company’s business model so that it is better aligned with customer expectations.

The most common and basic characteristics of the business during the concept stage can be summarized as follows:

- The founders will be heavily involved with the overall goals and objectives for the company including clarifying and articulating their vision and mission statement, identifying and defining market requirements, selecting those niches within the identified markets that present the best initial opportunities for the company, designing and cultivating a brand and overall company image, and creating a plan for designing and building a sustainable platform that can be expanded in the future to include new products, services and markets.
- The organizational structure will be informal, often “virtual”, since the founders may still be involved in projects for their current employers. Lacking significant financial resources in many cases the founders may need to rely on outside parties to provide administrative assistance such as office or laboratory space.
- Since it is unlikely that professional management, apart from any experience that area that the founders might have, will be involved at this point the predominant management style will remain “entrepreneurial” and the founders will be involved in every aspect of the polishing up the rough initial concept.
- Specific activities with respect to products and markets should be focused on identifying, understanding and validating the needs for actual customers and determining what product or service characteristics will be perceived as being the most valuable. For example, the founders need to determine whether customers are looking for greater convenience or whether they are most interested in things such as price, variety, customer service or durability. Once this information is collected the founders need to gauge how those “desires” can be accommodated in the product or service design process.
In general, the concept stage is the time for “bootstrap” financing provided by the founders, their friends and relatives, and perhaps a supplier or customer with an interest in seeing the nascent product or service reach the commercialization stage. As such, expenditures need to be tightly regulated and focused and this means focusing on R&D or licensing to procure the necessary technology and design and development of the initial products, services and applications.

By definition a concept is vague and lacks definition and many would-be entrepreneurs may give up when confronted with all of the unstructured tasks that seem to pop up during the concept stage. This is the time to take a quiet weekend and sit down and list out all of the things about the new great idea that may have come into the minds of the founders. Only then can everyone bring refreshed and cleared heads to the task and determine the most valuable use of the next moment in time.

As for the management-related issues at this stage, most of them are directly related to either the lack of a completed prototype for the product or service that the company will be marketing and selling or the lack of financial resources and other important assets. First of all, this is the time when cash is almost always extremely tight unless one or more of the founders has a deep reservoir of capital that can be used to hire personnel, lease an office and buy or lease equipment. The founders will be watching every outlay of cash carefully and will literally be “managing by checkbook.” Preliminary inquiries may be made within angel investor networks and the founders may sometimes be distracted by the need to focus on a mini-business plan or at least a short ten minute explanation of what they propose to do and why an investor should be interested. If investors show a serious interest the founders must attempt to place a “value” on their concept, often extremely difficult or impossible at such an early stage, in order to determine how much equity should be surrendered to outside investors.

A second issue, directly related to the lack of capital discussed above, is creating a plan to manage the meager assets that the founders do have under their control. Actual design and development work on the new product or service will generally be done without expectation of salaries and the founders will usually earmark whatever cash is available for networking, and perhaps some travel, to spread the word about their new venture and identify prospective investors and other business partners (e.g., suppliers and customers). This type of activity should be part of the company’s initial marketing efforts; however, the founders will generally encounter difficulties at this point in time due to the fact that they have yet to establish a unique identity and brand awareness. Moreover, unless and until the founders have a prototype of the first product or service available for presentation to interested parties it is tough for the founders to establish credibility regarding any claims of unique attributes or performance characteristics. One limited, and admittedly rare, exception to all this is the situation where the founders have a recognized track record with respect to innovation and investors are willing to trust their ability to identify the “next big thing” and complete all the steps necessary to bring the promised product or service to market in a timely fashion.
A third set of issues concerns the organizational structure, or rather the lack thereof, during the concept stage. Since the form of the initial product or service remains fluid, and the relationships between the company and outsiders are also in a state of flux, the founders must constantly evaluate their business and technological environment and aggressively seek additional information and intelligence that they can immediately factor into their activities. Important decisions must be made and executed quickly, often without taking any time to lay out even the most rudimentary flow chart of next actions and responsibilities. The sense of urgency is heightened when the founders know that others may be working on new products or services that are similar or which will offer alternative solutions to the need that the founders are attempting to satisfy. Management reporting systems and other internal communications are almost totally informal and much of the interaction is “virtual” as the founders and contractors toil away in widely dispersed locations—coming together for face-to-face meetings only as needed since the company usually does not yet have its own office. Company-specific information systems, including e-mail and software applications, are rare at this point unless absolutely needed for specific design projects and the founders typically rely on what they already have available on their own PCs.

While much remains to be determined about the company’s internal organizational structure, the founders should begin addressing their formal legal structure for their business at this point. Founders commonly believe that it is not necessary for them to form a corporation or limited liability company until they have a viable prototype for their product or are otherwise ready to announce their intentions to the world; however, from the very moment that the founders begin to share their ideas and dreams their world is being filled with potential issues that should be sorted out within a formal legal structure. These include ownership and authority issues within the founder group and staking out legal rights for the business in the external environment in which the company will be operating.

Taken together, the management concerns during the concept stage are formidable and it is easy for the founders to become disoriented and lose focus on what is absolutely essential to moving the business to the next level. At this point, access to an experienced and dispassionate mentor can be an invaluable business and psychological advantage for the founders. A mentor can be used as an outlet for explaining frustrations and can assist the founders in seeing the one or two next “best actions” that must be completed. At a time when so many things appears to be necessary, the most effective approach is to concentrate attention on what truly matters at this stage: validating each of the main hypotheses of the company’s fledgling business model through direct engagement with actual potential customers. In addition, the founders should consult with an experienced startup attorney for assistance in forming and organizing a legal entity for the business and pursuing legal rights that are anticipated to be important to the ultimate success of the company (i.e., patents, trademarks, licenses etc.).

Early Stage
At the beginning of the stage, the focus is on building out an idea, as opposed to a company; however, the founders need to pay attention to developing and articulating the fundamental vision and mission for their enterprise so that they can communicate effectively with prospective team members, customers, investors and other stakeholders. Basic decisions will be made regarding the name of the company and company’s domain name and the founders will need to develop the discipline required to take their ideas from the realm of dreams to the real world of a day-to-day business. While the founders obviously hope for success, they cannot possibly anticipate the pace of growth and associated challenges which will combine in the form of excitement and chaos. Common basic characteristics of the company at this stage include focusing on producing an initial product or service and obtaining customers and cash through limited channels and market; and an informal organizational structure managed by the founders using an “entrepreneurial” management style that seeks participation by all members in order to achieve consensus decision-making; The company’s major expenditures are focused on designing and creating a prototype of the initial product or service and sources of financing include the founders and their friends and relatives, suppliers, customers, venture capitalists and government grants. The company has purchased or licensed software tools for payroll, benefits, accounting e-mail and website and mobile analytics. Social media and project management tools are still relatively rudimentary. If part of the company’s business model, the company has implemented solutions for accepting payments.

Initial marketing and selling efforts often focus on friends of the founders and parties within their networks; however, as time goes by the company will start approaching, hopefully successfully, real customers with no prior relationship with the founders. After hard work and experimentation, which often can take more than a year, the company will finally achieve some traction, have its first product on the market and attract a loyal following of initial individual customers and/or signed letters of intent with a couple of larger businesses. The successes during this stage will be satisfying; however, the pressure will mount as the business begins to grow more quickly than originally anticipated and the team is challenged to maintain momentum and continue bringing in new customers while keeping existing customers engaged. In addition, more resources will be needed in order to fulfill commitments under the alliance arrangements with bigger firms.

**Structure of Organization**

The team size is between five and 15 people and includes the founders and their close associates, all of whom have known each other for a long time and developed strong friendships, and a few new people who were attracted by the vision laid out by the founders. There are little, if any, indicators of specialization, and anyone can and does anything. To the extent that roles and responsibilities have been established, they do not necessarily match up with skill sets and few of the participants are truly experts in their current domains. In fact, most of the team members are driven by excitement about the venture and are willing to take on tasks that are completely new if necessary for the current activities.
The entire team is involved in responding to every crisis, such as a bug in software reported by a beta tester or someone completely outside the company who may have stumbled across the fledgling product or service. Engineers work on the technical aspects of the problem, marketers jump in to look at data that the engineers need for their work and the founders drop everything to help the engineers and reach out to customers to assure them that the problems are being addressed. This approach come sometimes be inefficient since it takes people away from projects that will need to be completed soon in order for the business to move forward; however, at this stage a crisis can seem, and often is, a real danger to the survival of the business and having everyone involved increases the chances of solving the problem and keeps everyone informed about events that obviously are causing stress. Working together on a crisis also helps the members of the team bond and makes it easier to share valuable information that can be used to improve processes, products and services.

Everyone in the company knows everything that is going on because everyone, other than those working from remote locations, is in close proximity. There is no need for formal information sharing systems because people can reach out to each other directly by walking across a room. Many meetings are “open” because they occur in a small area without walls and even conversations between the CEO and investors can be overheard. While the founders may be proud of the transparency, they also need to be sensitive to what other team members might think about what they overhear and this means making sure that informal communications are supplemented by regular meetings of the entire team at which the founders can provide context for a shouting match between team members or between the founders and a prospective customer or investor. In addition, as noted above, companies frequently rely on team members who work away from the main office and a real effort needs to be made to make sure those members are sufficiently connected to what is going on with the rest of the group.

Management Style

The membership of the founding team has been established. Although there is a tacit agreement among the founders as to what each of them will be doing, all of them are usually doing a lot of different things. Planning for most projects, including product development and launch, is still done using simple tools such as “sticky notes” on a bulletin board. However, while responding to a crisis is a frequent activity, the founders have also begun to formalize plans, schedules and budgets, at least by laying out milestones that the company is expected to achieve over the next three months. As the overall size of the group increases, it is important for the founders and other company leaders to make sure that there are opportunities for regular communications up and down the organizational structure including one-on-one meetings between executives and other members of the team and regular meetings involving all team members.

Human Resources
On the human resources side, the founders are struggling with several new challenges including figuring out role requirements for the next set of hires; moving beyond informal interviewing practices to adopting methods that are more efficient in sorting out qualified candidates; formalizing compensation and equity ranges for specific roles and positions; deciding on the proper balance between face-to-face interactions and working “remotely”, particularly when it comes to projects that involve multiple persons working together as a team; implementing “work-life balance” initiatives such as vacation and leave policies; and deciding what “perks” to offer to make for a better in-office experience. While the organizational chart is beginning to emerge and persons needed to oversee the most essential current activities have hopefully been identified and recruited, the team is still small enough to absorb friends and colleagues of the founders who can bring a unique angle to the business and who are interested in working in the startup environment; however, the founders need to be careful about the appearance of cronyism and bringing on members of the network who do not have the qualifications necessary to contribute to the business model.

In most cases, even the first stage of growth in the number of employees will place immediate pressures on the company with regard to space and the founders need to consider finding local co-working spaces that can handle the entire team; find real estate connections who can help the company find its next office; decide whether to have multiple offices or allow employees to work remotely if they live far away from the company’s main office; and gather the expertise needed to negotiate a lease on a new office. Housing the team can be a significant expense and the founders need to carefully consider both the near- and long-term needs of the business in order to avoid overcrowding as the company continues to grow and being locked into a location that may not be appropriate as the company moves into the later stages of development.

**Governance**

The company should be operating as a formal legal entity, such as a traditional “C” corporation or a benefit corporation, and set up a business banking account. The founders should have filled 60%, if not more, of the desired number of board seats. As the company adds independent directors, the founders need to pay more attention to the formality and scope of the information generated for board discussions and actions. At this point, the founders are working to find the best way to put together a board deck that meets the needs of outside directors and also causes the founders to pay more attention to key performance indicators.

**Professional and Business Relationships**

Founders should have a stable relationship with an attorney experienced in handling startup issues and should have a plan in place to ensure that legal documentation for founders, employees, directors, advisors and a growing group of outside stakeholders is available and addresses all relevant issues and concerns. The attorney should also be involved in legal issues associated with sales and marketing activities, particularly privacy concerns. Quality legal assistance is particularly important when the company’s
business is heavily regulated and/or the company’s intellectual property needs to be strategically protected through patent filings, complex licensing arrangements and trade secret protection programs. The founders should be developing outside resources in other areas as well. For example, marketing and public relations consultants may be used and the founders may establish relationships with local meetup organizers who will let the company demo at their next event and journalists who can write-up new features and help disseminate the information via social media and other outlets.

Management Concerns

Many of the management concerns during this stage have already been mentioned; however, a good summary would include managing cash reserves and conserving cash through prudent purchasing practices in order to avoid negative balances and delayed tax payments; managing sales expectations; upgrading accounting management systems to move beyond operating with no budgets and simply keeping a running total in the founders’ heads about expenses; establishing a customer base; establishing market presence and customer base by getting above the noise level of competitors; identifying strategies for overcoming less than expected market acceptance and avoiding potential loss of customers and vendors; looking for the best information systems and Internet solutions at the lowest cost with applications support and adequate security for the company’s data; and adding “Terms of Service” to products and services and building out the infrastructure to perform the obligations laid out in the terms.

Momentum Stage

Companies that have reached the “survival/growth” stage have successfully navigated most of the earlier challenges and emerged with a business model that is now consistently generating revenue and adding new customers. The customer revenues will hopefully be covering a significant amount of current operating expenses; however, the cost structure of the business, as well as commitment previously made to earlier funders regarding repayment, will determine whether the company is operating at a loss or has achieved or passed the cash flow breakeven point. While survival is important, it is not a stage where the company wants to remain for long. The founders and other members of the management team need to take advantage of temporary stability to assess where competition has gone since the company began and identify changes in the business, sales, marketing and operations models that will be needed in order to continue growing and eventually be successful in the expansion stage described below.

At this stage the company is focused on expanding revenues while maintaining awareness of costs. Quality consciousness is extremely important now that the company’s products are being seen and used by more and more customers beyond the initial group that may have been more willing to accept bugs in anticipation of a finished and innovative product in the near future. The founders are pleased with the progress and begin to feel that their venture will actually survive and move forward with growth; however, they need to maintain their perspective and mix enjoyment of initial success with a pragmatic and realistic view of the new challenges that need to be overcome. The CEO needs to be
actively involved in coordinate the appropriation and allocation of still relatively scarce resources and need to strike a balance between current needs and the resources that will soon be needed in the growth stages that are on the horizon.

At the beginning of the stage the company has 15 loyal team members who have demonstrated their commitment to the company and its mission through long hours and subordination of egos to do anything and everything that needed to be done; however, growth requires bringing on new people and ensuring that they are quickly integrated into the existing team with a minimum of disruption. At this point the founders need to be simultaneously focused on maintaining and refining their vision while expanding the size of the team that will be executing the vision.

This is also the point where the company begins to hire new people for senior positions in order to provide more experience in an important area than can be found among the founders. Often these persons come from large and well-established technology companies and bring with them war stories and ideas for new processes. If outside investors are involved, they may require such hires; however, the founders themselves often will reach out to former colleagues with whom they have worked because they are reasonably comfortable that they person will fit in. The challenge, of course, is that experienced people generally have high salary expectations and will want sufficient authority to implement their ideas, something that makes a clear departure from the way that things have been done previously.

As growth begins to accelerate, the CEO and other founders need to be mindful of their roles in refreshing the company’s mission, vision and values and creating and strengthening the organizational culture, since it is that culture that must persevere and remain the foundation of the company in the years to come. Whenever possible, everyone on the team should be enlisted to define the culture and shape the values of the company and its aspirations for growth. While the transition from 15 to 30 can seem overwhelming, and sometimes means parting ways with old friends, the end result should be a group of people who have joined for the right reasons and who each bring their own unique contribution to the effort.

**Structure of Organization**

The company is transitioning from a simple management structure befitting a small group to a more complex structure with an expanded management team. More managers and people can blur accountability and make it more difficult to identify who is responsible for a given activity or deliverable. As the organizational structure changes, the CEO must seek the appropriate balance between centralization and autonomy. Founders have filled 80%, if not more, of the desired number of board seats, with the latest addition being a representative of outside investors or, such a representative is already on the board, another independent person with specific experience in the industry and market in which the company will be competing.
The founders probably had some general idea of the roles they would be hiring for when the company reached this size; however, plans do not always go as expected and hiring needs should be determined by what the company has learned over the previous months of product and customer development activities. The founders need to decide how much of the staffing focus will be on engineering, sales and/or community building, depending on the activities that will be most important to push through to the next stage. Decisions about which route to take in terms of hiring may begin to influence the organizational culture (e.g., hiring more sales personnel may tilt the company toward a sales-oriented culture while bringing on more technology specialists may cause a shift toward an engineering-oriented culture).

While this is the stage where the company will be bringing on more specialized talent and begin to hand out titles such as “vice president”, it does not necessarily mean that those persons will be doing everything that the role usually entails. For example, a vice president of engineering may be responsible for overseeing a team of five to seven engineers; however, he or she will often jump in alongside the other members of the engineering group to working on specific engineering problems and projects. Similarly, a director of sales may essentially be the first among equals within the small, but rapidly growing, sales team and will spend most of his or her time contributing directly to sales efforts as opposed to managing. In other words, while the organization is becoming more specialized and leadership roles are being assigned in particular areas, the company still operates with a relatively soft managerial hierarchy.

Growth also brings decisions about how large specific teams should be. Until this point it was unlikely that more than five to seven people would be involved in a particular area, such as engineering. However, as the engineering team evolves into a “department” with nine or more members, the time has come to divide the group up into two or more smaller teams to maintain the intimacy that has been so successful up to this point and ensure that everyone working on a particular project is on the same team and thus able to communicate quickly and effectively.

One of the most important roles as the company moves from fifteen to thirty employees is the “office manager”, who will be the person with primary responsibility for making sure that everything is available in the office for the other team members to be as productive as possible. In the past, one of the founders, including the CEO, would usually drop what they were doing and go outside to get supplies and food; however, with growth those people will become too involved with product development and meeting deadlines. Bringing in an office manager ensures that the basics do not become an afterthought. The office manager will likely have other responsibilities such as serving as a temporary executive assistant, quality assurance manager, community manager or human resources coordinator; however, with continued growth the office manager position will become more focused and will eventually become a full-time proposition.

While the CEO and the other founders are likely to remain the main “communicators” to all members of the team, it is time to begin nurturing other voices so that new employees do not get the impression that the only opinions that matter are those that come from the
“old guard” or early employees. In addition, the CEO and founders need to understand that new employees may be reluctant to approach them with questions or suggestions and should make a conscious effort to be as accessible to new hires as they are to the people who have been with the company since the beginning.

The company should begin deploying different strategies for attracting talent including holding “local meetups” to bring in prospective candidates and give them a look at the company and its vision, signing on with recruiting agencies to help with “hard to find” candidates and hiring a part-time human resources/recruitment manager.

**Management Style**

During the concept and inception stages of the company’s evolution the founders were able to maintain communications with, and oversee all of the activities of the company by, “managing by walking around”. As the company grows beyond 15 employees, this entrepreneurial style is no longer practical as there are simply too many people and things that need to be tracked. At this point one of the founders, or someone outside of the original founding group, has emerged as the CEO and he or she needs to find the best balance between formality and informality in terms of management style. The CEO also needs to cope with decreasing contact with employees and customers and ensure that systems are in place to keep him or her informed and continue to provide each employee and customer with attention to their specific needs.

**Products and Markets**

Customers are using the company’s products and services, suggesting new features and asking a lot of questions about current features. The company is beginning to develop a more consistent customer base; however, the company is also beginning to realize that not everyone will be satisfied with what it has to offer and is seeing customers asking to cancel their service and/or return their products. The company is adding new customers and, just as importantly, creating loyalty among previous customers that are now coming back for repeat business. Customer growth requires more investment in customer support and community building and maintenance activities. The CEO will need to make important strategic decisions about the reach of design, sales and marketing efforts including whether to expand channels or focus on specific channels, broaden the product line and/or expand into foreign markets. Depending on the product or service, decisions must be made regarding new features and platforms (e.g., when and how should the company roll out a mobile platform).

**Major Expenditures and Sources of Financing**

During the concept and inception stages most of the available capital was invested in the design, development and refinement of the company’s initial product; however, once that product has been “completed” and is ready for introduction to the market on a broader scale the available funds need to be shifted toward customer development. Investments in human resources will also be needed, not only for sales and marketing but also for
engineering to continue improving the quality and performance of the initial product and work on new features. Depending on the type of product, the company may also need to raise capital to finance plant and equipment, inventory and receivables. Increasing size also means that investments should be made in designing and implementing management reporting systems to track progress against key performance indicators.

Working capital needs may be satisfied through banks, government grants, leasing arrangements and/or profits; however, the capital needed to accelerate growth will need to come from new financial partners including venture capitalists and institutional investors. The company does have money in the bank; however, the key question is how to fast to spend the money and where to make the investments. Assuming that capital has been raised by venture capitalists and other outside investors looking for growth, cash must be used to gain momentum and not simply to stabilize and maintain a steady state. The company should have sufficient runway to get through the entire stage, realizing that there may be ups and downs in building out a team of 30 people. The level of investor involvement in strategy discussions will vary depending on the type of investor; however, the founders should generally plan for at least quarterly meetings with major investors to go through operational performance since the last meeting and lay out goals and milestones for the next few quarters.

One key management concerns during this stage is cash and asset management. As the company pushes forward at this stage, cash flows often exceed inflows, marginal bank balances are common and the company struggles to avoid surprising lenders and investors. As revenues begin to come in from initial successes with product sales to customers, the situation improves somewhat and the business model appears to be more bankable to capital providers; however, the company is still highly leveraged and needs the CEO needs to develop and implement a sound financial and tax strategy for generating cash. With respect to asset management, the CEO needs to be mindful of the consequences of cutting prices in order to generate sales, since such a strategy can have a significant long-term adverse impact on profit margins. Another area of concern with respect to asset management is making the right choices between purchasing and leasing equipment. In businesses where inventory is a factor, the company may experience imbalances: at times there will be inventory shortages and other times inventory turnover will be slow. Additional issues with respect to asset management may include inadequate capital, which leads to reliance on expensive short-term financing; excessive increases in overhead and personnel; vintage receivables; and poor accounting management. This is the stage where the company should make arrangements for a part-time accountant or bookkeeper to set up and maintain the company’s financial books and records.

**Marketing**

More customers bring in more revenues; however, it puts intense pressure on the company to keep up with demand and preserve the good first impression it has made with customers. Repeat business is important to the startup at this stage, not only because of the revenues involved but also because it is an indicator of customer satisfaction and loyalty. The company needs to be mindful of the dangers of predatory competitors, as
well as new competitors with greater resources who become interested in the market because of the company’s initial success, and product failures that undermine customer confidence. Another concern is the impact of the additional costs associated with improving product quality and customer support and the company needs to decide how much of those costs can be passed through to the customer without dampening overall demand. As the company continues to grow, additional marketing problems may arise including an absence of market feedback, high product returns or write-offs, missed sales targets, growing backorders, illegal (i.e., “knockoffs”) or unethical competition and customer complaints. It is essential for the CEO and other senior manager to develop a strategic marketing plan. In addition, the CEO, eventually with the assistance of one or more of the new hires in the marketing and communications areas, should work to cultivate relationships with influencers and journalists who can help promote the company, its vision and its products and services. The company will begin selectively expanding its public exposure at events.

Organizational Behavior

While the growth from five to 15 employees may have seemed to go quickly, getting to 30 employees may take longer than expected because the company will begin to experience some attrition from the early hires as new faces come on board and some of the new people may turn out not to be the best fit for the company. The founders should work hard to integrate the more specialized (and often more experienced) new hires with the existing team; however, early team members may be put off by the changes and the whole process of becoming “bigger”. While the founders may be sad to see certain of the new hires leave, this sort of turnover should be anticipated and is part of the change that everyone was hoping for when the venture was first launched. While the founders value everyone’s contribution, they need people who are excited about a future that will hopefully bring even more change and growth. The founders also need set expectations among team members that some employees may leave as the company grows.

One of the great advantages of having a small team is that the CEO has an opportunity to interview each prospective candidate to join the group; however, as headcount rises from 15 to 30 it just becomes infeasible for the CEO to participate in every interview process, if for no other reason that the CEO just does not have time in his or her schedule for all the interviews and needs to give priority to maintaining a continuous schedule of one-on-one meetings with existing employees and setting aside unscheduled time to focus on whatever is needed at a particular point to lead the organization.

With more positions to fill, all of which should be filled with input from existing team members, the company needs to begin to develop a more formalized recruitment, interviewing and decision making process to ensure that the strongest candidates are identified and moved forward quickly while reducing the amount of time spent on candidates that are mediocre or otherwise turn out to be poor fits for the organization. The hiring process should be driven by a more formalized organizational chart which assigns titles to existing personnel and new hires and establishes the projected compensation, including equity, for each of the positions.
The onboarding process for new hires will also need to be adjusted and formalized given the size of the organization. At the most basic level, it is no longer feasible for everyone to go out to lunch with a new hire on his or her first day when there are 20 or more people who would need to be involved since most of the company’s favorite restaurants may not be able to accommodate that big a group. Perhaps bringing lunch in for everyone is the best solution, but onboarding at this stage is different because special efforts will need to be made to ensure that each new hire meets everyone in the company as soon as possible and has an opportunity to understand what everyone is doing, or supposed to be doing, and can begin to connect names to faces.

As the company grows the possibilities for conflicts increase, if for no other reason than the organization now houses more personalities and egos and is likely to be more diverse in terms of background, experiences and overall “worldview”. Differences in opinion can be valuable in continuing to push the company forward; however, too much conflict can become a distraction and needs to be carefully monitored. In some cases, it is necessary to let talented people go if their attitude toward change and decision making is undermining the motivation of others.

The founders should also prepare everyone for departures due to poor performance and should begin laying the foundation for more formalized performance reviews based on realistic key performance indicators for each member of the team that are clearly related to the team member’s specific role, responsibilities and skills. In general, the CEO and other founders need to have access to external advice and seek and respect internal feedback, especially input regarding shortcomings within the organization and with their management style. The CEO has to be willing to make difficult decisions about roles, authority and responsibility and avoid the emergence of the “Peter Principle”.

**Management Reporting**

The CEO needs to identify and build out key performance indicators that are aligned with the company’s vision. The CEO and other members of the founding team need to consciously work on communicating, even “over communicating”, with all team members during this critical period; however, they will need to do so in ways that take into account that the group is getting bigger and old strategies may no longer be feasible. When the company was smaller it was easy to distribute updates a full group meeting at the beginning of every day, but as the company grows it comes time to shift to a weekly “Town Hall” format where the CEO and department leaders bring everyone up to date on where the company is and what everyone is working on. It is important that these meetings be used as an opportunity to reinforce the overall vision of the company, since it is the vision that binds everyone together. Communication can also be facilitated by better use of appropriate technology tools that provide everyone with “real time” information on key performance indicators.

While good news is nice to have, everyone needs to be exposed to less than anticipated numbers and other actual or potential problems, since those are an inevitable part of the
startup process. While the CEO does not want to create too much fear and anxiety throughout the company, balanced transparency is important and avoids creating an organizational culture in which people become too stressed if a particular goal or milestone is not achieved. Disclosing and working through the problems together is all a good way to build resiliency, which will be needed in the future since the growth is just beginning for the company. Among other things, the CEO needs to be prepared to make a concerted effort to manage team morale during periods when the company’s performance is not up to the level that has been anticipated or unforeseen events, which always occur, throw the company into a crisis.

The transition to more formalized management reporting and strategizing is often one of the most difficult steps for the founders; however, crises will inevitably emerge when data is late and the lack of interim reports and feedback leads to surprise when unanticipated poor results are eventually confirmed. The CEO needs to set up internal systems that are respected and not overridden and engage in serious strategic and contingency planning beyond a simple two page budget.

**Information Systems**

Growth brings pressure to update information systems; however, the company must be careful not to move forward with a large investment without considering the needs and skills of employees and all applicable alternative solutions. Additional concerns include over-investing in the development of customized applications when an “off-the-shelf” solution would work just as well, deploying systems that are non-responsive to customers and employees, being a “guinea pig” for someone else’s untested product or service, inadequate decision support systems and the lack of an overall systems plan. One of the most important goals in the information area is to creating meaningful data dashboards that can be easily updated on at least a weekly basis in order to provide the CEO and other organizational leaders with current feedback necessary for decision making and provide the rest of the company with objective and transparent information on overall performance. At this stage, additional investments will be needed in technology-based tools for sales and customer relationship management, customer support and social media outreach.

**Management Concerns**

The CEO will continue to be considering appropriate options for locating the growing team including moving to a new larger office or subletting additional space in the same location for a few months until the company has a better idea of its long-term facilities requirements (i.e., where the headquarters should be located, whether the company will have multiple offices and how much of the team will be allowed to work remotely). An ongoing relationship with a reliable real estate broker should be established and it may be useful to seek input from a design professional to optimize usage of the company’s current space and provide ideas for configuring future offices.
Experienced startup counsel should be engaged to assist with documenting the employment relationship, including cash compensation and equity, for new hires, and in preparing terms and conditions for products and services. Counsel should also provide assistance in documents for capital raising involving outside investors and in structuring the new strategic alliances that the CEO will be considering to expand the business apart from adding new employees.

**Expansion Stage**

It generally takes companies a couple of years to enter the expansion stage; however, it is not surprising for a company to proceed quickly from 10 employees to a state where it is clear that the team will need to grow to 50 members relatively quickly. Companies that reach the expansion stage have already achieved significant success and reached important milestones and are generally perceived as being thriving businesses with an established position in their initial markets and industries. For these firms, the next step will be expanding from its core business into new markets and distribution channels in order to capitalize on the successful elements of the company’s products, services, operational processes and other proven competitive advantages. Successful expansion leads to larger market share and new revenues, each of which will bring new pressures and challenges for management that will need to be addressed through organizational changes.

While much needs to be done, the growth of the team needs to be carefully planned and the specific roles and skills of each of the contemplated new hires should be laid out in advance in order to guide the recruiting efforts. Advance planning is important since things will likely move quickly and many companies aggressively move from 30 to 50 employees in six to nine months. The leap from 30 to 50 employees is an exciting, yet sometimes unsettling, challenge that comes with a whole set of management and people issues. Companies often find that the external demands of the business—pressures from customers, competitors and investors—force this stage to move quickly, often just six months. During that time the CEO must remain calm and continuously communicate the company’s vision and mission to ensure that it is not forgotten and, in fact, becomes embedded in the minds and actions of everyone in the company. While it is more difficult to achieve and maintain personal relationships in a growing organization, every effort should be made to ensure that everyone feels that they are contributing to a shared enterprise. While it is time to put some of the tools that worked during the early days of the company away, the successes of the past that allowed the company to emerge to this point should not be forgotten and should be appreciated as reminders that the team is resilient.

The CEO and members of the board have reached a consensus on the key performance indicators that should be tracked to monitor operational and strategic activities and these KPIs are being widely disseminated throughout the organization. Tracking tools have been developed and optimized to allow everyone to assess performance in real time. Identification of KPIs facilitates selection and definition of the most important milestone that the company seeks to achieve over the next three to 12 months.
Structure of Organization

At this stage the organizational structure is getting increasingly formalized, either around products or markets, and functional groups have been formed and are being held accountable for their contributions. All of the board seats have been filled and the board activities are becoming more formalized with plans being made for creation of committees led by independent directors to oversee audit, compensation, finance and governance activities and issues. The organizational side of the business is building and maturing to the point where the CEO is no longer aware of who is responsible for every little detail of the business. While the company is installing dashboards to track activities and events, it is more difficult to pinpoint a single person who is responsible for shipping new updates, diagnosing a problem with the product or closing a sale because the organization is relying more and more on collaboration and teamwork. In fact, smaller teams within the organization are beginning to take the lead in determining the best direction for growth and investing scarce time and other resources.

Additional management layers often seem to slow down the decision making processes. The CEO and other members of the senior management team may be struggling to find the appropriate balance of centralization and delegation, generally with a tendency to seek to maintain control near the top of the organization in ways that make it difficult for people at lower levels to make quick and pragmatic operational decisions when dealing with customer and suppliers. As the company grows, functional groups also get bigger and require different leadership strategies and more people with the requisite leadership experience and the information about what they and their followers are expected to accomplish in order to effectively lead. For example, as the engineering group grows to more than nine people, it is time to split the group up into two smaller teams, each of which would have its own team leader, and create another functional leadership role, such as chief technology officer, to maintain watch over the two smaller teams. While this does create more layers of management, the new structure is necessary in order for the company to maintain momentum; however, this will only occur if the CTO and the two team leaders know what they are doing.

New managers are required because the size of the company dictates the need for new organizational structures. Contrary to traditional stage models of organizational structure, there is no single structure that will work best for every startup during this stage. Several models may be used, starting with structuring teams around features and populating each team with a designer, engineer and product manager. Another approach is to focus team formation on important key performance indicators, which means relying on cross-functional teams that bring their functional expertise together to attack challenges such as onboarding and retention. When selecting the key performance indicators in this situation, it is important to focus on those indicators that are most tightly aligned with the company’s overall vision. Many companies choose to rely on functional-based teams (i.e., engineering, design, sales etc.). The choice depends on various factors, including the skills of the people inside the company; however, everyone needs to be aware that structures will likely change once again as the company gets even
bigger, usually when the size of the organization reaches 75. Simply adding more people is not going to get the job done any quicker and the productivity that each new hire brings to the company will depend on placing that person into an organizational structure that has been designed correctly and has the appropriate leaders in place to ensure that new hires are focused on the activities that will make the strongest contribution to the value of the company.

**Management Style**

When the company reaches 30 employees and continues to grow beyond that point, it is no longer possible for the CEO to have a close and personal relationship with everyone on the team because there just isn’t enough time or opportunities for meaningful interactions. The CEO is delegating more authority to professional managers while the involvement and authority of members of the founding group is waning save for those founders who have the requisite management skills in a particular area. Large town hall meetings should be continued; however, it is difficult to get everyone into the same room at the same time. The CEO needs to build different ways to stay in touch with the various parts of the organization including regular one-on-ones with team leaders and more sophisticated technology-based communications tools. The CEO should also insist that each of his or her leaders maintain continuous contact with each of the followers through weekly one-on-one meetings, not only to be sure that the leader and follower are on the same page with regarding to what the follower should be doing but also to elicit information and feedback from the follower that can be quickly passed upward to the CEO if appropriate. As the company gets bigger and bigger, the CEO needs to remain focused on maintaining control, enthusiasm and commitment throughout the increasingly sprawling organization.

**Products and Markets**

The company’s products have evolved and often bear little resemblance to the “minimum viable product” that was being tested during the concept stage. The company’s customer base is literally exploding and is now many times larger than it was when the team had just 15 members. The company has collected a large trove of data and metrics on its products and is leveraging those capabilities for identifying new features and running A/B tests with customers. If appropriate, consideration should be given to developing new versions of products for specific markets, such as offering a product in a new language. The company is extending its geographic coverage and working on new or enhanced product lines. The company may also be looking to enter new markets and/or broaden channel capabilities and geographic and channel expansion.

Expanding existing business by moving into new markets and/or adding new products/services require significant investments of capital and recruitment of additional human resources. The initiatives will be challenging due to increasing market competition, particularly when and if competitors take note of the success that the company is achieving in a new niche and/or deploying a new technology. Growth demands aggressive volume and mix targets and the company may be struggling to
achieve those goals. The company may also experience extended periods of depressed growth and dips in market share due to competition and other environmental factors. Marketing expenses need to be related to sales targets. The company may have been slow to establish key account programs and this is the stage where more attention needs to be paid to supporting the company’s most important customers and working strategically with them to build and expand the relationship.

Sources of Financing

An important activity during this stage is securing the financing required for further growth. The most common sources of financing include capital markets, profits, joint ventures and licensing. The CEO and other senior executives will be spending more time on sophisticated fundraising activities that call for articulation of a strong overall vision for the business and the development and measurement of matching key performance indicators. While the company may have raised capital through seed and Series A round financing in the past, those offerings were usually done on the basis of limited data about past performance and educated speculation about what the near future would bring. At this stage, the company will be involved in raising its Series B or C round of financing and will have to explain historical revenues and expenses and lay out detailed metrics for future growth and performance that can survive intense scrutiny from investors. The metrics should be created with input from data, design and business teams and should not only be part of the investor presentation but should also be integrated into current operational activities so that there is alignment between weekly metrics and the pitch process to investors.

Organizational Behavior

The organization is too large for the CEO to continue to be the point person for hiring. While hiring up should remain a key goal for the CEO, particular establishing priorities for new personnel, this is the point in the evolution of the startup where their needs to be a full time human resources (“HR”) or “People” person who will be charged with setting up and leading the people-side of the business (i.e., hiring, compensation, interviewing, onboarding, reviews, feedback, training additional people leaders and resolving any issues). Companies may go outside to hire an HR manager or promote someone internally from operations; however, it is essential that this person be the 30th hire, if not earlier, and be specifically tasked with bringing on the new talent that is needed among the next 20 hires and ensuring that existing talent is maintained, challenged and presented with opportunities for growth. Many companies turn to an outside HR consultant for assistance in filling this important position.

The recruiting and hiring picture for the company is changing as the company and its products become better known and the company often finds that it is being flooded with applicants who bring talent and experience but whose skills may not be the perfect fit for what the company really needs at this point. While it is nice to have a wider pool of candidates, the company’s interview and assessment process needs to be sharpened to be sure that the most time is spent on people who have the tools that fit with the company’s
current and projected activities. Frustration may set in when it becomes clear that have a lot of interest from job seekers does not necessarily mean that it is becoming any easier to fill the available positions with qualified people. The company may set up a new hire referral bonus program to supplement the pool of uninvited resumes coming in from outside. These types of programs can be useful provided they the persons making the referrals do so with an understanding of the company’s organizational culture and the specific skills that they company needs. Needless to say, evaluation of referred candidates needs to be done with care and transparency and everyone, including the candidate and the referring person, need to understand that the process will be objective. Another thing to consider with respect to filling specialized roles is bringing in candidates from outside the country; however, this requires special recruiting expertise and assistance from legal counsel to secure the appropriate visas and other permissions for the employee to enter the country.

While the CEO can no longer lead the hiring process, he or she needs to be sure that there is a process that ensures that all the right questions are being asked and that the right people within the organization are involved in meeting with candidates for the positions that will most impact their own jobs. The HR leader needs to consult with the CEO and other interested parties to develop the bar for candidates for particular positions, thus avoiding decisions on “gut” instincts and saving time for everyone involved in the process. When setting standards, attention should be paid to how quickly the new hire can reasonably be integrated into the company, since smooth hiring and onboarding makes it easier for the company to respond efficiently and swiftly to demands from customers and other stakeholders. In effect, a smooth staffing process can actually accelerate the company’s growth surge.

This is the time to begin focusing on people leadership skills as a criterion for progressing management roles throughout the company. The best people leaders have prior experience with companies that have great management training programs and are able to instill a culture of management training into the organization. A strong management training program allows the company to promote from within and populate the organizational chart with managers who have deep experience with the company’s organizational culture as opposed to people brought in from outside the company who may have the right functional skills but have no understanding of how things work within the company.

It is important to acknowledge that while the preferred way to fill the growing number of management positions would be to promote from within the group of talented and loyal people who helped push the company forward to this stage, the reality is that not all of those people have the skills necessary to provide the level and quality of management expertise that the company needs as it continues to grow. As the company grows, questions about career progression will come up more and more. There will almost always be situations where a company “veteran” grows disenchanted about being passed over for a position and pay raise that he or she thought should be awarded to him or her based on loyalty; however, the CEO and other senior managers must be transparent about their rationale for hiring and promotion decisions. This does not mean that people should
be prevented from asking to be considered for new roles, but when they do throw their hat into the ring they need to understand that the position will be filled based on what is needed for the future and not solely on a solid record of past performance on activities that are not relevant to the newly created role. Experienced management is generally thought to be necessary for continuous startup growth; however, many companies begin to experience internal stress when the values to executives brought in from outside the company begin to clash with those that have been embedded in the organizational culture by the founders and the first employees of the company.

Once a person has been selected for a people leadership role, the company must be sure that the resources are available to help that person become the best that he or she can be at that position. This includes training and leadership role curriculums as well as individual coaching. Success at being an individual contributor early in the development of the company does not necessarily translate into becoming a competent and motivational people leader and everyone who enters a people leadership role should be mentored. If it turns out that people leadership is not the best fit, attention should be given to mapping out the person’s ongoing role as an individual contributor and how he or she can continue to grow personally and professionally as an individual contributor. Returning to the issue of career progression, it is clear from the discussion above that people want and need clarity about the projected future roles with the company, be it as one of the people leaders or as a valued individual contributor.

Management Reporting

All of the projected new hires will be important; however, this is generally the time in the evolution of the startup where the company will be focused on hiring more management level talent including a vice president of engineering, a quality assurance manager, a head of marketing and product management leaders. Specific areas of attention for the other hires will typically include HR, DevOps, engineering, sales and mobile. Knowing exactly what will be required for each of these positions is essential and can sometimes be challenging when there is little experience or point of reference among the current team (e.g., it may be difficult to determine the experience and skills associated with an “excellent” candidate for quality assurance manager).

Management Concerns

This is the point where new decisions need to be made about the balance between cash compensation and equity, since it is no longer feasible to offer every new employee 1% of the equity in the company. The preferences of the people who can provide the necessary talent will vary and a structure needs to be put in place to craft appropriate packages for each new candidate while fitting within budgetary constraints and the projected allocation of ownership for a given point of time in the future. The board should engage an outside consultant to assist with valuation issues associated with equity compensation awards (i.e., IRC Section 409A). In addition, the CEO and others should continue to build on many of the service relationships that should have been launched during earlier stages (i.e., real estate broker, architect/interior design, attorneys,
journalists, influencers etc.). Also under ongoing discussion is moving into a larger office, setting up satellite offices and/or expanding opportunities for remote work.

Other comment management concerns during this stage include potential cash management issues due to high debt service obligations from earlier leveraging that exceed cash flow; prohibitive covenants in loan and investment agreements; more customers demanding special payment terms; asset management issues may arise due to a failure to coordinate operating plans with financial conditions and lack of return on investment and capital investment analysis when making asset management decisions; no feedback and analysis of profitability and performance; ongoing failure to produce timely management reports on sales, inventory and key customer positions; lack of internal controls and a control environment; and lack of a formal disaster recovery plan.

**Growth Stage**

The company now has a stake in the ground, a firm understanding of its KPIs and a planning process that allows it to set milestones for accomplishment that extend out six, 12 and 24 months. Staying focused and “on mission” is essential for the CEO and the entire company as this stage begins. One of the biggest mistakes that companies make with respect to growth plans at this stage in their development is being too anxious to grow outward as opposed to focusing on continuing to invest in building out in the markets where the company has been successful and needs to lock down its advantage. The CEO needs to resist the urge to march into new markets without the necessary level of resources and spend time and energy on raising and deploying the capital required to build a solid business with its current customer base and other potential customers who would naturally be interested in the company’s initial product or service. All of this requires rigorous accumulation and analysis of data and finding the right people to understand the market, connect with customers and design and develop the new features that customers are actually asking about. Building market share and brand recognition in the initial market will make it easier to expand later: moving to early will lead to distraction from what is needed in the initial market and will necessarily be difficult because the company does not have the solid practices and processes in place that are needed in order to be successful in the face of different competition and market dynamics.

During this stage the company will continue its work on many of the same issues and activities that first arose during the previous stage: hiring and integrating experienced executives and managers; formalizing strategic planning processes; setting up HR processes with the help of a full-time HR manager or coordinator who is overseeing recruitment, onboarding, performance reviews and career planning for managers and employees; establishing regular communications with people throughout the organization (i.e., monthly town halls, weekly one-on-one meeting between CEO and key managers and between those managers and each of their followers, and formalized dashboard systems to widely disseminate real time information regarding progress against key performance indicators), a job that get more difficult as the company grows; and more
focus and investment in information systems to harness the increasing amounts of data being collected from a growing customer base;

For certain of the employees who have been with the company since the very beginning, this is the time to take another look at their compensation and equity arrangements in light of the passage of time and the decisions that have been made on those issues for newer employees. In some cases, the vesting period for long-standing employees may be almost finished and that means that the company will need to think about new way to motivate those employees and incentive them to remain with the company. This same group of employees may include people who are not likely to become members of the emerging management team yet still have the skills to provide important individual contributions that need to be recognized in ways other than promotion.

Product design and assessment tools are getting more sophisticated (e.g., upgrading the data infrastructure to make greater use of A/B testing that began during the prior stage and implement a formal user testing process). In addition, the company needs to have in-house specialists in key areas such as search engine optimization (“SEO”) and search engine marketing (“SEM”), traditional and digital marketing, and branding.

The CEO will continue to spend a significant amount of time on capital raising activities given that successful transition to the next stages of growth will typically requires much more outside funding than the company has used up until this point. Completing a Series B or C round of financing requires the development and defense of more metric-driven forecasts.

If the company is going to continue offer lunch to its employees, as well as other perks, some new strategies may be needed given the growing number of people involved. For example, the company needs to figure out how to feed 50 or more people at scale and may need to either partner with several vendors that specialize in those services or even bring in an in-house chef. New design and sales projects are more complex given the scale of the business and require more planning and more time to execute. The days of two week sprints must now give way to six week epics with three two week sprints.

**Structure of Organization**

Executives in the main functional areas, such as product and sales, have been hired or a recruitment push is on for those positions. These executives should be given key performance indicators (“KPIs”) for their teams that are aligned with the company’s vision; however, it is obviously important to ensure that the KPIs for one group are not inconsistent with the goals of another group such that collaboration between groups breaks down. One simple example is ensuring that directives to the engineering group to seek out lower costs design and technical solutions do not undermine the efforts of the sales and marketing groups with respect to branding and positioning the company’s products. The CEO has had the benefit of a full board for several months and is learning how best to use the members of the board as resources in their specific areas of expertise and experience. Board meetings are held on a regular basis, generally every two to three
months, and now regularly include presentations from team leaders from around the organization. Functional and market groups, as well as cross-disciplinary teams, need to be structured around specific KPIs to ensure that their efforts remain aligned with the company’s vision.

**Organizational Behavior**

Once the company reaches 50 people, and surges forward with adding 25 more within six to nine months, it is time to confront several issues relating to office location, office space, working remotely and outsourcing. With so many people, and the need to engage customers where they are, the CEO will need to take a serious look at where the company’s principal office should be located and whether it makes sense to open up one or more satellite offices, including offices in foreign countries. One of the considerations in these decisions is the desired skill set of employees and where the best talent can be found. Some companies find that they may need to allow for remote working arrangements for engineers, software developers and sales personnel. If this is the case, the HR coordinator needs to establish procedures for remote working including tools for ensuring that everyone working remotely can communicate with others in the organization and participate in meetings. If a decision is made to move to new and larger space, negotiation of lease terms is critical so that the company is paying a reasonable amount of rent for its current needs while retaining the flexibility to change arrangements over the next 12 to 24 months as the size of the team reaches 150 people and beyond. The company should have strong working relationships with one or more recruiting firms to help find hard-to-get talent in engineering, product design and management and senior level technology.

**Scale Stage**

At the company reaches this stage it will likely have achieved, or be close to, sustainable profitability, which means there is now time to focus on how best to invest operational revenue and the additional growth capital that should be available from investors. The company has identified the problem it is seeking to address and has established itself in the marketplace as having a viable solution. Revenue models have been tested and adjusted and the company has also identified the KPIs that are most important to its business. Strategic planning processes are in place and the company understands its most significant opportunities and threats and has identified and quantified milestones for the next six to 12 months.

As this stage begins the CEO and the other members of the executive team should have a firm understanding of the company’s mission and market and the primary focus during this stage should be on serving more customers faster, which means accelerating the growth process throughout the company, and doing so in a way that preserves and enhances the company’s reputation and emerging brand. The company has reached the point where it is known within its markets and expectations are being created about how the company will operate, the types of products it will create and the way in which it will relate to its customers and other stakeholders. The CEO needs to understand what these
expectations are and manage them carefully: preserving the desired aspects and changing what is not wanted. In order to manage expectations, the CEO and other leaders need to spend time with key customers, influencers inside the company, important suppliers and representatives from the communities in which the company operates. Listening should not be outsourced by the CEO, although hard empirical data on key performance indicators will be a valuable tool for verifying the impressions of the CEO.

The company is likely working on its third or fourth round of financing and the founders should be carefully considering valuation issues and how the valuation being used for current capital needs may impact the size of future rounds. At this point it is important to increase communications throughout the organization to ensure that the new folks are getting the same information and access to the executive team as the veterans who have been with the company from the very beginning. Policies and procedures relating to information technology and privacy need to be in place to ensure that valuable company data, as well as the personal information of employees, is secure and protected. This is the time to negotiate a new option pool with the investors to handle new hires and make new equity incentives available to long-time employees who may be nearing full vesting on their original share or option grants. It is also time to expand the sales team in order to capitalize on the new opportunities for revenues and dramatically expand the customer base. At this point a VP or Director of Product will be added to the leadership team.

Investments should be made in growing the infrastructure team so that the company can efficiently handle any backlog and is also prepared for the ongoing growth expected in the future. There will likely be substantial debate among various departments about the appropriate investments in new technology with people in product development, engineering, sales and marketing all wanting different tools. The back office team will need to be expanded to handle the growth and this generally means hiring a second office manager. In terms of outside resources, the company will likely want to consider management training coaches, attorneys with experience in negotiating large equity capital raises and strategic alliances, recruiters with experience in finding talented candidates for expanding technology roles, contractors and consultants for special projects, and specialists in areas such as SEO, SEM, public relations, marketing and branding.

**Structure of Organization**

The organizational structure continues to evolve with expansion and this is the point where most companies begin to implement and build out a matrixed organization under a new executive team. Board input and assistance is becoming increasing valuable and the CEO should be carefully monitoring participation by board members to ensure that they are engaged and providing the resources that were anticipated when they joined the board. Board meetings themselves now feature more presentations by executives other than the CEO, which provides an opportunity for different viewpoints on the company’s strategic plans and also gives board members an opportunity to assess the overall coherence of the executive team and the abilities of each of its members to lead their activities through further growth and change.
The appropriate organizational structure has been identified and teams have been formed to address all of the company’s needs; however, the challenge now is to grow each of these teams by successfully integrating additional people and providing the teams with the necessary resources. The teams themselves will also need to develop and mature on their own and this may require patience as new experts join the company and early employees leave the company or change their roles and move to different places within the organizational structure. The level of turnover of early employees as the company reaches an overall headcount of 100 can be shocking—one estimate was that less than five of the first 20 employees would remain with the company once the 100 person milestone was achieved—and the company needs to be prepared to provide departing employees with an orderly exit that includes a fair settlement of their equity position. New people also means that attention needs to be paid to the procedures used for promotion and the resources that are set aside for career development of everyone in the company regardless of whether they are expected to move upward on the management ladder.

The leadership, management and reporting structure will necessarily become more formalized at this stage; however, this does not mean that the company needs to become excessively bureaucratic. What is important is that everyone knows who owns what project and to whom feedback on a project should be delivered and that there is enough structure to ensure that everyone can do their best work and access the resources needed for that work. An organizational structure that makes it easy to identify where people are and what they are working on will also ease the onboarding process for new people. New management will likely mean modifying existing reporting structures and some of the earlier managers may need to have their positions “retitled”, especially in those cases where earlier titles may have been inflated. Restructuring is difficult, all the more so because it will seem to be a constantly occurring upheaval; however, the process can be eased by the CEO communicating the reasons for the changes and pairing those changes with attention to each person’s specific questions regarding role and career development.

Management Style

The CEO should pay careful attention to how the leadership team works together and ensure that nobody on that team loses track of the overall mission and focus for the entire company and instead begins spending his or her time defending “their turf”. The CEO also needs to ask for and welcome honest feedback from other leaders and cultivate a culture of trust, communication and transparency at the top of the organizational pyramid that can be spread throughout the rest of the company.

A weekly senior leadership discussion is added to the pre-existing schedule of weekly one-on-one meetings of the CEO and each of his or her executives. As lower-level managers expand their scope of responsibility and the number of people reporting to them, it is essential for them to continue setting aside time to meet with each of the subordinates in private to ensure that everyone is on the same page and is receiving adequate attention to their personal goals and problems. While finding enough room for
75 to 150 people to gather will obviously become more difficult, the company is still small enough that it should be conducting town hall meetings on a regular basis.

**Dunbar Stage**

The “Dunbar Stage” was suggested by Laughlin as being a useful cliff in the evolution of a startup, one that was based on research that has supported arguments that there are limits to the number of meaningful relationships that human brains can manage effectively at any point in time. A “meaningful relationship” is one in which an individual knows who the other person is and how that person relates to every other person with whom the individual also has a meaningful relationship. British anthropologist Robin Dunbar suggested in the 1990s that humans can only comfortably maintain 150 stable relationships and that once the size of a group grows beyond that number it is necessary to impose more restrictive rules, laws and enforced norms in order to maintain stability and cohesion. Applying this principle to a startup means that when headcount reaches 150 or so (Laughlin suggested that breaking point range is likely between 125 and 225), significant changes will need to be made if the company is to continue growing.

In addition to the number of people involved in the organization, the CEO will know that the Dunbar Stage has been reached when all or most of the following are accurate statements about the company: the physical space necessary to house everyone in the company becomes so large that most of the people do not visit other parts of the building on a regular basis; it is difficult, if not impossible, to know everyone’s name, and certainly it is no longer reasonable expect that everyone will know what everyone else’s role with the company is and what they are working on at that moment; more and more internal politics involves smaller groups within larger teams; and the CEO, even if he or she still tries to walk throughout the company every day, can no longer observe all the interactions that may be going on within the company at any one time.

While the “unknowns” associated with growing to 150 or more people can seem daunting, they can be managed with structures, policies and organizing principals that build trust and support effective distributed decision-making. The CEO can compensate for not being able to see and hear everything by building an experienced management team that drives their pieces of the business, effectively manages their teams and knows when to escalate issues to the CEO and the board of directors. From the CEO’s perspective, the company has become a portfolio of smaller organizations, not just a collection of individuals, and his or her job is to be an effective overseer of the community and manage communications and collaboration among the various parts of the organization to ensure that all of the cogs are pushing forward in the same direction. Management style becomes even more important at this stage: some CEO’s react to the pressures of size by tightening their grips and acting like a dictator—not the wisest choice—while others realize that they cannot do everything themselves anymore and need to adopt a participatory style that empowers people throughout the organization.
One thing that is very apparent as the company reaches 150 employees is the changing dynamics in terms of the relative size of teams within the organization and the allocation of resources among various activities. When the company is smaller it is common to find that anywhere from 50% to 75% of the headcount has an engineering or design focus; however, at this point 50% of the workforce may be involved in sales and/or marketing and just 30% will working on engineering and design issues. There is nothing wrong about such a shift, but it is important for everyone in the organization to be informed about how resources are being allocated and why. This often means that the CEO must step outside of his or her own training and professional background and consciously become the leader of all functions inside the company. Communication is the best way to reduce the risk of rumors and requests to move to departments that are perceived to be more “favored”.

Perhaps the biggest challenge for the CEO and other organizational leaders at this stage is introducing a reasonable bit of formality to the processes that the company uses for key activities such as new product design and development, launching a marketing campaign or rolling out enhancements to customer support. When the company was smaller most of the team members reveled in the lack of process and ability to simply move fast in pursuit of innovation. What is often missed is that what seems like chaos actually does have an order to it: a prototype is developed by one engineer; he or she shares it with colleagues at lunch and collects feedback; the engineer returns to the workstation and makes improvements. Eventually the prototype is shown to real customers and the feedback loop continues. All this may occur with little documentation; however, it is a process, and it is a process that needed to be scaled with business tools that are perceived by everyone as resources for them to use in getting feedback from others in the company and arriving at decisions quickly and efficiently based on input from everyone who has a stake in the issue. When creating these tools, and refining the process, attention needs to be paid to identifying the decisions that need to be made and how both positive and negative information needs to flow within the organization.

At the stage the company is relatively stable, albeit rapidly changing, and the employees and other stakeholders of the company has a fairly good idea of what the company stands for and the brand that the company represents. From a strategic perspective, the company’s “core focus” has been identified and is being used to develop the company’s future goals and milestones. The next spurt of growth is typically expected to come from aggressive investing in existing profit generating areas of the business.

Larger size brings more specialized resources to the workforce; however, it also means that there are more management tiers in the organizational hierarchy. Roles are better and more deeply defined and people generally operate within their roles as opposed to jumping in to do whatever is needed, which was the way things operated during the earlier stages of the company’s development. New teams and positions are being created to support existing teams, such as a learning and development team and support roles for sales and human resources that are more focused on execution. The finance and security teams are also areas in which more investment is needed. Within the various teams or departments there is greater clarity regarding roles and responsibilities.
Companies that are able to successfully execute their strategies to reach this point are hopefully well on the way toward emerging as leaders in their markets and industries supported by a sophisticated and mature organizational structure. Maintaining a dominant position is often as difficult as achieving it given that competitors do not relent and environmental and technological changes emerge on a regular basis, often without warning. Growth from the products and services that brought the company to this stage will hopefully continue, although the rate of growth will likely be less than the company has enjoyed during previous stages. Management must decide whether the company should look for new ways to expand, settle into a sustainable state with a focus on maintaining market share and leadership status by continuously innovating or consider potential exit strategies.

At this stage the CEO and the board of directors will be considering larger rounds of financing, perhaps even an initial public offering (“IPO”), and will also begin to think about the value of growing through acquisitions. If the company is really interested in completing an IPO and subjecting itself to the rigors of public company status, it needs to begin preparing for the process of “going public” and comply with the formal and informal requirements of regulators and investors once its stock is traded in the public markets. Not only does a public company need to have audited financial statements and rigorous internal controls to satisfy reporting requirements, it must have the systems and talent necessary to anticipate and meet much higher expectations regarding performance, governance and transparency. Among other things, a pre-public company needs to create an internal audit function; implement enhanced budgeting and forecasting techniques; establish risk management protocols; create and staff audit, compensation and nominating committees at the board level; upgrade governance systems including adoption and enforcement of a code of conduct and rules relating to conflicts of interest; and implement a records management and retention program. When the company is contemplating an IPO, it is time to seriously consider restructuring the board of directors to create more diversity and bring in new directors with experience in overseeing the activities necessary to effectively govern a public company. Finally, the company needs to retain outside auditors and lawyers, as well as investment bankers and public relations professionals, who can make the transition to public company status smooth and efficient. Obviously the CEO will be the key driver of the IPO process; however, this is the time when the company needs to have a deep bench in the C-suite, particularly in the CFO position since she or he will generally be guiding the workload of the professional involved in the going public project.
About the Author

This chapter was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters’ Westlaw, the world’s largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 90 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan is currently a partner of GCA Law Partners LLP in Mountain View CA (www.gcalaw.com) and has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to sustainable entrepreneurship and ageism. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, and the services he provides through GCA Law Partners LLP, please contact him directly at alangutterman@gmail.com, follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/) and visit his website at alangutterman.com.

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) was launched by Alan Gutterman to teach and support individuals and companies, both startups and mature firms, seeking to create and build sustainable businesses based on purpose, innovation, shared value and respect for people and planet. The Project is a California nonprofit public benefit corporation with tax exempt status under section 501(c)(3) of the Internal Revenue Code dedicated to furthering and promoting sustainable entrepreneurship through education and awareness and supporting entrepreneurs in their efforts to launch and scale innovative sustainable enterprises that will have a material positive environmental or social impact on society as a whole.

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