

## **Riding Gazelles**

*Observations From Periods of Rapid,  
Entrepreneurial Growth*

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The University of Chicago Booth School of Business

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## Introduction to Erik G. Birkerts

- Chicago Booth '96
- Post Booth: career has focused on the design, implementation and/or repositioning of go-to-market strategies
  - Weighted towards growth stage, venture capital financed companies
- Involved with 5 significant equity raises from institutional / strategic investors
- Member of the senior management teams for two companies that went public on NASDAQ: Network Commerce (1999) and Orion Energy Systems (2007)
- Have experienced both the ups and the downs
  - Network Commerce
  - Advisor to Antigo Cheese: sale to Sartori Foods; 2006 “Large Transaction of the Year” from the Turnaround Management Association
- Most recent operating role: EVP and Chief Operating Officer of Orion Energy Systems
  - Leading provider of energy efficiency and renewable technologies in the C&I market
- Current: co-founder of Evergreen Growth Advisors
  - Clean tech clients in energy efficiency and renewable technologies



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At the end of 2009 I voluntarily resigned as an executive officer of Orion Energy Systems, a company that grew 549% over a four-year period. During this time this company also debuted on NASDAQ and, at one point, reached a market capitalization of over half a billion dollars. Less than ten years earlier I was on the management team of Network Commerce, another fast growing company that we took from start-up to public. This company ranked very high on Deloitte & Touche’s national Fast 500 list and also reached a market capitalization of over half a billion dollars. I’d love to say that I am now retired and tending my vineyard but, alas, such is not the case. I will say, however, that I feel much wiser from these experiences and have observed striking parallels between both that may be helpful to other executives looking to create or manage through periods of growth.

I do wish to emphasize that it is difficult to have a career in the entrepreneurial space and not experience some challenges and downside situations. Working with emerging companies requires a strong constitution.

Venture capitalists have the benefit of spreading these risks across a portfolio of investments. For a VC, several investments that do not work out is part of the process. However, as an operating executive, you can only place one bet – and you must endeavor for it to be a good one. The opportunity cost of time spent with a company that doesn’t break-out is very expensive.



## What Makes Entrepreneurs Entrepreneurial?

Can entrepreneurialism be taught?

<p><b>Effectual Reasoning:</b> <i>To the extent we can control the future, we don't need to predict it</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Dominant characteristic of "pure" entrepreneurs</li> <li><input type="checkbox"/> Reasoning that does not begin with specific goals/outcomes – more adventurous, exploratory and biased towards action. (Think explorers going into uncharted waters)</li> <li><input type="checkbox"/> Create markets vs. going after existing markets. Visionary.</li> <li><input type="checkbox"/> Begins with a given set of means and the goals/outcomes emerge over time from interactions with people and the marketplace</li> <li><input type="checkbox"/> Surprises, mistakes, false starts part of the norm – embraced for learning vs. viewed as setback             <ul style="list-style-type: none"> <li>– Very good at outliving mistakes and accumulating successes</li> </ul> </li> </ul>	<p><b>Causal Reasoning:</b> <i>To the extent that we can predict the future, we can control it</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Taught as part of MBA curriculums</li> <li><input type="checkbox"/> Sequential / structured progression:             <ul style="list-style-type: none"> <li>– Idea to Market Research</li> <li>– Financial Projections to Team</li> <li>– Business Plan to Financing</li> <li>– Prototype to Pilot to Market</li> <li>– Market to Exit</li> </ul> </li> <li><input type="checkbox"/> May hinder early stage progress; valuable in later stages when structure, process, and management become requirements</li> <li><input type="checkbox"/> Surprises, mistakes, false starts viewed as setbacks – breakdown in logic</li> <li><input type="checkbox"/> Causal Reasoners often clash with Effectual Reasoners</li> </ul>
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Source: Saras D. Sarasvathy, Darden Graduate School of Business

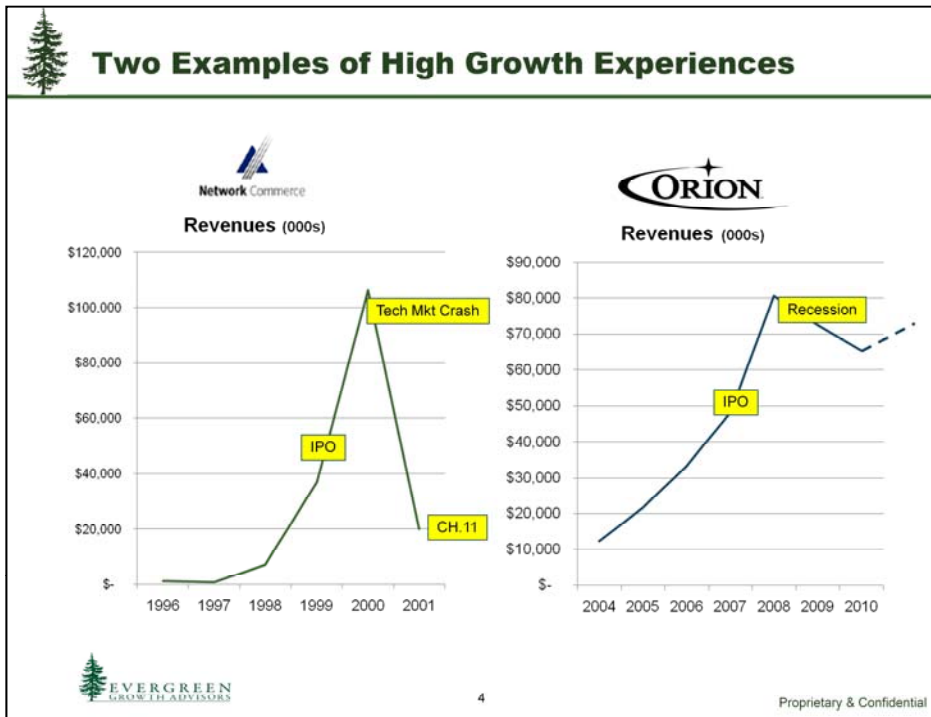

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There is a Professor at Darden, Saras Sarasvathy, who has conducted some interesting research and wrote a paper titled “What Makes Entrepreneurs Entrepreneurial?”

She studied many entrepreneurs and identified a common way of thinking and seeing the world among them that she christened Effectual Reasoning. Effectual Reasoning contrasts with Causal Reasoning, which is a very structured, goal oriented thought process – one that is taught in most MBA programs.

A good analogy that Professor Sarasvathy uses to crystallize the distinction is that of two cooks in a kitchen. One cook selects a recipe from a book, makes a shopping list, goes out and purchases all the required ingredients, comes back and measures them out with scientific accuracy and then begins cooking in a structured sequence. This is the Causal approach. In contrast, the second cook rifles through the cupboards and the refrigerator and finds out what ingredients are at hand. Without using a recipe, the second cook begins to mix ingredients together based on experience and intuition. Tasting along the way, the second cook adjusts by adding more of something and less of something else. In the end, the second cook presents something delightful but, most likely, unexpected. This is the Effectual approach.

My career has been largely focused on providing Causal balance to Effectual entrepreneurs. However, coupling these two traits doesn't always produce a marriage made in heaven. Causal thinking and Effectual thinking can be oil to water. Success in a working relationship requires awareness and respect of each other's tendencies and sufficient self-awareness to temper one's own tendencies at the appropriate times.



Network Commerce and Orion Energy Systems are two experiences from my past that shared many parallels:

- Both enjoyed rocket-ship growth trajectories in relatively compressed time periods
- Both leveraged this rapid growth to go public on NASDAQ
  - NWKC in 1999
  - OESX in 2007
- Both saw growth stall soon thereafter - one more dramatically than the other
  - OESX appears to be regaining its footing

Let's talk about some of what I learned from these two experiences as well as others in which I have been involved.



## Five Observations From Periods of High Growth

Both experiences have striking parallels that led me to formulate five observations that may be helpful to executives looking to create or manage through periods of high growth:

Observation 1: Test, Refine & Embrace Success

Observation 2: Communicate Corporate Vision

Observation 3: Move Early to Tighten-Up But Do So Gradually

Observation 4: Invest in Your People

Observation 5: Prepare for Re-Entry



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After reflecting on my experiences at Network Commerce and Orion, as well as overlaying my experiences working with other companies in a variety of industries, led me to identify five common themes/observations. I pulled these together thinking that they may be helpful to other executives looking for insights on how to create and successfully manage high-growth enterprises. Let's walk through them...



## #1: Test, Refine & Embrace Success

*In examining the history of visionary companies, we were struck by how often they made their best moves not by strategic planning, but rather by experimentation, trial and error, opportunism, and – quite literally – accident.*

- Jim Collins, Built to Last

- The business plans for both companies were obsolete before last page printed
- Key to success was assiduously testing and refining ideas through real-time interaction with the market
- Mistakes were acceptable as long as they were kept on a small scale
- Successes were embraced and built upon
- Process was painful and not for the faint hearted – high attrition
  - Comfort with ambiguity a key determinant of success



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As with many entrepreneurial ventures, the business plans for both companies were obsolete before the last page exited the printer. This was not a breakdown - this was as it should be as it was simply not possible to be rigid in planning and execution. Both companies were creating new markets and the unknowns were immense. The key to success in the early days was assiduously testing and refining ideas through real-time interaction with the market. Mistakes were acceptable as long as they were on a small-scale. They helped guide company formation almost as much as successes

The process at both companies was painful and not for the faint hearted. Many people left during these early periods, complaining of the ambiguity and “cowboy” cultures. However, I’ve come to realize that if either company would have rigidly stuck to executing its original business plan it never would have “cracked the code” to growth. It was exceptional nimbleness -- exhibited through testing, making mistakes, refining and then embracing successes -- that allowed both companies to discover the right combination of products and services to align with customer needs. These companies were almost like smart traders – naturally knowing when to double-down on winners, when to take profits and, equally importantly, knowing when to cut losses.

Twitter is a good example to consider. Twitter was conceived inside a company called Odeo largely by accident. Odeo was struggling to find its way in the podcasting world and, apparently, some software engineers began texting each other to provide updates on work progress and the rest is history...

**Example: Test, Refine & Embrace Success**

Orion launched thinking it was a lighting fixture manufacturer selling through traditional lighting channels. Quickly realized it was in the energy business and morphed its sales/distribution strategy to deploying energy management solutions

Orion "boxed out" of traditional channels by incumbents	Forced by circumstances to sell direct : quickly realized powerful value prop: ENERGY SAVINGS	Developed competencies in deploying energy management solutions. Now teaching its "Best Practices" to its growing partner network	Adding new energy efficiency and renewable technologies to deploy into customer base. No longer just a "lighting company"
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Orion is a good example of a company that discovered its true leverage point in the market through testing, refining and embracing success. Orion started out thinking it was in the lighting business and, through interactions with customers and the market, realized the greater opportunity was in the energy business. Today, Orion is deploying energy efficient and renewable technologies into a broad base of commercial and industrial customers both domestically and, increasingly, abroad.



## #2: Communicate Corporate Vision

***To organize the world's information and make it universally accessible and useful.***

- Google Corporate Vision Statement

- The risk in fast growing companies is that employees begin acting as individual performers, pursuing disparate agendas → chaos
- Vision statements create compelling, rallying narratives about what companies are trying to achieve and fill the vacuum when formal strategic planning is futile
- The "how" of the vision is not defined, releasing creative juices and unearthing unanticipated opportunities
- Employees imbued with sense of purpose and understand why long hours, low pay, frustrations and periodic disappointments matter
- Visions facilitate decision-making when things get crazy
  - ***Is the new opportunity in keeping with the vision? If yes, proceed. If no, abort.***



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Given the ambiguity and the rapid changes in strategic direction, formal planning was futile in the early chapters of both companies. The risk was that teamwork would dissolve and that employees would begin acting as individual performers, pursuing disparate agendas. To prevent chaos, both companies leveraged strong statements of corporate vision. Similar to Google's vision statement that its mission is "to organize the world's information and make it universally accessible and useful," both companies had compelling, rallying narratives about what the company was trying to achieve. People were imbued with a sense of purpose – they understood why their long hours, low pay, frustrations and periodic disappointments mattered. For instance, Orion was in the energy efficiency and renewable technology market. The vision was simple – we were going to take our customers "off the grid." It wasn't always clear how we were going to accomplish this goal but the mission was understood and creative juices were unleashed. And, when things were totally crazy and there wasn't time for exhaustive analysis and debate, the vision facilitated decision-making. *Was the new opportunity in keeping with our vision? If yes, proceed. If no, abort.*



At Orion there was not a formal strategic plan but the company evolved in a coherent manner because its mission was clear: “to take our customers off the grid.”

The mission is executed in three stages:

1. Deliver permanent baseload reduction through deployment of energy efficient technologies.
  - Lighting and controls, with paybacks of less than 24 months, serve as the customer acquisition engine
  - Successful execution on baseload reduction establishes Orion as a credible partner for future energy initiatives
2. Deploy energy generation technologies
  - Leverage credibility and expertise to work with customers in deploying solar, wind and other renewable technologies
3. Help customers monetize “off-the-grid” advantages
  - Participate in Demand Response and Real-Time pricing opportunities
  - Sell power back onto grid via net metering

 **#3: Move Early to Tighten Up But Do So Gradually**



John Sculley



Steve Jobs



Tim Cook

- ❑ Small intimate enterprises easily managed by visionary CEOs scale into complicated, sprawling, difficult to manage businesses -- strong corporate visions / "iron grips" no longer sufficient
- ❑ Palpable drumbeat from Board and investors to "get professional" -- threats to replace management, edicts to implement strategic plans, budgets, forecasts, ERP systems, CRM systems, workflows, decision rights, policy manuals, etc... -- **ALL AT ONCE!**
- ❑ Traditional management tools / techniques attacked by cultural antibodies
- ❑ Key is to begin formalizing operations earlier in growth cycle and do so gradually
  - Test & refine approaches to structure & process: embrace successes / keep mistakes small
- ❑ Apple's experience
  - John Sculley's tenure in mid-80's marked by struggle: forced upon company
  - Tim Cook's oversight during Jobs' illness was exceptional: handled on company's own terms

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Both companies, through nimbleness, creativity, and a bit of luck, found pathways that resulted in explosive growth. What were once small, intimate enterprises easily managed by their visionary CEOs quickly scaled into more complicated, sprawling and difficult to manage businesses. The operational foundations and control structures at both companies were immature at best. The strong corporate visions that worked well in the past to keep the companies on track were no longer sufficient. The time for traditional management tools and techniques had arrived but, like cell antibodies attacking pathogens, the entrepreneurial cultures at both companies were poised to repel.

Like Apple Computer in the mid-80's when John Sculley came in to replace the entrepreneurial Steve Jobs, both companies struggled immensely during this pivotal period. One core challenge was divisiveness. Some people argued for traditional structure and processes whereas others fought doggedly to preserve the entrepreneurial ethos that had originally spawned success. The problem was accentuated by the overwhelming drumbeat to "get professional" emanating from the Board and outside investors. Not only were there real threats to replace management with "professionals" but there were also edicts to implement strategic plans, budgets, forecasts, ERP systems, CRM systems, workflows, decision rights, policy manuals, etc...all at once!

In retrospect, both companies would have benefited if they would have begun formalizing operations earlier in the growth cycle and then proceeded gradually. Both companies could have applied the very techniques they used successfully in the marketplace. They could have tested and refined approaches to structure and process, keeping the scale of mistakes small and embracing successes. However, by waiting too long and initially fighting against tighter operational controls, both companies had it forced upon them by circumstances and outside forces -- never an optimal situation.



## #4: Invest In Your People

- ❑ Recruiting, developing and managing people one of best places to start implementing structure and process
  - No secret that quality and cohesiveness of workforce correlates with ultimate success
- ❑ Challenge: sound approaches to human capital fall by wayside during heady growth
  - Hiring becomes a “get ‘er done” exercise / “battlefield promotions” de rigeur
  - Training is no more than a “sink or swim” exercise
  - Effective delegation and management is too time consuming / “easier for me to just do it myself”
  - Ongoing coaching and development viewed as a luxury
- ❑ Negative cycle emerges: poorly considered hires wash-out and pressure builds to backfill
- ❑ Solution: Board/CEO must make it known that recruiting and developing people is corporate priority that is measured and rewarded
  - Rigorous selection process: competence AND cultural fit. How has candidate handled adversity? How comfortable is candidate with ambiguity?
  - Reference checks are not a “check the box” formality
  - Hiring is just Step 1. Training and development equally important
  - Losing new hires should be a shameful event for manager in charge




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From my experiences, the best place to begin instituting structure and process is in recruiting, developing and managing people. However, when growth is hot and people are overwhelmed, such sound approaches to human capital fall by the wayside. Hiring becomes a “get ‘er done” task focused on filling an empty seat rather than finding the best and brightest. Training for the new hire becomes nothing more than a “sink or swim” exercise in frustration. Effective delegation and management is viewed as too time consuming and ongoing coaching and development is viewed as a luxury. The negative cycle only accelerates when some of the poorly considered new hires wash-out and the pressure builds to backfill the open positions.

The Board, CEO and executive management should make it explicitly clear that recruiting and developing a high caliber workforce is a corporate priority that is measured and remunerated. The selection process should be rigorous with multiple interviews with key people across the company. Not only should the interviews focus on concrete accomplishments but the interviews should also explore how the candidate has handled adversity. Handling adversity may be the single most telling look into the candidate’s character. It is also essential to probe the candidate’s comfort with ambiguity as fast growing companies are nothing if not ambiguous. Reference checks should also be viewed as a pre-screening exercise as opposed to a “check the box” formality after a decision has already been made. However, diligent hiring is a fruitless exercise if equal care and consideration is not applied to acclimating and training new hires. Although this is rarely the case, having a new hire “wash-out” should be a shameful and potentially career limiting experience for the manager in-charge.



## Example: Invest In Your People


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**Zappos**  
.com  
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***We have actually passed on a lot of experienced and talented people that we know can make an immediate impact on our top or bottom line but if they're not a culture fit, we won't hire them***  
 - Tony Hsieh, CEO

- Human capital processes designed to support customer service culture
  - "We are service company that happens to sell shoes"
- Two series of comprehensive interviews: Series 1 to evaluate experience and job skills; Series 2 to evaluate cultural fit
  - 1 out of every 100 pass hiring process
- Regardless of position – everybody attends 4-week training program
- The "Offer" – one week into training, new hires are offered \$2,000 bonus to leave
  - Only 10% of new call center hires "take money and run"



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Let's take a look at a company that appears to be doing it well – Zappos, now owned by Amazon.

Great quote by Tony Hsieh... presuming this is true it is pretty unique. There are not too many companies that would have the discipline to follow this policy.

Several things that Zappos does I'd like to highlight

1. They conduct two separate series of interviews: Series 1 evaluate experience and technical competency and Series 2 focuses strictly on cultural fit
2. Regardless of position, everybody is required to attend its 4-week training program
  - C-Suite executives sitting next to call center operators
3. They will actually bribe people to drop-out and leave the company. Their logic is that if somebody would actually seriously entertain taking the money then they probably shouldn't be working there.
  - \$2,000 may not seem like much to some folks but for an entry-level call center employee it represents quite a bit of money
  - Only 10% of new call center hires "take the money and run"

 **#5: Prepare For Re-Entry**



Revenues off 24%  
from high water mark

**CROCS™**



Revenues off 51% from high water mark



Home Business News Markets Personal Finance

**Microsoft is a dying consumer brand**

- Immutable law that rapid growth will eventually slow
- Sometimes due to missteps or external events but often part of a natural evolution within a company's lifecycle
- Challenge: growth is addictive & dangerous withdrawal symptoms can result when it slows
  - Executives manifest self-doubt over lost “mojo” – finger pointing begins
  - Employees, customers, suppliers, partners and other constituents become concern and open up to other options
  - Competitors seize opportunity for some cheap shots
- Solution: avoid adopting growth as the reigning metric
  - Customer satisfaction, Supplier of Year awards, patents, new product launches, efficiency measures, ROI calculations
  - Growth should be only one of multiple measures of health and success



Revenues off 24% from  
high water mark



Revenues off 53% from  
high water mark. Acquired  
by HP in 2010.


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As with gravity, the fact that rapid growth will eventually slow is an immutable law. Sometimes this is due to missteps but, more often than not, it is part of natural evolution within a company’s lifecycle. The challenge is that rapid growth is addictive and damaging withdrawal symptoms can surface when it eventually begins to taper. Employees, suppliers, customers, partners, and other constituents may begin to suspect that something is broken and thus open themselves to other options. Executives lose confidence fearing lost “mojo” and their self-doubt is absorbed by their ever perceptive staff. Salespeople fret over declining commission checks and begin pointing fingers at others to explain their shortfalls. Competitors seize the opportunity for some cheap shots. If executive leadership isn’t careful, slowing growth will feed upon itself and the company will find itself in real trouble.

The problem is rooted in the original temptation to trumpet growth above all other measures of success. Accordingly, the solution lies in moving the workforce and all other constituents away from growth as the reigning metric. Executive leadership must measure, reward, promote and celebrate other accomplishments. Highlighting exceptional customer satisfaction ratings or Supplier of the Year awards will signal that the company continues to serve its customers well. Promoting new product launches and new patents will communicate that the company continues to innovate. Efficiency measures and return on investment calculations demonstrate that the company operates well and manages its resources. If well done, growth should become just one of multiple measures of company health and success.



**Questions?**



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Thinking about rapid growth may seem like a fanciful notion given the persistent weakness in the today's economy. However, I am optimistic that market conditions will soon improve and that a crop of new companies will enter into high growth mode and that some not-so-new companies will regain their growth postures. This period of slowness should be exploited to think through some of the issues outlined above. When growth comes back around and chaos reigns supreme, one will not wish to look back on these days of relative quiet wishing that more time had been spent getting one's house in order.

Questions?



## Erik G. Birkerts, Partner

### Expertise

Erik has years of practical, hands-on experience centered on the design, implementation and/or repositioning of go-to-market strategies. In particular, he specializes in leveraging indirect channels and partnerships to achieve cost-effective market coverage and profitable revenue growth. His experience as a public company operating executive gives him unique insight on the challenges faced by management teams and positions him to engage senior management to work collaboratively towards high value outcomes.

### Notable Achievements

- Member of the senior management teams for two IPOs of venture capital backed companies. Raised and structured numerous private equity financings.
- Designed and launched channel strategy that now contributes nearly 50% of Orion Energy Systems (NASDAQ: OESX) revenue. Managed channel sales and support team to deliver high double-digit revenue growth with profit margins greater than those witnessed in the direct sales channel.
- Executed comprehensive channel audit of key resellers and VARS for world's largest software company. Analysis identified competencies, readiness to launch new product initiatives, "wallet share" and levers for future growth.
- Created strategic roadmap for international expansion and M&A for a publicly traded for-profit education company. Analysis culminated in sizable acquisition in Brazil.
- Collaborated with turn-around firm to restructure sales and operations of a privately-held food company to position company for sale to strategic acquirer. Deal awarded "2006 Transaction of the Year" by the Turnaround Management Association and "Manufacturing Deal of the Year" by [The M&A Advisor](#).

### Professional Background

Erik most recently served as Chief Operating Officer and Executive Vice President of Orion Energy Systems (NASDAQ: OESX), a leading manufacturer of energy efficient, high-performance lighting systems and renewable technologies. Orion more than doubled its revenues and became publicly traded during his tenure. Erik was originally recruited to Orion after successfully consulting with the company on the design of its indirect sales channel strategy, which now contributes nearly 50% of Orion's revenues. Prior to Orion, Erik had a successful consulting career as President of The Prairie Partners Group, a boutique consulting firm he co-founded. Working with clients as diverse as Microsoft, Hewlett-Packard, Ingersoll Rand, DeVry University and numerous private equity and venture capital funded companies, Erik developed strategies to capitalize on growth opportunities for clients. He began his career as a financial analyst and bank examiner at the Federal Reserve Bank of New York, working on international banking transactions.

### Education

Erik earned his MBA at the University of Chicago Booth School of Business and his BA with honors in Economics and International Relations from Tufts University.

### Professional Affiliations/Published Works

Erik's work has been featured in [Mergers & Acquisitions](#), [The Chicago Tribune](#), [The Chicago Sun Times](#) and cited by the USDA. He is an Advisor to Clean Energy Trust and also a frequent speaker and panel participant at investor, energy efficiency and renewable energy conferences.

