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ARTWORK Margaret Neill, *Cirrus*
(detail), 2014, oil on canvas
Kenise Barnes Fine Art



Start-Ups That Last

How to scale your business BY RANJAY GULATI AND ALICIA DESANTOLA



Ranjay Gulati is the Jaime and Josefina Chua Tiampo Professor of Business Administration at Harvard Business School.

Alicia DeSantola is a PhD student in the Organizational Behavior program at Harvard University.

Why do so many start-ups that seem to have it all—customers, cash, a promising outlook—run off the rails? Ask a venture capitalist, and you'll probably hear that they have trouble “scaling.”

What does that mean, though? VCs typically describe it as a need to “professionalize the organization” and “bring in grown-ups.” But those are simplistic fixes—poor substitutes for the substantive changes that need to occur. Start-ups these days grow so rapidly that it's difficult for them to correct course once they recognize missteps. They can improve their prospects by understanding the mechanics of effective scaling before they reach that moment of truth.

Venture capitalist Ben Horowitz compares scaling to a “black art.” He and others have proposed useful ideas for demystifying it, but start-ups still lack a cogent framework for transitioning to mature firms. That's what this article provides. Drawing on our extensive case studies of fast-growing companies and on 75 years of organizational research, we have identified four critical activities for successfully scaling a venture. Firms must *hire functional experts* to take the enterprise to the next level, *add management structures* to accommodate increased head count while maintaining informal ties across the organization, *build planning and forecasting capabilities*, and *spell out and reinforce the cultural values* that will sustain the business.

It's easy to misconstrue these activities as replication—as merely increasing the capacity and efficiency of what you're already doing. But

SPOTLIGHT

ARTWORK
Margaret Neill, *Stream*, 2008
Acrylic on canvas



David Collis is the
Thomas Henry Carroll
Ford Foundation Adjunct
Professor of Business
Administration at Harvard
Business School.



Lean Strategy

Start-ups need both agility and direction.

BY DAVID COLLIS

Strategy and entrepreneurship are often viewed as polar opposites. Strategy is seen as the pursuit of a clearly defined path—one systematically identified in advance—through a carefully chosen set of activities. Entrepreneurship is seen as the epitome of opportunism—requiring ventures to pivot in new directions continually, as information comes in and markets shift rapidly. Yet the two desperately need each other. Strategy without entrepreneurship is central planning. Entrepreneurship without strategy leads to chaos.

What many entrepreneurs fail to grasp is that rather than suppressing entrepreneurial behavior, effective strategy encourages it—by identifying the bounds within which innovation and experimentation should take place. But executives who want their established firms to be more entrepreneurial often don't fully appreciate how stage-gate processes, multiple-horizon planning, and other corporate tools for managing strategic growth initiatives can undermine innovation.

The reality is, integrating the bottom-up approach of lean start-ups with the top-down orientation of strategic management remains devilishly hard. Is there a way to get the best of both worlds?

Yes. The solution is something I call a *lean strategy process*, which guards against the extremes of both rigid planning and unrestrained experimentation.