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EXECUTIVE DIGEST

From startup to scalable enterprise: Laying the foundation

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Abstract The essential steps in the transition from a nascent startup to an organization capable of sustained and profitable growth are not readily apparent to many early stage entrepreneurs. The life cycle of an entrepreneurial venture consists of four stages (startup, transition, scaling, and exit), each defined by the principal challenges faced by the founding team. The popular lean startup methodology emphasizes a disciplined process of exploration, validation, and refinement of the business concept as the essential first step in the process. Although it is undeniably important to get the business concept right in the beginning, there is a period of transition during which the founding team must establish a solid foundation for growth and scaling that may ultimately have a greater influence on venture success. To date, limited research has focused on transition and the field has offered little normative guidance. Entrepreneurs have largely been on their own as they struggle, through trial and error, to lay the foundation and build a scalable business. This article describes the essential tasks to be undertaken—the eight hurdles of transition—and provides normative guidance, solidly based on experience, regarding the actions required to establish the foundation for a scalable business.

1. Laying the foundation: The critical period of transition

In recent years, the lean startup methodology has been popularized as the scientific method applied to startups. This approach emphasizes a disciplined process of exploration, validation, and refinement of the business concept as an essential first step in the development of an entrepreneurial venture (Aulet, 2013; Blank, 2013). Although undeniably important, refining and validating the business concept is only a first step. Much work remains to be done as the entrepreneur and his/her team lay the foundation for a scalable enterprise.

Various models have described the chronological evolution of entrepreneurial firms. Most follow the classic life cycle model of organizational growth: Steinmetz (1969) and Kroeger (1974) focused on evolving managerial functions and roles at different stages; Greiner (1972) described periods of growth and evolution punctuated by crises of leadership, autonomy, control, and bureaucracy, each setting the stage for the next period of growth.

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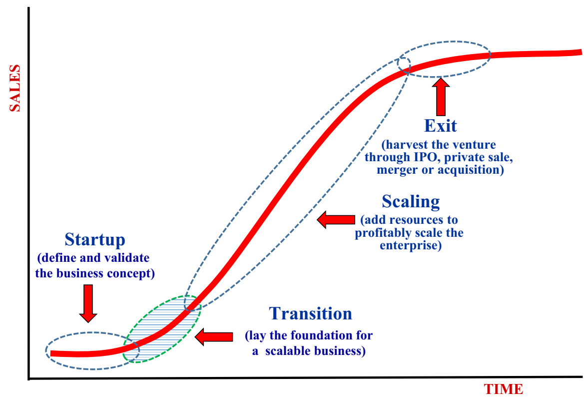
Figure 1. Four stages in the life cycle of an entrepreneurial firm



In our view[1], the entrepreneurial innovation process proceeds through four stages (startup, transition, scaling, and exit), each defined by the principal challenges faced by the founding team. As illustrated in Figure 1, the boundaries between the adjacent stages are fuzzy and frequently overlapping. While it is essential to get the business concept right in the startup stage, laying the foundation for a scalable enterprise during the period of transition is equally critical and may ultimately have a greater influence on venture success than startup.

The entrepreneur's challenge in *startup* is to define and validate the business concept: the market opportunity (i.e., critical need, target market, market size, and timing); the offering (i.e., product or service and value proposition); the business model (i.e., resources, processes, and economic model); and the go-to-market strategy needed to deliver the offering reliably to the target customer at a profit. In startup, the focus is narrow, the commitment of time and resources is limited, and the economic risks are modest. The organization of a startup is typically informal, loosely structured, and fluid.

The period of *transition* begins about the time an entrepreneurial firm first gains traction in the marketplace. Transition represents an essential bridge between the loosely structured informality of the startup and the structured and disciplined form required for rapid scaling. The entrepreneur's challenge is to complete the development of the offering, establish a solid foundation, and position the organization for rapid scaling. Once the startup engages customers, additional resources are required, new capabilities must be developed, and the scope and complexity of the challenges faced by the founding team increase dramatically (Hambrick & Crozier, 1985).

In the *scaling* phase, the entrepreneur must add significant resources and leverage processes and partnerships to grow the business within the framework of the validated business concept and a sustainable business model. The objective becomes rapid growth in order to achieve competitive scale and establish sustainable market leadership. Scaling requires a very different kind of organization—one with structure, process, and discipline. As the firm grows, the fluid and flexible environment of the startup organization becomes unwieldy. Informal communication and decision-making processes are no longer effective. Functional specialists now assume roles once covered by generalists, and processes and policies replace ad hoc decision making (Hofer & Charan, 1984). Consistent profitability is required to provide a return for investors and fund the drive to market leadership. At some point, a successful *exit* (by IPO, private sale, merger, or acquisition) is usually required to harvest the value accumulated by the venture for the benefit of the entrepreneur and investors.

Transition, as the nascent startup matures into a disciplined business, is arguably the most critical period in the life of an emerging firm. During this relatively brief period (typically 18—36 months), the founding team must lay the foundation for a rapidly growing business, establish credibility and legitimacy, and acquire the initial resources essential for growth. The experience and competence demanded of the management team expands dramatically in this stage (Wasserman, 2003). The founders must simultaneously deal with strategic direction and market positioning, building a management team, implementing discipline, structure and management processes, acquiring resources, molding a supportive culture, and managing risk proactively. The increased scope and complexity also requires that the founding team adjust its leadership style and management behaviors (Picken, 2017).

Many new ventures fail to negotiate these challenges. No matter how brilliant or compelling the original idea, only about half survive more than 5 years (Bureau of Labor Statistics, 2016), and only the most promising receive early-stage professional investment. Even with substantial funding, more than 75% of venture-backed firms fail or sustain a marginal existence (Ruhnka, Feldman, & Dean, 1992). Management inexperience or incompetence (Gorman & Sahlman, 1989), the failure to manage

[1] The model of organizational development reflects the collaborative contribution of the entrepreneurship faculty at the Jindal School.

Table 1. The eight hurdles of the transition period

- **Setting a direction and maintaining focus**
  The entrepreneur must be clear about his/her goals, view the situation realistically, and establish and communicate a clear direction (target customer, offering, value proposition, business model and key milestones) to keep the organization focused on the proper objectives.
- **Positioning products/services in an expanded market**
  Customer relationships and distribution channels must be developed and the product/service offering expanded, refined, and repositioned to meet the needs of an expanded market.
- **Maintaining customer/market responsiveness**
  In the early days, when customer issues and problems arise, decisions are made quickly and resolution is swift. With growth, functional specialization and organizational layers slow the process, and new internal processes must be developed and implemented to maintain customer responsiveness.
- **Building an organization and management team**
  The development of the management team is critical. The required skills and the organizational demands change significantly as the firm grows, requiring careful planning and flexibility to ensure alignment with strategy and business requirements.
- **Developing effective processes and infrastructures**
  Effective decision processes and efficient operational and management processes and infrastructures are essential to support growth. As the firm gains traction in the marketplace, new systems and infrastructures will be required to deliver value to customers, adapt to a changing environment and support the growing business.
- **Building financial capability**
  It's not just about raising money. Investors are also interested in the efficient utilization of resources, effective controls, efficient management of working capital, reliable financial projections, and clear and effective stakeholder communications.
- **Developing an appropriate culture**
  Founders have an opportunity to shape and mold a culture that reflects values, beliefs and norms supportive of the firm's business purpose and strategy. Failure to do so risks the unwitting development of a dysfunctional culture that precipitates the failure of the firm.
- **Managing risks and vulnerabilities**
  Rapidly growing ventures with all their eggs in one basket are particularly vulnerable to sources of risk, including rapid growth, a narrow revenue base, inexperienced employees, key employee defections, inadequate infrastructures, information and management systems, and a bias toward entrepreneurial risk-taking.

the business properly (Drucker, 1985), or the inability of the founders to continually meet new challenges as the business evolves (Boeker & Wiltbank, 2005) are often cited as factors contributing to venture failure. Premature scaling, in a bid to establish market leadership before laying a solid foundation for rapid growth, often precipitates failure as transaction volumes overwhelm inadequate systems and infrastructures or outrun the capacity of the management team (Boeker & Karichalil, 2002). If a proper foundation for scaling has been established, the firm will be positioned to grow rapidly, riding the momentum of an expanding market as far and as fast as is competitively achievable. If not, trouble lies ahead.

So, what must founders do to ensure success? The essential steps in the transition from a nascent startup to an organization capable of sustained and profitable growth are known but are not apparent to most early stage entrepreneurs, who typically are concerned primarily with product and early customer development. To date, there has been limited focus on this critical period and little has been offered in the form of useful normative guidance. Entrepreneurs have been left largely on their own to struggle, through trial and error, as they attempt to establish the structure and foundation for a scalable business. My objective in this Executive Digest is to outline the essential tasks and challenges of transition and to provide guidance, based on experience, about the actions required. I summarize the essential tasks in Table 1 as the *eight hurdles of transition* (previously introduced in *Business Horizons* by Picken, 2017). The examples provided herein have been disguised to protect client confidentiality.

2. The eight hurdles of transition

In an Olympic track and field event, a field of competitors must run a race on a 110-meter track interrupted by eight hurdles that must be cleared along the way. The winner is the first to cross the finish line; tripping over any of the hurdles significantly reduces the odds of ending up on the podium.

The entrepreneurial startup is also in a race. Significant advantages usually accrue for companies that lead their markets. During periods of rapid growth and expansion, demand typically exceeds supply, margins are higher, competition is less, and the market leader earns higher profits. The perceived market leader becomes the preferred choice, sets market prices, and often realizes economies of scope and scale in marketing, production, and distribution (Moore, 1991).

So why do so many startups stumble and fall? One can often trace a venture's failure to realize its early promise to the failure to clear one or more of the hurdles during the critical period of transition.

2.1. The first hurdle: Setting a direction and maintaining focus

There is an old saying: 'If you don't know where you're headed, any road will get you there.' For the entrepreneurial firm with limited resources, 'any road' is rarely good enough. Founders who begin to develop products, build the business, hire employees, and acquire resources before they understand their customers and validate their key assumptions, frequently trip over this hurdle.

The principal challenge in startup is to define and validate the business concept in the context of market realities, addressing both value creation for the target customer and value capture for the entrepreneur and investors. The firm and its customers do not exist in isolation but must recognize and deal with the complexities of an industry ecosystem, consisting of all the firms and their partners in addition to suppliers, customers, and competitors that comprise the infrastructure of a dynamic and continually evolving competitive environment.

The essential elements of value creation—the target customer, his needs and preferences, and an offering and value proposition that will satisfy those needs—must be developed and validated. The entrepreneur must identify and evaluate both competitors and potential competitors. A business model capable of reliably and profitably delivering the value proposition must specify: the customer relationships and channels for sales; distribution and after-market support; the economic model and profit formula; and the activities, processes, and partnerships required for implementation (Johnson, Christensen, & Kagermann, 2008).

A clear market entry strategy is essential, as entering an established market against incumbent competitors requires a very different strategy and approach than competing against non-consumption in a virgin territory. The entrepreneur must understand the context, view the situation realistically, be clear about goals and strategic priorities, and identify the most direct and efficient path to the objective. This requires a clear sense of what the firm is about, what it will do, and—perhaps more important—what it must not do.

Strategy and direction must be communicated broadly and effectively. Because the entrepreneur has an intuitive sense of direction, he/she often assumes that the rest of the team and key partners share that understanding. If the founder fails to clearly communicate and achieve alignment on direction, the outcome is often sub-optimization and wasted resources as other members of the team must guess at what makes strategic sense.

All too often, founders forge ahead prematurely into product development and company building, wasting time and limited resources. Many an entrepreneur without a steady focus and clear sense of direction has dissipated scarce resources by chasing targets of opportunity not on the organization's critical path.

A promising new medical device technology had the potential to disrupt an established industry focused on neurostimulation for pain management. The new technology replaced electrodes surgically implanted at the base of the spine and connected to a battery placed under the skin with miniaturized subdermal electric nodes placed immediately adjacent to the affected peripheral nerves. A PhD student working on the device licensed the technology, formed a startup, and funded early concept and application development through federal research grants. When technical challenges arose, the founder followed the path of least resistance, abandoned the initial concept and applied for new grants for any potential application for which funding was available. After another failure, another research grant, and another shift in strategy, the founder departed. The company has never successfully brought a product to market. The remaining employees have become competent grant writers, however, and continue to pursue new funding opportunities one after another.

A clear sense of direction and disciplined execution are essential. If the entrepreneur and the founding team do not understand the competitive environment and do not have a clear sense of how the venture will engage customers, create value, and consistently deliver that value at a profit, it is likely that 'any road will do.'

2.2. The second hurdle: Positioning products/services in an expanded market

Although understanding and satisfying the needs of a firm's initial customers is essential to early market entry (Aulet, 2013), many entrepreneurs fail to recognize the ongoing dynamics of this relationship. The expectations and demands of customers in the early market are very different from those in mainstream markets. As a startup penetrates a market, expands its geographic scope, and moves beyond early adopters into mainstream markets, the company must adjust and reposition its product/service offering again and again to meet the needs of an expanded market (Moore, 1991).

Many startups are focused on a device or a core product rather than a complete, whole-product offering. Delivering a complete offering often requires complementary products (such as software for a computer) and contributions from marketing, sales, distribution, field engineering, service, training, customer support, financing, warranty administration, etc. (Schindehutte, Morris, & Pitt, 2009). Early adopters may buy the core product but the mainstream is interested in offerings that meet a broader set of requirements.

There are four fundamental questions that must be addressed: Who is our customer? What are his/her needs? What are his/her priorities? How will we sell, deliver, service, and support our products? These questions must be revisited repeatedly as the firm engages progressively broader markets. As the firm transitions from early markets into the mainstream, the relative importance of the product itself declines while the emphasis on ancillary products, services, and support grows.

Recognizing and responding to a continuously evolving set of customer needs and requirements is essential. Sales, marketing, production, and management processes must also adapt, requiring flexibility and growth both across the firm and in the capabilities of the management team.

A promising startup developed and patented a unique mechanism and design for window shades for high-end corporate aircraft. Within a few years after winning a substantial original equipment manufacturing (OEM) contract and successfully penetrating the replacement aftermarket, the company held a commanding market share in a small niche at the high end of the market characterized by customers who were focused on customization and insensitive to price. In order to grow, the company needed to broaden its offering to penetrate the mainstream market with a standardized whole product—simpler, less costly, and easier to install. Although the company attempted to launch several new products aimed at the mainstream market, it was unable to adapt the product designs or internal processes to the challenges of volume production, and was ultimately unsuccessful.

2.3. The third hurdle: Maintaining a customer/market focus

In the early days of a startup, the founder is often the lead product developer, chief salesperson, and customer service representative. When something goes wrong in the hands of a customer—as it inevitably does—the feedback loop from customer service to product development is almost instantaneous, the message comes through loud and clear, and the firm responds promptly and effectively.

As the firm grows, specialization takes over and layers of organization appear. New employees are hired, functional boundaries are established, and informal patterns of communication eventually break down. Information about design defects or other issues flows erratically from the field service representative to a manager, from one manager to another, and ultimately to top management and back down to the product development team that must address the issue. This takes time, and the inevitable filtering process often results in distorted messages and the loss of a sense of urgency. From the customer's perspective, the firm appears to be less responsive than it once was and frustration builds.

Conflicts often arise between the need for stability and standardization in operations and customer demands for customization, variety, and responsiveness. These must be resolved, taking into account both the needs of current and prospective customers and internal constituents.

I was recruited as CEO for a small company providing modems and data input devices to the personal computer industry. A year and a half earlier, the company had secured a contract—representing nearly a third of the company's business—to provide a key component to a major manufacturer of laptop computers. Early in my tenure, the VP of sales and I called on this customer with the objective of solidifying the relationship and ensuring that our product was specified into the next generation of their product. The visit did not go well. The customer showed us data that indicated that our device had been at the top of their customer complaint list for 9 consecutive months. Back at the plant, I inquired about the problem and asked to see the results of the product reliability testing. The test results were unavailable; they had never performed any testing. The engineering department had been aware of the customer's dissatisfaction but had chosen not to share the information with sales or product marketing, hoping it would go away over time. I immediately launched an accelerated testing program *and isolated and then corrected the source of problem, but the relationship with the customer was beyond repair.*

Internal communications had clearly broken down. Engineering and sales did not communicate. Finger pointing and blame shifting were standard operating procedure. As critical problems were swept under the rug rather than being addressed, the entire culture turned sour. This all-too-common pattern can be avoided with proper organizational design, process, and discipline, institutionalizing an appropriate customer/market focus from top to bottom.

2.4. The fourth hurdle: Building an organization and management team

Professional investors have often been quoted as saying 'It's all about the management team.' Although they are interested in the breakthrough product and the untapped market opportunity, they recognize that good management is the most essential element. Building an organization and a team is among the entrepreneur's most critical tasks, but it requires considerably more than just hiring people who appear to be qualified and assuming that they can do the job. The demands and pressures on an organization change significantly over the life cycle, requiring careful planning and flexibility to ensure that staffing and structure are aligned with strategy and the needs of the business. Failure to do so often results in critical skills not on board at the right time, key people stretched beyond their capabilities, ineffective decision processes, and a lack of accountability (Fombrun & Wally, 1989).

The organizational evolution of emerging companies follows a predictable pattern, from a structure in which everyone reports to the founder to a functional organization to, eventually, a divisional structure. It is not unusual in these transitions for communications to break down, important information to fall through the cracks, decisions to be delayed, and key challenges to remain unresolved. As new roles are created and specialists are hired, it is important to establish structures and processes that facilitate effective communications and decision making.

A small company in a crowded marketplace for banking software had been spun out of a larger organization and was struggling to gain traction. A sagging stock price had triggered the concern of the board and I was retained as a consultant to recommend actions to improve performance.

The CEO and the VP of software engineering had held similar positions in the previous organization and had worked together for years. Sales, customer service, and the financial organization were headed by individuals new to the company and more than 20 years younger than the CEO and the engineering VP, the latter of whom was semi-retired and only in the office 1 or 2 days a week.

Although the core product was solid, the entire organization was dysfunctional; cross-departmental communications and coordination were non-existent. Sales specified customer requirements—which frequently involved extensive customization—engineering configured the product, and customer service was responsible for installation and implementation. Communications between sales and customer service and the engineering team were limited and usually relayed through the CEO or his personal assistant. A great deal of relevant information fell through the cracks and wide gaps often appeared between customer expectations and the delivered product. Dissatisfied customers and a deteriorating reputation in the industry had triggered the stock price decline.

Shortly after this was reported to the board, a new CEO was appointed and both the original CEO and the VP of software engineering retired. Within months, the directors negotiated the sale of the company to its principal competitor. The internal issues were addressed and the company is now prospering as a division of a larger firm.

2.5. The fifth hurdle: Developing effective processes and infrastructures

In its early days, a venture is small enough that the entrepreneur can oversee every aspect of day-to-day operations and a firm can get by on the basis of ad hoc processes and controls. In transition, however, growth and functional specialization require the development of effective infrastructures to develop projects and manage customer relationships, operations, and finance (Flamholtz & Randle, 2000).

Startups compete not only on the basis of products or services, but on their ability to effectively deliver and support them. Customer-facing activities essential to attracting and building sustainable customer relationships demand flexibility, responsiveness, and individualized attention. Internal operations—the production, delivery, and aftermarket support of the firm's offerings—typically need structure and standardized processes to achieve efficiency and low cost. These conflicting imperatives require a judicious balance.

Increasing transaction volumes in sales, billing, purchasing, and production often expose the limitations of ad hoc processes. When functional specialization requires that communications span organizational boundaries, structure and process become essential and a flexible work environment becomes difficult to manage (Boeker & Wiltbank, 2005).

When infrastructure processes are weak or missing, ventures risk the alienation of customers, lost sales, misallocated resources, and compromised operational or financial control. Infrastructure processes are rarely of the one-size-fits-all variety—continual change and evolution is typical as a firm grows. Effective planning is essential to avoid the chaos that inevitably occurs when market success leads to activity levels that overwhelm existing systems.

A supplier of OEM products for the marine and aviation industries built its reputation on flexibility, responsiveness, and customized designs using a variety of exotic materials and finishes. Coordination between engineering and manufacturing was often based on marked up drawings and informal communications. Errors, confusion, and rework became common, as activity increased with growth.

A newly hired production manager, relying on his previous experience in a high-volume manufacturing operation, insisted on the installation of a complex system designed for a stable production line environment. The system required a complete engineering drawing package and bill of materials for every job and took nearly a year to implement. Flexibility and customer responsiveness evaporated, delivery lead times extended from an average of 10 weeks to more than 16, and internal conflict was high. Eventually, the new manager was terminated. The system was scrapped and replaced by a simpler, more flexible manufacturing process appropriate for the custom product environment. It took almost another year to recover and restore normal lead times. In the meantime, the cost of lost business and customer goodwill was substantial.

Management systems are equally important. As an organization grows and matures, organizational structures, planning, accounting, human resource, management development, and performance management systems become increasingly important. At each stage in an organization's development, these systems must be developed, enhanced, and fine-tuned in order to accommodate the evolving needs of the business.

2.6. The sixth hurdle: Building financial capability

For the inexperienced entrepreneur, it is often all about raising capital. The assumption is that once that initial check is in the bank, success is at hand. Building financial capability for the long haul involves a lot more just selling an idea to investors and cashing the check. Investors and lenders are interested in the efficient utilization of the funds and expect a return on every dollar invested. Although they recognize that startups often involve unproven markets and high levels of risk, and require significant investments before a viable product emerges, most deals are structured in stages to minimize risk and limit investment until key milestones have been achieved.

Entrepreneurs must maintain credibility and manage financial resources prudently, focusing efforts and resources on the right activities, managing capital and cashflow efficiently, delivering reliably on financial projections, and demonstrating responsible behavior in managing other people's money.

Spurred by expansive forecasts of the demand for internet bandwidth, venture capital funds invested heavily in startups that provided sophisticated optical switches and other components for fiber-optic communications networks. When the actual demand for bandwidth fell short of projections, the components market collapsed in early 2006. The venture investors pulled the plug on a Dallas-based manufacturer of optical switches and other networking gear, wrote off their $172 million investment, and sold the residual assets for $3.4 million.

The CEO, a personal friend, had been scheduled to speak to a student group a few days later. I asked him if he wanted to cancel, but he offered to go ahead and meet with the students. He told them that after nearly 4 years of development, the company had been about to launch its first products into the market when the investors shut the company down. When he had finished his presentation, I asked him, "How much more funding would you have needed to launch the products and get to breakeven?" He replied, "About $13 million—we were almost there!" After a brief pause, I asked him "What keeps you up at night?" His response was almost immediate: "I keep going over and over it in my mind—adding up the $13 million that we spent that we really didn't need to at the time. If we'd been more frugal in the early years, we might still be in business today."

This company had been caught in the downdraft of a broad-based market collapse, but the CEO had also been the unwitting victim of his own enthusiasm and belief in the optimistic market forecasts. Investors and lenders do not expect perfect foresight, but they do expect prudent management of the financial resources they provide. They have limited patience with CEOs who overpromise and under-deliver and otherwise abuse the relationship of trust. The savvy entrepreneur executes to the plan, anticipates financing needs, builds relationships, and establishes credibility with financing sources well before the need for additional resources arises.

2.7. The seventh hurdle: Developing and nurturing a culture

Established organizations have cultures that, for better or worse, support or constrain the implementation of their strategies. Culture plays many roles in the development of an organization. It defines purpose, leads to consensus and a shared vision, and provides a consistent image to markets, customers, and suppliers. Culture also contributes to integration, coordination, and control. It sets standards and defines the boundaries of acceptable behavior both within the firm and in its interactions with its environment.

Founders have a unique opportunity to shape and mold a culture that reflects a set of values, beliefs and norms that fully support and reinforce the firm's business purpose and strategy (Schein, 1983). The failure to do so risks the unwitting development of a dysfunctional culture that precipitates the failure of the firm. Changing a dysfunctional culture is difficult, challenging, and usually time-consuming.

Early in my career, I took over the financial operations of a large organization. Over 10 million transactions were processed each month. The culture was dysfunctional. Most of the accounting clerks were minority females earning close to the minimum wage, all of the supervisors were middle-aged white men and women, and several were regarded as abusive to their employees. The facility was surrounded by a 10-foot fence and razor wire in a troubled part of town and management rarely visited. Morale was terrible, productivity was low and error rates high, and turnover was more than 40% annually. Three discrimination lawsuits were pending and a union organizing drive was underway.

In less than a year, with a new team in place, we reorganized the workflow, replaced more than half of the supervisors by promoting from the ranks, and instituted a team-based compensation system. Management became highly visible. We held our staff meetings in the facility, walked the floor at least twice a week, made a point to get to know the employees as individuals, tracked team performance, and instituted merit pay. Performance improved dramatically, errors virtually disappeared, and the monthly closing cycle was shortened to 10 days from the previous 60. The discrimination complaints were settled or dropped, the union organizing drive lost momentum, and turnover dropped to a manageable 15%.

Although the turnaround was enabled by workflow and process improvements, it was largely empowered by cultural change. We listened to the employees, responded to their concerns, and consistently demonstrated that management cared about them and their welfare. When we arrived, the situation was so bad that almost any change would have been seen as a positive, but good management and a supportive culture made a huge difference.

2.8. The eighth hurdle: Managing risks and vulnerabilities

Small, rapidly growing entrepreneurial firms are particularly vulnerable to disruptions, including the generic risks peculiar to the startup environment:

- Technical risks (Will the product work? Will it scale?);
- Market risks (Is there a legitimate need? Can we charge enough to generate profits? Is the size of the opportunity sufficient to justify the investment?);
- Competitive risks (How will competitors react? Can the firm sustain a competitive advantage?); and
- Execution risks (Does the management team have relevant skills and experience?).

Risks arise from many sources, including rapid growth, inexperienced employees, inadequate infrastructures and information management, and a bias toward entrepreneurial risk taking (Simons, 1999). A narrow revenue base (reliance on a single product or a few customers) puts all the eggs in one basket. Limited resources provide little or no margin for error, inexperienced management may overlook early warning signs, and larger competitors with greater staying power may do their best to drive small competitors out of a market.

These are predictable and manageable risks, often overlooked by inexperienced entrepreneurs. Proactive management requires recognition of potential risks, identification of weak links, and actions to address vulnerabilities before they become crises.

3. Final thoughts

The eight hurdles of transition are essential steps in the growth and maturation of the entrepreneurial enterprise as it evolves from a nascent startup to an emerging organization positioned for sustained and profitable growth. The well-documented rates of early startup demise can often be traced to the failure to clear one or more of the eight hurdles of transition as the inexperienced entrepreneur scales prematurely, seeking rapid growth before laying a solid foundation. Clearing the hurdles and winning the race requires that the entrepreneur and the founding team:

- Establish, communicate, and maintain a clear sense of direction;
- Position and reposition the offering as required to meet the needs of an expanded market;
- Develop and implement internal processes to ensure customer responsiveness;
- Build a capable and committed management team aligned with the strategic direction;
- Implement decision processes and infrastructures appropriate to the stage of development;
- Build financial capability focused on the efficient utilization of available resources;
- Nurture a culture that reflects values, beliefs, and norms supportive of the business purpose; and
- Recognize the inherent vulnerabilities of an emerging enterprise and proactively manage risks.

Each of these is essential. The failure to clear one or more of these hurdles during the critical period of transition risks the demise of the new venture. I have outlined the essential tasks to be undertaken and provided experience-based guidance for laying a solid foundation. The rest is up to the entrepreneur and the founding team.

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