

SCALING THE ORGANIZATION

Professor Ethan Mollick
Twitter: @emollick



The surprising truth about growth

You don't have to grow.

Most companies don't, and most small business owners don't want to.

But growing firms survive longer.

Not all growth is the same

If you are going to grow, grow organically





Young firms grow organically

- 58%-96% of growth organic, compared with 16% for older firms

Small firms grow organically











- 93% of small firms grow organically

Growth creates issues

Existence	Survival
Management style	
Direct supervision	Supervised supervision
Organisation	
	
Extent of formal systems	
Minimal to non existent	Minimal
Major strategy	
Existence	Survival
Business and Owner	
	

* Take this multiple-stage model from Churchill and Lewis with a grain of salt, lots of people like it, but it is rarely completely true, growth is rarely linear, and most companies skip steps

Growth creates issues

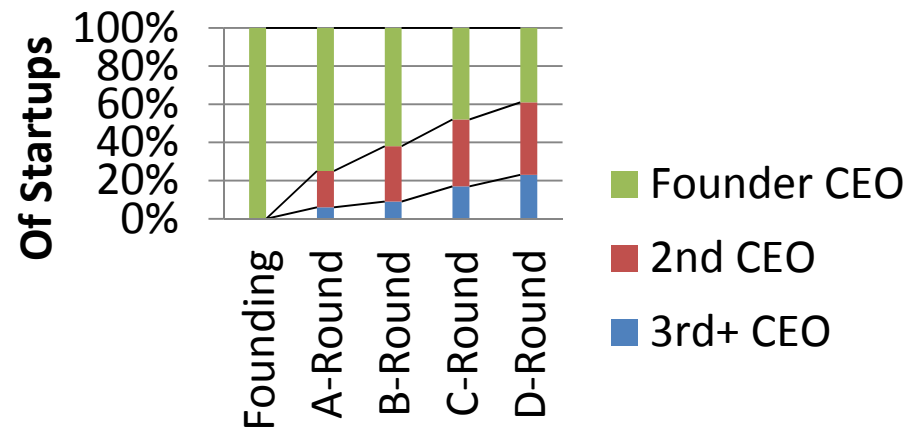
Existence	Survival	Success		Take off	Resource Maturity
		Disengagement	Growth		
Management style Direct supervision	Management style Supervised supervision	Management style Functional		Manag. style Divisional	Manag. style Both line and staff
Organisation 	Organisation 	Organisation 		Organisation 	Organisation 
Extent of formal systems Minimal to non existent	Extent of formal systems Minimal	Extent of formal systems Basic		Ext. of form. systems Maturing	Ext. of form. systems Extensive
Major strategy Existence	Major strategy Survival	Major strategy Maintaining profitable status quo		Major strat. Growth	Major strat. Return on investment
Business and Owner 	Business and Owner 	Business and Owner 		Bus. & Owner 	Bus. & Owner 

* Take this multiple-stage model from Churchill and Lewis with a grain of salt, lots of people like it, but it is rarely completely true, growth is rarely linear, and most companies skip steps

Crisis leads to change

- In VC-backed firms, most CEOs are replaced within 3-4 years
- 27% initiated by founder, the rest by the board
- “Paradox of Success” among founders

Startup Leadership by Round



Organizing out of crisis

- Challenge 1: Division of Labor
 - Who does what?
 - How do you spread work around?
- Solutions:
 - No one person can do everything
 - Horizontal and vertical specialization
 - Number of different activities
 - Depth of the job (e.g., conception, execution, administration)
 - Grouping of activities
 - By inputs or outputs

Organizing out of crisis

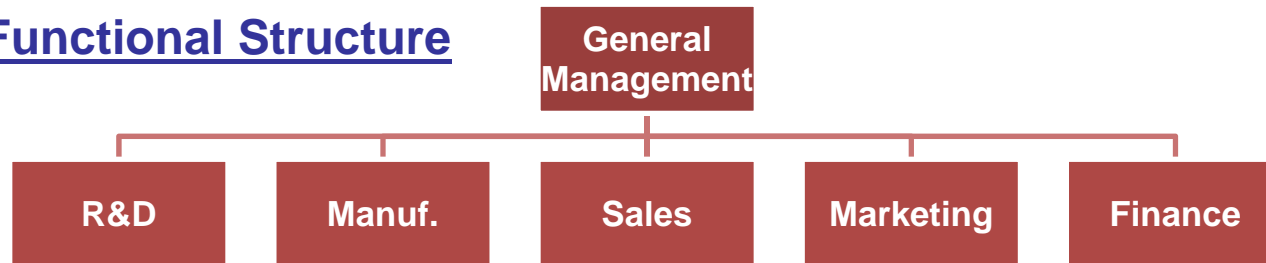
- Challenge 2: Coordination
 - How do you coordinate among employees?
 - How do you share knowledge?
- Solutions:
 - Employment models (Star, commitment, etc.)
 - Coherent approach to supervision, formal rules and procedures, plans and budgets, liaison roles
 - Understand the boundaries of the organization

Organizing out of crisis

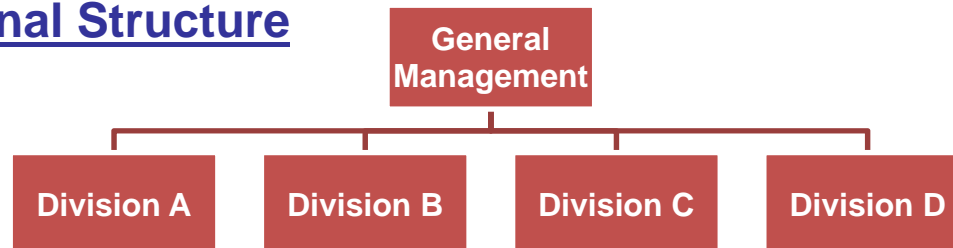
- Challenge 3: Decision Rights
 - Who gets to decide what happens?
- Solutions:
 - Clear decision rights
 - Along vertical dimension: centralization vs. decentralization
 - Along horizontal dimension: across organizational units (e.g., who 'specs' new products, marketing or engineering?)
 - Avoid allocating decision right to myopic, self-interested parties

Organizational Forms

Functional Structure

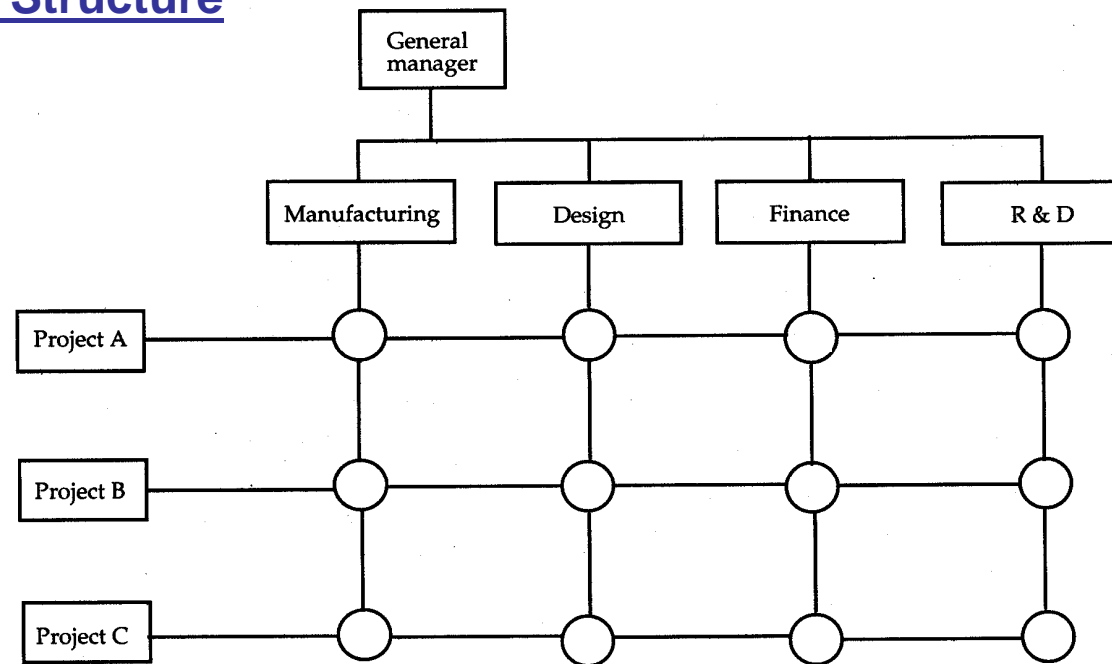


Divisional Structure



Organizational Forms

Matrix Structure



Organizational Form: Summary

	Functional	Divisional	Matrix
Division of Labor	By inputs	By outputs	By inputs & outputs
Coordination Mechanisms	Hierarchical supervision	Divisional managers & corporate staff	Dual reporting relationships
Decisions Rights	Highly centralized	Separation of strategy & execution	Shared
Boundaries	Core / periphery	Internal / external markets	Multiple interfaces

Organizational Form: Summary [2]

	Functional	Divisional	Matrix
Resource efficiency	Excellent	Poor	Moderate
Time efficiency	Poor	Good	Moderate
Responsive-ness	Poor	Moderate	Good
Adaptability	Poor	Good	Moderate
Account-ability	Poor	Excellent	Poor
Politics	Inter-functional	Corp. ↔ division & Inter-divisional	Along matrix dimensions