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## The Path of Growth

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In the face of competition, every business must strive to grow or risk being competed away. We highlight in our previous note the observation that: achieving growth requires the commitment of all members, and a strategy and a business system for translating that commitment into action and results. We advocate that Enterprise Risk Management (“ERM”) has to be part of that system to crowdsource insights, induce consensus, and incentivize people.

### Growth as a Common Goal

The path to growth is unique for every firm. Each has to find its path and self-monitor and self-steer towards objectives it sets according to growth strategies it chooses. Amid market uncertainties, disciplined control and risk management is the key to success.

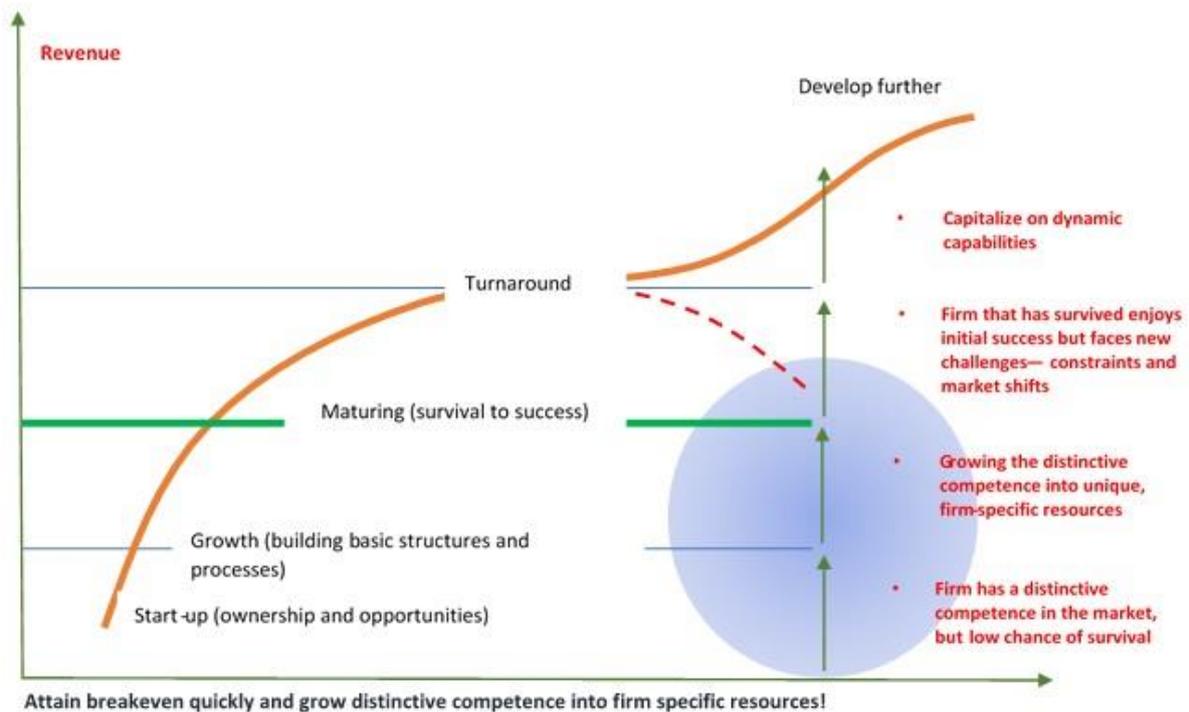
Growth means a sustained rise in value over time. In our discussion, we focus on the expansion of revenue and profit by focusing on the choice of what to make, and how to make it, and realizing value at the point of exchange. This focus appears to be narrow, but in practice, it entails the participation of everyone in the firm. It, therefore, affords a common goal for all in the firm to share.

In expanding revenue and profit, the key variables to manage are price, the quantity of goods and services sold, and the costs of making such goods and services. These are financial attributes. They provide the working handles by which success is managed.

In reality, the composition of these attributes is very complicated, and we shall discuss this further in a later note. For now, one must realize that these financial attributes can only be managed through efforts made by members in different roles, with different functions, placed in various divisions of the firm. The system of control and risk management serves to integrate efforts and incentivize individuals to share insights, work together, and act effectively to achieve results.

## Be Ready for Challenges Along the Path

**Exhibit A** depicts the development path of a business, from the start-up stage (we define this as a new firm or new business unit of an existing firm), to a growth stage where it acquires basic structures and processes, to early maturity where it enjoys initial success, and finally to new challenges, constraints, and market shifts, where it rides on capabilities built over time that enable it to develop further.



Each stage in the path presents different challenges. A start-up's main challenge is to survive while exploiting opportunities with the distinctive competencies it possesses. In doing so, a start-up must quickly develop its competencies into a coherent business system, forming the capabilities to deal with competition and constraints that soon set in. According to statistics, most companies fail at the start-up stage, but for those that survive and attain initial success, further rounds of challenges await them.

## Taking Risk Management Seriously

Any ordered system or business is subject to chaos that can arise from anywhere within or without. Some are known qualities, but most appear to be unanticipated unknowns. There are plenty of precedents showing otherwise well-managed firms failing spectacularly due to unexpected incidents. The core question is— can such incidents be anticipated, be kept in check, be avoided, or become resolved constructively? The answer lies in taking ERM seriously.