**The Journey from Zero to Sixty Employees**

**Introduction**

The growth stages of a company are all different, but transitioning from a small, close-knit team to a diverse workforce with varied roles, abilities, and personalities can be the most challenging. This is especially true when your extensive hiring efforts fail to produce the team you need. We’ve heard several thought leaders say that staffing is the most critical decision you will ever make.

Unfortunately, many companies experience something entirely different. The wrong people are hired and retained, and every piece of the business is affected. For some employers, the growth in headcount happens rapidly. For others, the growth occurs slowly over the years. Either way, as you add employees, you add complexity – even if you do it correctly.

**"The complexity of any organization is created because of the number of people, not the amount of revenue you have. Money and processes are easy to manage compared to the dynamic impact people bring."** — Jim Alampi, Founder of Alampi & Associates

The number of unique jobs, departments, and locations also increases the complexity. Managing a warehouse with sixty material handlers radically differs from managing multiple functions, position levels, and backgrounds – even if the number of employees is identical.

We will break the 'zero-to-sixty' discussion into four separate phases. Each phase feels different, and the organizational structures, CEO priorities, staffing challenges, and critical regulations differ. Generally, you will know you’re on the verge of a new stage when you feel stuck, and the old patterns no longer work for you.

**Phase 1: 1 to 10 Employees**

The critical business challenge in this phase is survival. According to Bloomberg, 8 out of 10 entrepreneurs who start businesses fail within the first 18 months. The primary reason for failure is the inability to create a profitable business model with proven revenue streams. During this stage, the organization is very CEO-centric. The owner is used to handling everything: sales, operations, hiring, firing, finance, and managing the people. The business is built around this individual’s knowledge, worth ethic, values, and personality. 90% of the CEO’s time is spent as the specialist and selling while only 10% managing.

This is a natural part of the growth cycle. A leader who only knows how to delegate to functional experts would fail here. The CEO must be flexible and understand all aspects of the business. Day-to-day operations are best described as chaos with very few systems or processes. The answer to most customer requests is “Yes, we can,” the CEO does whatever it takes to make it happen.

Hiring people is critical as the owner begins to add people during this period. They must fit into the culture already established by the CEO. Ideally, you need people who are secure in a smaller company and who have the capabilities to take on more responsibility as the company grows. “Hire slow, fire fast” must be the mantra at this stage. You do not have the time or money to put up with non-performance.

**The issues that can arise at this time are:**

* The CEO has often been so busy working in the business that they don’t have the time or training to thoughtfully source and screen the right people.
* They may also have limited management experience and no formal leadership training.
* They may enjoy their “job and mission” but not the leadership, coaching, and discipline aspects.

The result is poor hires, terminations done quickly but with significant legal risk and too little warning for the employee, and occasionally hires that stay in non-performing roles because the CEO feels uncomfortable with conflict and is not trained in management.

Turnover of this size can be devastating as the effects are felt to the core. At the upper end of this employee number range, the company must start developing practices and having documented policies. We usually see the first employee handbook created as we approach ten employees. The first “manager” may be hired at the later end of this phase, which starts a difficult challenge for the CEO of letting go, which we will discuss in phase two.

It is essential to keep employees engaged. The key employees are used to being part of the plan from the start. Cutting them off entirely at this point would be demoralizing. On the other hand, a differentiation of roles does need to take place. Not everyone gets a vote on everything. People need to start becoming trusted experts in their area.

To get to the next level, all staff must understand and feel a part of the plan to grow the business. They should know their role but be comfortable with the idea that growth will change. Be cautious in promising additional responsibility in the future, as you will find that some of the people who helped you get off the ground will not fit in at later stages.

The other complexity that arises with added employees is that of state and federal legislation. The primary compliance laws that will come into play during this phase include:

1. Fair Labor Standards Act (FLSA) – minimum wage, overtime, child labor, exemptions, recordkeeping
2. OSHA – Safety standards
3. Equal Pay Act – equal pay for equal work
4. Immigration Reform and Control Act – I-9 documents
5. Polygraph Protection – Generally prohibits polygraphs at work
6. Other laws protect jurors, veterans, union activities, and health insurance portability
7. Various NC laws, including Unemployment, Workers’ Compensation, Wage Payment, Retaliatory, Discrimination, New Hire Reporting, Identity theft, Parental School Involvement, etc.

**Phase 2: 11 – 19 Employees**

The primary business challenge in this phase is growing sales and managing cash flow. Hopefully, at this point, the company has found that some aspects of its business plans were ineffective in driving sales or profits, and there is a solid product or service model in place, at least for now.

The CEO also realizes they need more knowledge about financial and management issues than ever before. The organization is still very CEO-centric during this stage but starts to departmentalize. We see the first organizational structure with managers reporting directly to the CEO. The CEO begins meetings with managers on strategic and tactical decisions.

More of the CEO’s time is spent on meetings and determining how to get the most out of the employees. The more the CEO delegates, the more the CEO realizes the importance of hiring the best people. Getting through this stage depends heavily on the CEO’s ability to delegate and trust the new managers to carry out their vision. The organization is getting too complex for one person to manage it.

At this stage, the CEO’s drive and desire to lead and control can cause them to stumble. They worry that they cannot see and manage every aspect of the business. They inflate customer issues into a need for dramatic restructuring or a pullback of the control of a part of the business. By doing this, they sow mistrust between the management and CEO and often cause management-level staff to leave.

On the staffing front, in the later part of this phase, the CEO begins to see that their "team" – the people who started the company – may no longer be a fit. The company may have outgrown them. Letting go of these people or placing them in less central roles will be very painful for the CEO, but getting to the next stage will depend on it. At this point, as the structure develops, looking carefully at people, processes, and systems is critical. So is the courage to take the next step forward.

Hiring is time-consuming and challenging, and hiring people in sync with the vision and culture is no less critical. **Bad hires are devastating for small companies:**

* The effects of poor performance are felt throughout the company.
* Bad hires are more likely to sue/file claims.
* Bad hires that stay cause lower morale/high turnover and drain efficiency and profitability.

During this stage, we also add three more regulations.

1. Title VII of the Civil Rights Act (15 employees) – Prohibits discrimination based on race, color, religion, national origin, sex (including pregnancy, gender identity or expression, and sexual orientation).
2. Americans with Disabilities Act (15 employees) – Prohibits discrimination based on disability, requires engaging in an interactive process to determine if needed workplace accommodations can be made, up to an undue hardship.
3. Pregnant Workers Fairness Act (15 employees) – requires engaging in an interactive process to determine if an employer can make reasonable workplace accommodation(s) related to pregnancy and childbirth up to an undue hardship.

**Phase 3: 20 to 34 Employees**

In phase three, the primary business challenge is still managing cash flow, but the CEO begins to see that having strong leaders is vital to prevent the CEO from burning out to avoid the loss of key employees. During this stage, the organization transitions from being CEO-centric to more enterprise-centric. This may be when a more highly articulated set of values is implemented. The CEO's personality needs to be replaced by something representing the company.

The organization is too large for one person to manage, much less work while also being a day-to-day performer. For this reason, we see more CEO burnouts in this phase as they fail to let go of the reins and begin letting the managers lead their unique areas. The CEO must include these managers in the more significant decisions for the organization and encourage interaction and collaboration between them.

As we now have departments, team building becomes more of an issue. The CEO must make sure everyone is still rowing in the same direction. At the start, employees were all on the same team and got advice from an inspiring CEO. Now, we have people working in departments who may have limited customer interaction. Their connection with the mission and core business is not as strong. Due to their narrower roles, it is easy to have silo thinking.

The CEO now understands the importance of regular and effective communication. Employees expect to hear information from their manager instead of directly from the CEO, so messages must cascade down efficiently and accurately.

Another critical new role for the CEO is protecting the company’s vision. Some CEOs have reached this point without putting in place any formal discipline or coaching process. They are still terminated without notice after a long period of low performance, which the manager failed to address. Communication, again, is the solution. Manager training may begin as the CEO tries to help managers understand that the leader must do their day-to-day tasks well and build a great team. This means coaching and encouraging, documenting poor performance, frequently discussing performance, and terminating promptly as needed.

It is during this stage that many CEOs come to a point where they realize they don’t enjoy what their job has become. Early on, they were in the middle of the action, fighting the fires, winning the battles, closing the deals, and designing the next big thing. They are managing, delegating, communicating, trusting, building processes, etc. The CEO may be a top-notch salesperson, architect, or engineer – and they may love that job. And at the same time, they may despise and be lousy at this new CEO role. Some CEOs overcome this problem by hiring someone else to run the business operations, freeing up their time to be the Chief Salesperson. There is nothing wrong with this approach; in fact, it is often required to move the company forward or even stop it from moving backward.

Nothing is worse for a growing company than to lose its best salesperson (the CEO) and gain its worst administrator (the CEO). Both roles are critical and usually require two different people once you’re in phase 3.

During this phase, we also add three more regulations:

1. The Age Discrimination in Employment Act (20 employees) – Prohibits discrimination based on age, 40+.
2. COBRA (20 employees) – Provides health insurance continuation to former employees and their dependents for extended periods.
3. E-Verify (25 employees) – NC requires companies to use E-Verify for new hires if they have 25 employees in NC.

**Phase 4: From 35 to 60 Employees**

In phase four, the primary business challenge is still managing cash flow. Still, formal business processes become needed as the collective memory of the company becomes scattered across departments and staff. The CEO, who once operated a close-knit band of doers, now finds that the company has grown to a level where it can no longer see or understand each aspect of its operations. It has taken on a life of its own.

It’s no longer good enough for processes to be only in people's heads or shoved into individual file cabinets. You now clearly see the need to build out many internal processes. The CEO is teetering on entirely shifting the central control of their company over to experienced managers. The formal documentation of methods and critical systems will provide the foundational building blocks to manage that shift. The company is growing up.

The biggest question the CEO must ask themself is, “Are you growing up as well?” The CEO is now spending 70% of their time managing. Remember, in phase 1, the CEO spent 90% of their time doing it. As mentioned in the last phase, many CEOs dislike their new job. Many preferred, and were frankly better at, doing versus leading. That’s fine because, at this phase, you will need someone else to run the day-to-day operations. The CEO may choose to go back to doing it. However, this "doing" comes with a price by the end of this last phase.

Someone must look ahead to navigate the ship into the correct stream of potential cash and avoid hazards along the way. On the management front, this isn’t the time to consider saving money by hiring inexperienced managers. You need managers who ‘have been there, done that.’ These experienced managers will manage the work and provide employees with tools to do their job, guidance, and feedback regularly. Your employees will feel less frustrated, work fewer hours, and be more productive. If you hire poor managers – “doers” instead of “leaders,” you will find that your good employees leave.

Partner with Catapult to find quality leadership managers through our assessment and recruiting consulting services. You can also use Catapult to train and develop the leaders you have, building on their strengths and helping them work on their struggles.

Otherwise, your good employees will leave.

During this phase, we also add two more regulations:

1. Family Medical Leave Act (50 employees) – job-protected leave of absence for the serious health condition of your employee or their covered family member.
2. The Affordable Care Act (50 employees) – group health insurance coverage/eligibility requirements.

**Summing Up**

The zero-to-sixty process is exciting, tumultuous, and sometimes frustrating for a CEO (and their surrounding staff). It is a make-or-break time for the organization. At first, much hinges on a few people’s abilities, hard work, and knowledge. But if growth results, the business responsibilities soon grow too weighty for one person. As the company grows, managers are needed, and micromanaging CEOs have to learn to let loose the reins to some extent.

Good hiring is a vital part of the successful growth of a small company. The managers should not just be hired for skill but also for the potential to manage a team. They should be mature, focused, and able to have frank, kind, and respectful discussions with non-performers. They should see their role as day-to-day tasks and invest time developing relationships, coaching, and managing their team.

Values become the company’s ethical system and process its shared knowledge, as the CEO can no longer handle every aspect of the business. Knowing these phases can help small businesses understand what to prepare for next and what stumbling blocks to look out for on their way to success at sixty.

*Written by a Catapult HR Advisor*