

Managing the dark side of growth

The same behaviors that are necessary or beneficial to grow a firm in the good times can easily become traps in the bad.

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“The company today is like a catapult, with the elastic being pulled farther and farther back. Either the ball is going to go for miles, or we are going to get a nasty slap in the face.” This is how a CEO of an innovative technology firm described the experience of pursuing a high-growth strategy. And his words ring true for many such firms: There is extreme tension between success and failure, and similar actions may bring soaring results or simply backfire.

In business, growth is trumpeted as the ultimate objective and the key measure of success. Growth signals a company’s vitality and seems to confirm that the right strategy has been chosen. It is often taken as proof of effective leadership. Furthermore, a good growth history makes it easier for a company to attract not only additional capital but also suppliers, customers and strategic alliance partners, who are more willing to put their faith in a big and growing organization.

But we forget that growth is not a linear path. A “success story” can hide severe periods of downsizing, the loss of crucial clients, product failure or other complications brought about by internal or external events, as one British technology firm that we studied illustrates.

The story began well: Elpmax Technologies (name changed at the company’s request), a start-up in the telecommunications industry, was able to secure significant venture capital financing and looked set for rapid growth and a promising future. Suddenly, the situation changed dramatically when operators had to pay off the huge price tags after obtaining 3G licenses, which led to significant cuts in investments and created very competitive market

conditions for small companies trying to secure projects.

Then, a ray of hope: The company managed to negotiate a mega-contract with AT&T Cable, the largest cable company in the United States. But just as that deal was about to go through, a competing cable company, Comcast, acquired AT&T Cable, reducing that contract to scrap paper and sending the company back into crisis.

Shortly thereafter, the company managed to land another deal, this time with Time Warner Cable, the second largest cable company in the United States. But just before the details were finalized, Time Warner acquired AOL, once again scuppering another deal.

Losing both these contracts meant the firm had to swallow considerable costs, which had been sunk into winning what was ultimately nonexistent business. The firm was forced into survival mode. The pressure on the founder became so intense that the board and investors eventually decided to replace him with an outside CEO, although this is not the end of the story, as we shall see later.

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