TRUE | SPACE

GALLUP

The Five Conditions Assessment

Table of Contents

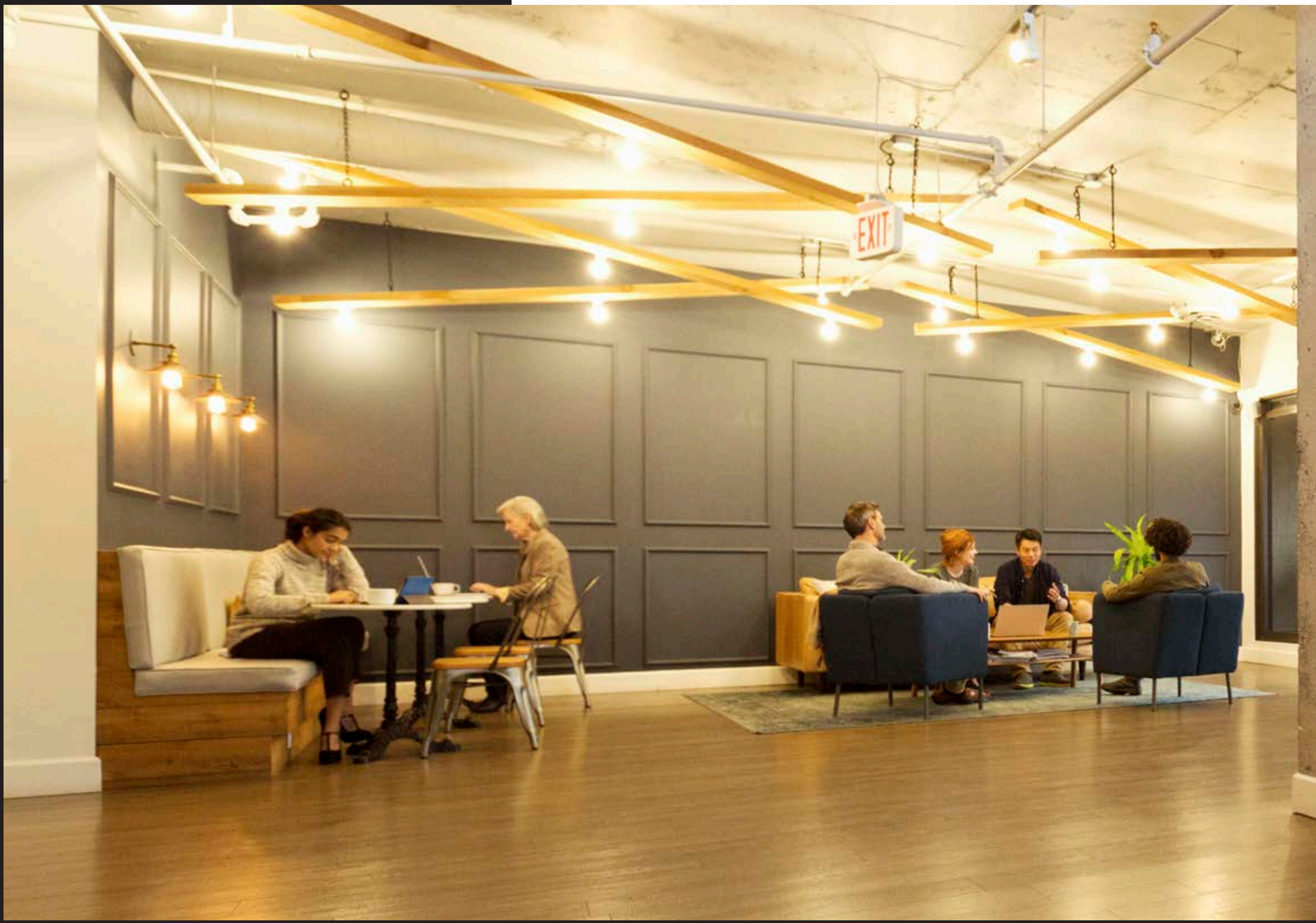
Introduction

The need for more high-quality jobs in the U.S. is a pressing issue in an era when, despite low unemployment, many Americans are unable to find work that provides them with a stable income and a sense of financial security.

SO WHO IS CREATING JOBS IN AMERICA?

The Congressional Research Service recently released an analysis on private-sector job creation in the U.S. for the Small Business Administration.[1] The report notes that though business startups are a critical source of job creation, they have a more limited effect on net job creation over time simply because many startups fail in their first five years. It reviews several studies showing that businesses that have made it through their first few years and grown to between 20 and 499 employees are more likely to then have a sustained positive effect on job creation.

1 Congressional Research Service. (2019). Small Business Administration and Job Creation. Retrieved from https://fas.org/sgp/crs/misc/R41523.pdf.



Over 2 million small businesses in the U.S. have revenues between $2 million and $10 million and employ, on average, between 20 and 115 people. Given the data regarding job creation, one might assume these firms are receiving significant attention from the investment community, the media and our economic development efforts. Unfortunately, the opposite is true. Firms that finally reach the $2 million mark but are growing less than 20% per year fall out of favor with investors, are too small for professional services support and lack the necessary attention to attract top talent.

This report includes data from almost 2,500 business owners gathered by TrueSpace and Gallup to investigate the operating conditions that foster sustainable growth among post-startup companies. The study builds on the results of a four-year ethnographic analysis of 147 businesses by TrueSpace, which were used to develop a conceptual framework of five operating conditions associated with consistent business growth. Gallup and TrueSpace used the framework to develop a quantitative survey — called the Five Conditions Assessment — on which the current results are based.

Executive Summary

Consistent progress from the post-startup phase of business growth to the middle market requires the development of five operating conditions. Companies that have established systems, structures and behaviors that foster these conditions consistently exhibit faster revenue growth and higher levels of sales and employment. These conditions — as measured by the Five Conditions Assessment (5CA) developed by TrueSpace and Gallup — include organizational alignment, operating discipline, predictability of performance, endurance among employees and other stakeholders, and value creation.

Though the 5CA shares some features with traditional management surveys, it also includes critical concepts not found in most surveys to give business leaders a comprehensive evaluation of the internal systems that contribute to the stability and growth of their companies. Entrepreneurs' responses to the assessment are used to place their business into one of three categories — labeled Emerging, Remodeling and Benchmark — according to their development on the five conditions and their resulting likelihood to experience consistent workforce and revenue growth.

Researchers conducted mail- and web-based surveys with 2,494 U.S. entrepreneurs. The researchers targeted firms that were at least three years old and past the startup phase but had not grown to middle-market status ($10 million to $1 billion in annual revenue). The results were used to examine the relationship between the five conditions as reflected in the companies' systems, processes and culture and performance outcomes such as size and recent growth rates. Specific findings include the following.

Using regression analysis to control for other potential influences on companies' potential to grow, researchers determined the 5CA captures 21% of variation in performance, making it far more predictive of the size of the business and its recent growth rates than factors like the business's age, industry or the demographic characteristics of the entrepreneurs.

Job creation is not a function of a firm's age. Scores on the 5CA are largely unrelated to the length of time a company has been operating; among businesses founded within the last three years, 84% fall into the Emerging category — but so do 79% of businesses that are 10 or more years old. That consistency suggests that growth and an increase in job creation does not happen naturally over time but instead requires a fundamental shift to reorient around the five conditions for new and sustainable growth.

5CA scores also do not vary widely by industry type, supporting the idea that growth potential is not as closely related to businesses' industry type as traditional economic thinking often assumes. Nor do businesses' 5CA scores vary substantially by the gender or race of the entrepreneurs, pointing to the assessment's potential as an objective standard that investors can use to inform their decision-making about a company's capacity for consistent growth.

Each of the first four conditions measured by the 5CA — Alignment, Discipline, Predictability and Endurance — is significantly related to higher performance as measured by company size and recent growth rates.

+ **The Alignment condition addresses the question, "Is the business growth-capable?"** Alignment scores are most strongly related to performance (r = .516), suggesting the elements the condition measures are a critical foundation for growth.

+ **The Discipline condition addresses the question, "Can the business scale?"** It looks at businesses' efforts to identify and track key performance indicators and build a capacity for continual improvement. Companies' Discipline scores relate only somewhat less strongly to performance than do those for Alignment (r = .427).

+ **The Predictability condition addresses the question, "Are the decision-makers continuously learning?"** with the recognition that leaders can learn from past growth experiences to improve their decision-making. This condition is somewhat less strongly related to performance than the other conditions (r = .333).

+ **The Endurance condition addresses the question, "Can employees and other stakeholders endure the growth journey?"** It looks at businesses' efforts to monitor and maintain an emotional commitment to the company among stakeholders. The condition is second only to Alignment in its relationship to performance (r = .441).

Researchers also determined which component elements across the five conditions were most likely to distinguish between companies that had achieved growth of at least 10% in each of the last two years and those that had not. Companies that had seen strong recent growth scored particularly highly on 1) having a clear plan for the timing of major milestones such as the entrepreneur's exit or seeking a new round of financing; 2) having focused strategies for developing and acquiring talent; 3) maintaining high levels of leadership credibility; and 4) establishing a clear, compelling point of view in the market.

Stimulating the Conditions for Job Creation

The current research on the Five Conditions Assessment is grounded in TrueSpace and Gallup's shared focus on understanding key drivers of job growth and increasing Americans' access to high-quality employment.

TrueSpace was founded with the recognition that entrepreneurs with post-startup companies often lack a complete understanding of what they need to do to scale up to mid-market status. Many also struggle to find support in their efforts to lead their organizations along a developmental track that supports sustainable growth. TrueSpace's mission is to help second-stage entrepreneurs achieve such growth, thereby adding new jobs to the economy.[2]

One of Gallup's most consistent findings from decades of survey research in the U.S. and around the world, discussed in Chairman Jim Clifton's 2011 book *The Coming Jobs War*, is the importance of good jobs to overall life quality. Gallup also has a long history of research on the workplace conditions and entrepreneurial talents associated with business growth.

TrueSpace and Gallup's work on the Five Conditions Assessment clearly reflects their common mission to understand and facilitate job growth. The consistent, year-over-year growth most businesses need to reach the middle market isn't easy to achieve, but the potential gains from helping more of them do so are huge. Census data indicate there are 2.1 million businesses with between five and 99 employees in the U.S. If even 100,000 small businesses used reliable, evidence-based practices to grow from 100 to 200 employees, that means 10 million new jobs and a more secure future for 10 million American families.

THE U.S. ECONOMY NEEDS A PRODUCTIVITY BOOST

Productivity growth rates have slowed in the U.S. and other developed countries. To some extent, productivity gains depend on the ability of individual firms to achieve scalable growth — i.e., growth in which revenue increases exponentially while operational costs rise only incrementally. Such growth allows firms to raise employee incomes and invest profits in activities that help ensure future growth.

ACHIEVING SCALABLE GROWTH ISN'T EASY, AND MANY POST-STARTUP ENTREPRENEURS HAVE TROUBLE RECOGNIZING AND IMPLEMENTING THE CHANGES THEY NEED TO MAKE IT HAPPEN.

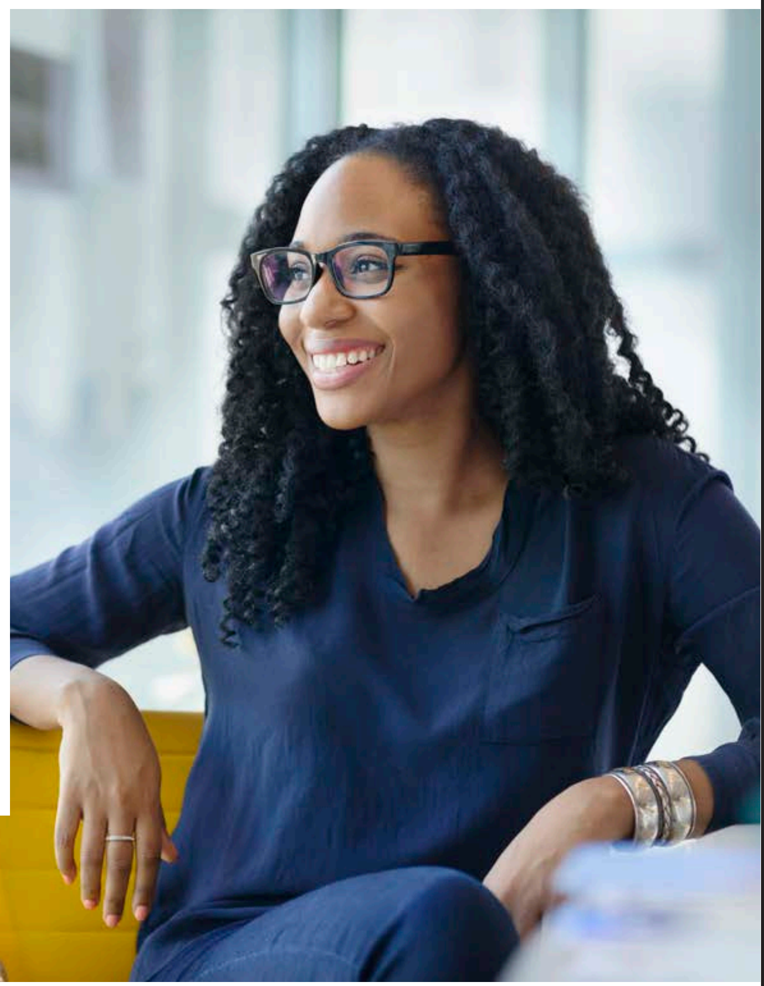
2 https://www.truespace.com/about

Part of the problem is a lack of support for such "second-stage" companies. Media analysts and policy-makers devote much attention to the high failure rate of startups and to the fast-growing venture-backed businesses for their effect on regional and national economic conditions. However, less attention is paid to the challenges facing businesses that have moved past the startup phase but whose growth has stalled before reaching the mid-market range of $10 million to $1 billion in annual revenue. Further, investors are more risk-averse when it comes to post-startup businesses, contributing to cash-flow problems among such companies that want to pursue long-term growth.

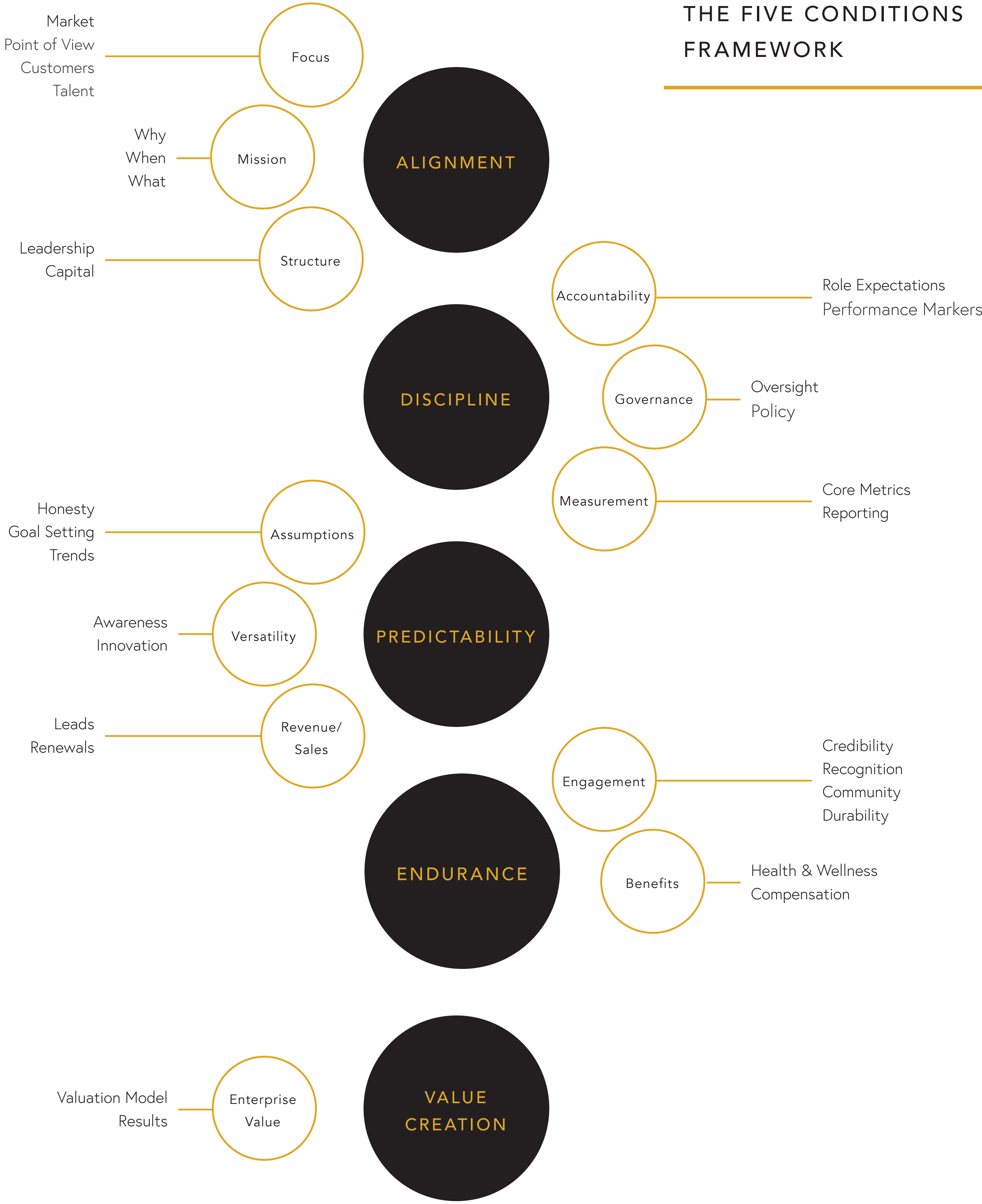
Leadership and management practices are a key factor in explaining variation in firm survival, productivity, profitability and growth, according to seminal research from economists Nicholas Bloom, John Van Reenen and their co-authors.[3] Current measures of such practices such as the World Management Survey (WMS) and the U.S. Census Bureau's Management and Organizational Practices Survey (MOPS) have led to key insights into why some firms perform better than others, demonstrating the importance of measuring firm and employee performance. The Five Conditions Assessment includes these concepts and provides important additional insight into the patterns of behavior and organization that generate consistent growth — particularly during the post-startup phase.

3 Bloom, N., Brynjolfsson, E., Foster, L., Jarmin, R., Patnaik, M., Saporta-Eksten, I., & Van Reenen, J. (2019). What drives differences in management practices? *American Economic Review*, 109(5), 1648-1683.

The 5CA addresses the need to track a more comprehensive set of factors facing post-startup businesses than existing measures capture, and in a way that helps entrepreneurs and executives understand their relationship to consistent growth. The goal of the assessment is to help business leaders identify areas in which an investment of time and resources is most likely to pay off. Further, TrueSpace and Gallup hope that as an empirical, evidence-based tool for promoting business growth, 5CA will provide an alternative to business publications that promise results but offer little or no data on the experiences of post-startup businesses. **The researchers also hope the 5CA promotes more national dialogue about the vast untapped potential of such businesses to promote job growth in the U.S.**



THE FIVE CONDITIONS FRAMEWORK



TrueSpace's Five Conditions framework focuses on the procedural, structural and cultural factors that help make business growth sustainable. It views such conditions from a systems-thinking perspective as a set of dynamic, interconnected feedback loops. Being aware of these loops and finding reliable ways to measure the feedback they provide can inform leaders' day-to-day decisions regarding a broad set of related and ever-changing variables that may influence their potential for growth.

The 5CA shares some features with traditional management surveys, including the WMS and MOPS — such as a company's tracking of key performance metrics and use of incentives to align employees with organizational priorities. However, the 5CA also includes critical concepts not included in these surveys. Each of the Five Conditions — Alignment, Discipline, Predictability, Endurance and Value Creation — consists of a set of systems that contribute to stability and growth; in turn, each system includes specific elements that influence its presence and effective functioning within the organization.

The overall goal of the Five Conditions framework is to help entrepreneurs 1) clearly align their use of work time, team talent and capital; 2) focus on a clear market position that allows their business to predictably acquire new customers; 3) develop value propositions and a point of view that eliminates non-target customers; and 4) make clear trade-off decisions to maximize resources for growth.

Most importantly, the framework gives leaders a different perspective from the one shaped by their idiosyncratic experiences as a startup. The goals and mindset that characterize startups are often very different from those that characterize established businesses that have achieved stability and predictability. In moving past their startup mentality, leaders shift their focus from selling the initial idea for their business to building the systems and structure that all businesses need to achieve sustainable growth.

When leaders devote more time and resources to improving their company's stability, they are also helping to attract talent and investment for further organizational development. Thus, in providing a yardstick for this process, **5CA results are useful not only to entrepreneurs themselves but to prospective investors who need more systematic information about a business's current growth potential and leaders' efforts to improve that potential.**

Study Design

Between November 2014 and October 2018, TrueSpace conducted a formal ethnographic analysis of 147 private companies that were past the startup stage (three years or more in age) and aspired to grow but had yet to reach the mid-market threshold of $10 million in annual revenue.

Researchers attempted to ensure external factors that might affect their performance — such as government regulations, local employment rates and reliance on global demand — were similar for all companies, helping keep the focus on internal conditions over which entrepreneurs and executives had some control.

In addition to observing how the companies' performance varied according to these conditions, TrueSpace researchers conducted interviews with a sample of customers from each of the private companies over the four-year study period. This included newly acquired customers, long-term retained customers and customer departures.

They also gathered information from a structured exit interview process for unplanned employee turnover. The study, by design, observed the lifecycle of customer and employee relationships and their impact on a firm's capability to grow to the middle market.

For the current study, TrueSpace partnered with Gallup to test the framework developed through its qualitative analysis in a quantitative study that includes a larger group of businesses. TrueSpace and Gallup started by creating a preliminary assessment based on the Five Conditions framework, which was pilot tested with a group of 51 entrepreneurs. Results from this pilot study were used to improve the assessment's reliability and validity by examining both how responses from multiple items related to one another and which items best differentiated top-performing businesses from others. The assessment was then revised in preparation for the full-scale quantitative study.

The current results are based on results from the revised assessment used for the field study, administered as mail- or web-based surveys with 2,494 entrepreneurs. This large sample of business owners was drawn from several sources, including the Gallup Panel and the National Establishment Time Series Database (see Appendix A for a full description of the sample sources). Gallup researchers took efforts to ensure the resulting sample reflects a diverse array of companies, including a broad range of industries and sizes, as well as a mix of older and newer businesses.

In addition to basic information about company size and industry, the field study asked entrepreneurs about the recent growth rates of their businesses. Gallup researchers used this information in composite performance ratings with which to compare businesses' 5CA scores. The performance scores combined four variables:

+ Number of full-time equivalent workers
+ Revenue for the more recent fiscal year
+ Growth from 2018-2019
+ Growth from 2017-2018

Based on these composite scores, businesses were placed into three similarly sized groups designated as having high performance (n=758), mid-level performance (n=786) or low performance (n=835).

TABLE A

Characteristics of businesses owned by entrepreneurs in the sample

Industry type	Number of companies
High-skill services (e.g., IT; finance and insurance; real estate; professional services; educational services; healthcare and social assistance)	1,025
Low-skill services (e.g., wholesale and retail trade; transportation; management; administrative services; accommodations and food services)	857
Goods (e.g., manufacturing; construction; agriculture; mining; utilities)	530
Missing	82

Age of company	Number of companies
Less than five years	458
Five to less than 10 years	413
10 years or more	1,305
Missing	318

Key Findings

The survey results produced a total score on the 5CA for each participating entrepreneur's business, as well as component scores for each of the Five Conditions: Alignment, Discipline, Predictability, Endurance and Value Creation. With possible total scores ranging from 0 to 100, the mean total score among the 2,494 participating businesses was 46.5.

Companies' 5CA scores correlate significantly with the composite performance metric described on p. 10 (r = .525). Using regression analysis to control for other potential influences on companies' potential to grow, researchers determined the 5CA captures 21% of variation in performance, making it far more predictive of the size of the business and its recent growth rates than factors like the business's age, industry or the demographic characteristics of the entrepreneurs (see Appendix C for complete regression results). Thus, entrepreneurs' awareness of and attention to the five conditions is associated with higher performance in terms of size and growth rates.

Researchers divided the 5CA score distribution into three groups that best distinguish between companies with high, mid-level and low scores on the performance measure. The resulting categories — labeled Emerging, Remodeling and Benchmark companies — correspond roughly to the stage of development identified in TrueSpace's qualitative research. Most of the 2,494 businesses in the quantitative study, 80.6%, were placed in the Emerging group, while 14.6% were categorized as Remodeling and 4.8% represented Benchmark companies — i.e., those that have most effectively implemented the systems, structures and behaviors that the 5CA associates with sustainable growth.

FIGURE 1

Percentage of Emerging, Remodeling and Benchmark companies in the field sample

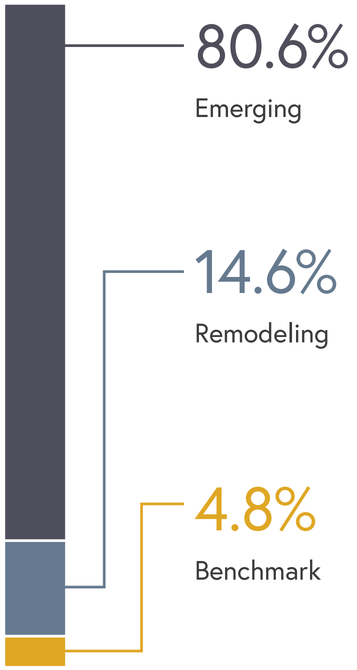
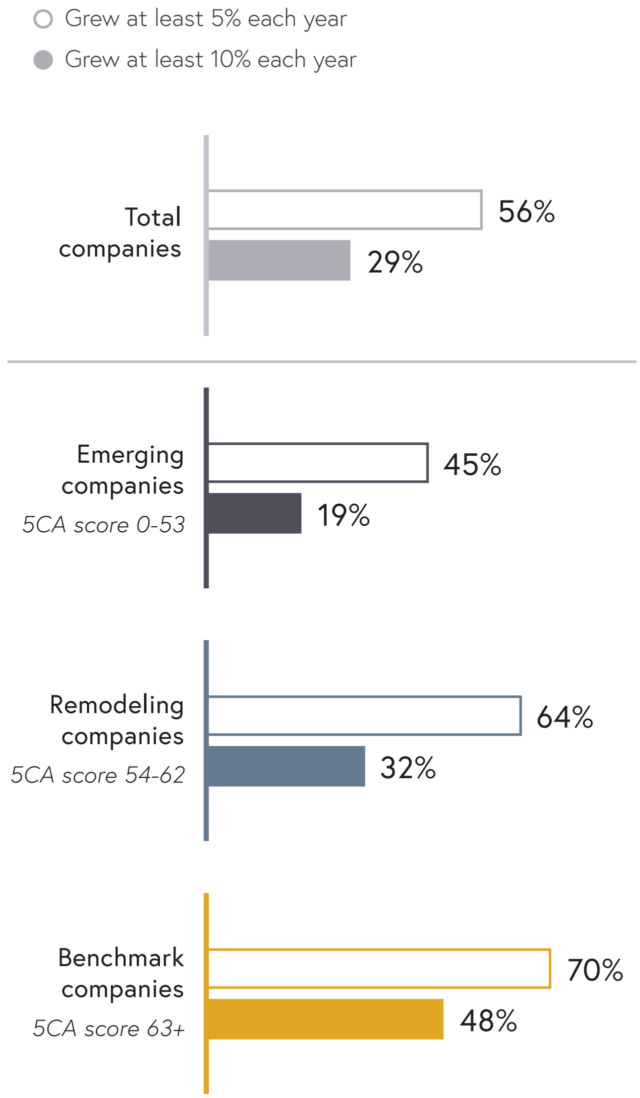


FIGURE 2

Companies with higher 5CA scores are more likely to have consistent growth

Percentage of entrepreneurs who say their business experienced growth in each of the past two years



BUSINESSES WITH HIGH 5CA SCORES ARE MORE LIKELY TO HAVE HAD STRONG RECENT GROWTH.

Companies' likelihood to have seen substantial revenue growth in each of the past two years is significantly related to their 5CA scores. Among all entrepreneurs in the sample, 56% reported their business had grown at least 5% in each of the past two years, while 29% said their business had grown at least 10% each year. However, while about one in five businesses (19%) categorized as Emerging according to their 5CA score grew at least 10% in each of the past two years, this figure rises to one-third (32%) of Remodeling companies and almost half (48%) of Benchmark companies.

Businesses with higher 5CA scores have on average also experienced more rapid growth in the past year. Entrepreneurs with businesses in the Benchmark category are more than twice as likely as those with Emerging businesses to have seen growth of 15% or more from last year to this year.

> 5CA SCORES ARE GENERALLY CONSISTENT BY COMPANY AGE AND INDUSTRY TYPE.

Importantly, companies' 5CA scores do not vary much by their age, demonstrating that organizational development according to the Five Conditions does not happen naturally over time. It requires attention and efforts by company leaders to ensure it takes place. Even among companies 10 years or older, 79% have 5CA scores that indicate they remain in the Emerging stage with regard to the conditions that support growth.

FIGURE 3

Companies with higher 5CA scores experienced stronger growth in the past year

Which best represents the year-over-year growth of your company from last year to this year?

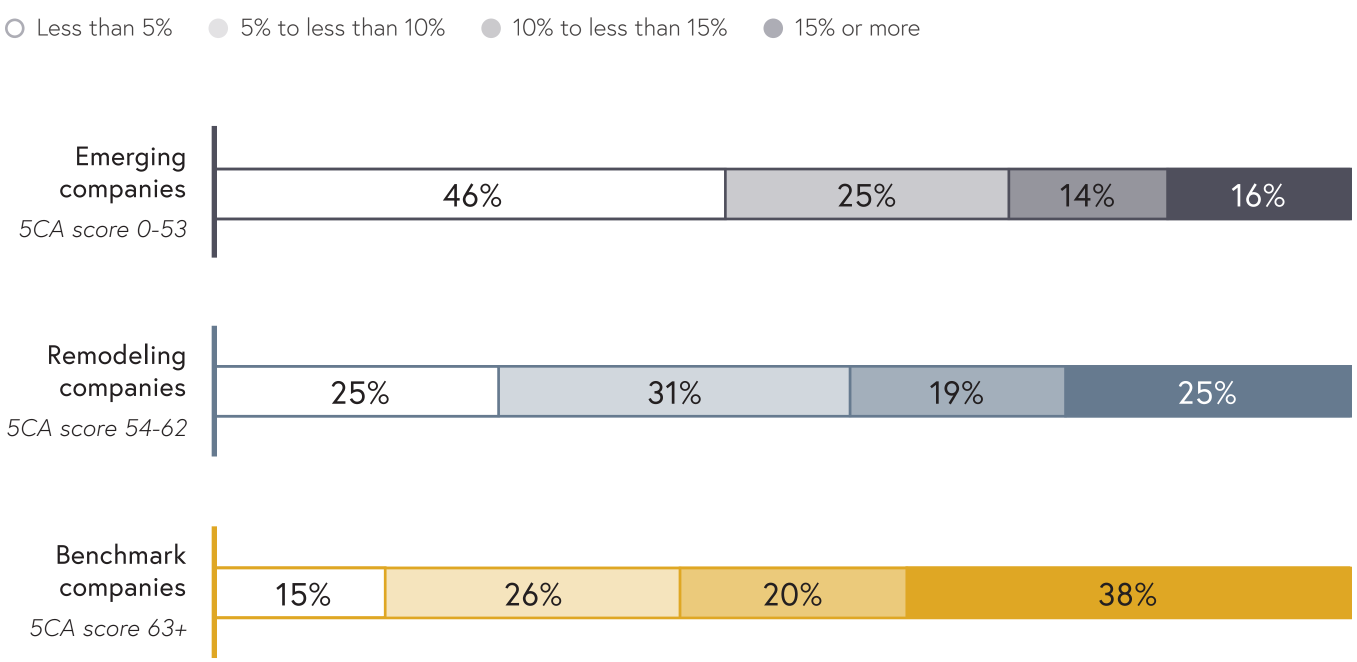
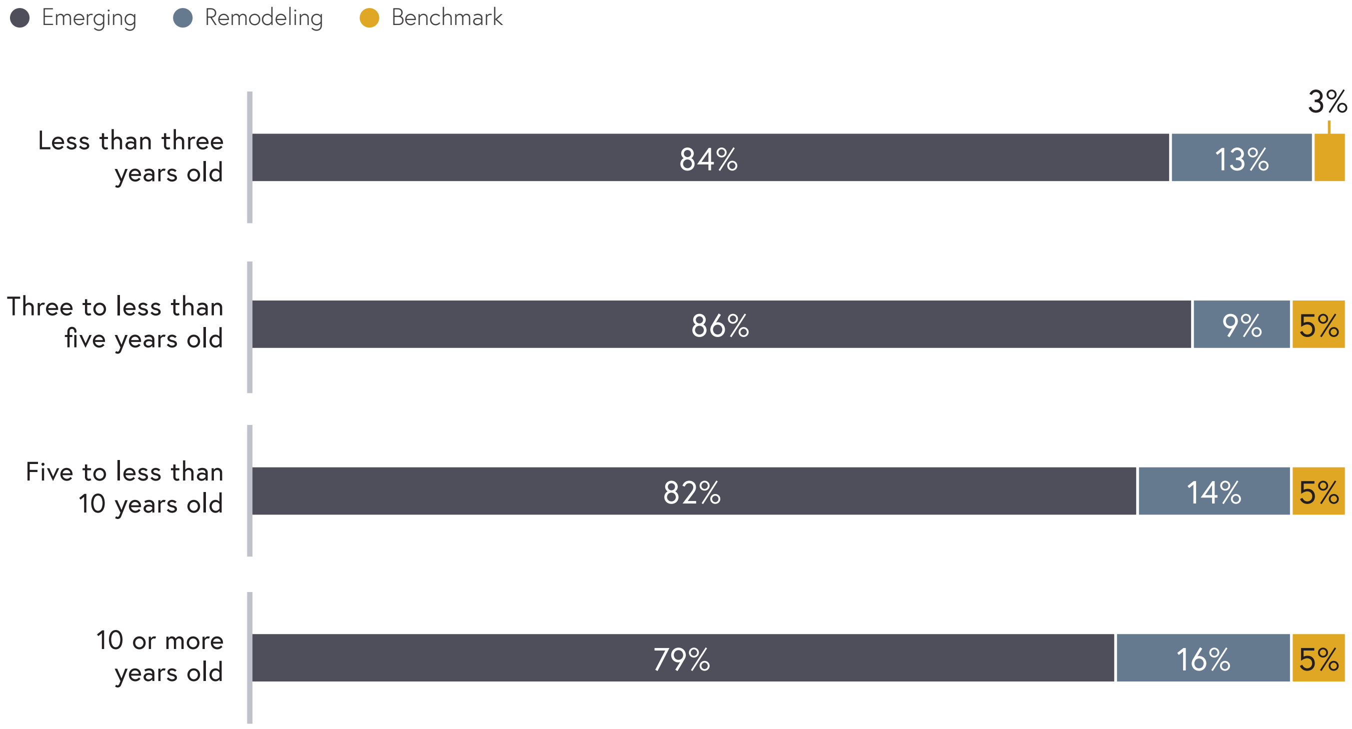


FIGURE 4

5CA scores are largely unrelated to companies' age

Percentage of businesses with scores in the Emerging, Remodeling and Benchmark ranges, by age group



Total scores also do not vary dramatically by broad industry type. Researchers divided companies into three groups:

- **goods**, including construction; agriculture; mining; manufacturing and utilities;
- **low-skill services**, including wholesale and retail trade; transportation; administrative services; accommodations and food services; and
- **high-skill services**, including information technology; finance and insurance; real estate; professional, scientific and technical services; educational services; and healthcare and social assistance.

Companies engaged in high-skill services were somewhat less likely than those that produce goods or low-skill services to fall into the Emerging group. However, they were not more likely to score highly enough for Benchmark status. These results largely support Gary Kunkle's conclusion that growth potential is not as closely related to industry as traditional economic thinking often assumes.[4]

Notably, businesses' 5CA scores also do not vary substantially by the gender or race of the entrepreneurs, pointing to the assessment's potential as an objective standard that investors can use to inform their decision-making about a company's capacity for consistent growth. As the regression models in Appendix C reveal, companies' age and industry, as well as the demographic characteristics of their owners, collectively account for just 2% of variation in their performance (including their size and recent growth). As noted previously, their 5CA scores account for far more variation in performance, at 21%.

FIGURE 5

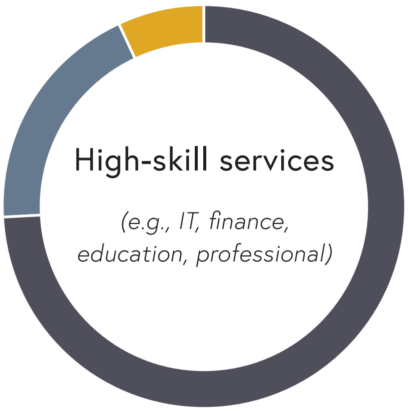
5CA scores do not vary much by broad industry type

Percentage of businesses with scores in the Emerging, Remodeling and Benchmark ranges, by industry type

85% Emerging
10% Remodeling
5% Benchmark

85% Emerging
13% Remodeling
2% Benchmark

75% Emerging
19% Remodeling
7% Benchmark



4 Kunkle, G. (2013). Building scale and sustaining growth: The surprising drivers of job creation. Institute for Exceptional Growth Companies.

A CLOSER LOOK AT THE FIVE CONDITIONS

In addition to the total score, the 5CA produces subscores for each of the five conditions based on results from the question items addressing that condition. Table B lists the number of items in the assessment for each condition and the mean score based on results from the total sample of 2,494 business owners. It also gives the overall correlation between companies' scores on each condition and their composite performance ratings (based on current revenue, number of employees and recent growth rates). The following sections describe the five conditions and the assessment results for each one in more detail.

TABLE B

Descriptive statistics for entrepreneurs' scores on each of the Five Conditions

Condition	Number of items	Mean score among total sample *(0-to-100 scale)*	Correlation with performance variable
Total 5CA	**97**	**46.5**	**.525**
Alignment	31	46.3	.516
Discipline	20	44.2	.427
Predictability	24	52.4	.333
Endurance	13	37.8	.441
Value Creation	9	49.7	.247

01 | ALIGNMENT

The Alignment condition addresses the question, **"Is the business growth-capable?"** In the startup phase, many businesses find themselves chasing new sources of revenue in an unfocused trial-and-error process. By contrast, businesses that achieve consistent growth have aligned the finite resources of time, capital and talent to focus on a clearly defined market or market segment where they can scale. This focus requires developing both a competitive offer with a specific point of view and talent with experience valued by the target market. The capability for growth then comes from repeating the offer to potential customers who are highly receptive to the company's distinctive point of view.

The assessment includes 31 items that measure key concepts associated with Alignment, including:

+ the extent to which the business has identified and focused on a target market or segment of a market that it knows well and in which it is positioned to win a high percentage of deals;
+ whether or not leaders have a clear plan for the timing of major milestones — such as the entrepreneur's divestment of ownership and seeking new rounds of funding;
+ whether or not the company has developed a distinctive and compelling point of view that is recognized by customers and competitors; and
+ the extent to which the business has made finding and developing talented employees with experience or skills valuable to the target market a core strategy and established specific leadership roles with clearly defined responsibilities.

Of the five sets of condition-level results, Alignment scores are most strongly related to performance (r =. 516), reflecting the idea that the elements the condition measures represent a critical foundation for growth.

Looking more closely at the components of this condition reveals that the items that best predict whether a business is seeing year-over-year growth are those related to clarity about the timing of financing milestones (the When element), as well as those related to Point of View and Talent (see the Five Conditions framework on p. 8). These findings are supported by observations during the ethnographic research that companies with a tightly focused target market can more effectively develop a distinctive point of view and fill relevant talent needs.

According to the survey results, companies are:

4.1x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the When element;

2.7x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Talent element; and

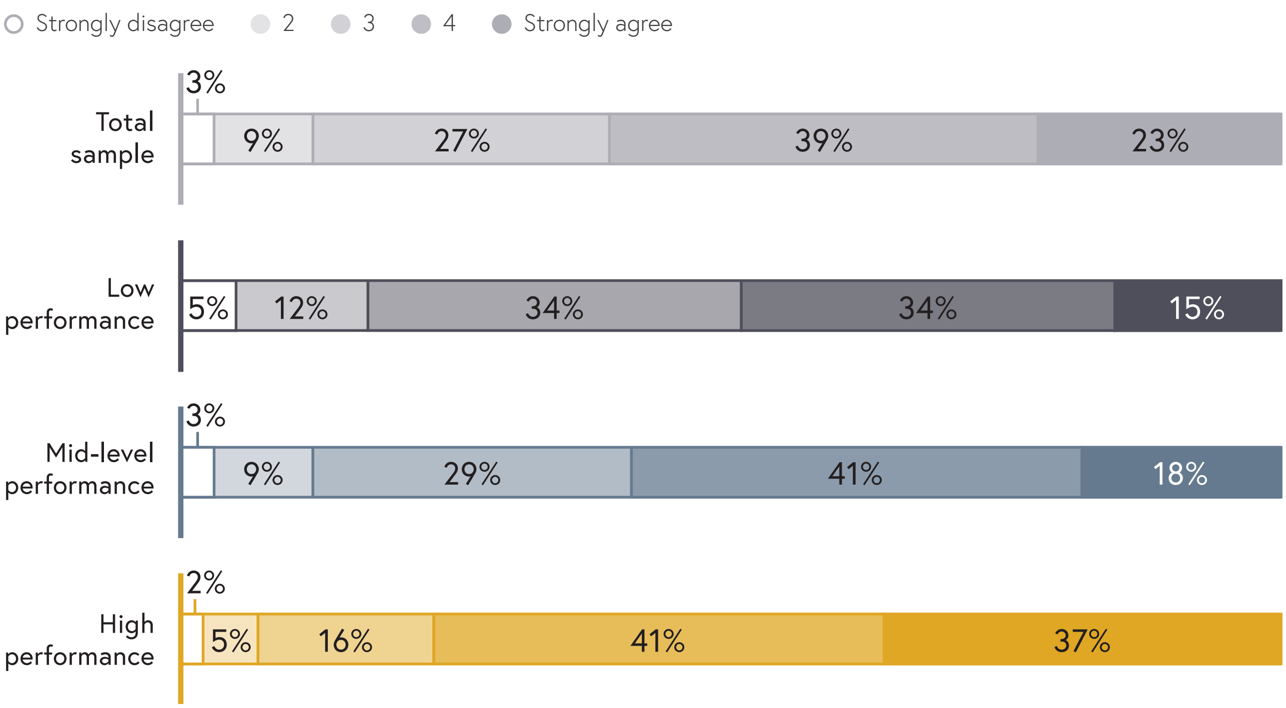
2.5x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Point of View element.

One of the individual question items in the Alignment condition that best distinguishes between high-performing and low-performing companies is simply owners' agreement that finding, selecting and developing talent is one of their core strategies. Among high-performing companies, 37% of owners strongly agree with this item, vs. less than one in five entrepreneurs whose companies have mid-level (18%) or low (15%) performance.

FIGURE 6

Please rate your level of agreement with this statement: Finding, selecting and developing talent is a core strategy.



Note: Performance groups based on company revenue, number of employees and recent growth rates.

02 | DISCIPLINE

The Discipline condition asks the question, **"Can the business scale?"** This condition addresses key distinctions between companies that have trouble moving past linear growth — in which revenue grows at the same rate as resources are added — and those that have begun to scale, with revenue climbing at an increasing rate as resources are incrementally added. Firms achieve scalable growth by increasing efficiency in various ways, all of which require the discipline to look past short-term operational concerns and build a capacity for continual improvement by identifying and monitoring key systems that bolster organizational resilience and lay the groundwork for consistent growth.

The assessment includes 20 items that measure key concepts associated with Discipline, including:

+ the company's efforts to track a range of key performance indicators that can be used to assess and improve business outcomes;
+ the extent to which employees have clearly defined performance metrics that are aligned with their compensation or other incentives;
+ the formalization of rules and expectations to safeguard the company's employees and key assets, such as workplace harassment policies and data security protocols; and
+ oversight by impartial parties, such as independent board members and financial auditors.

Companies' scores on the Discipline condition are only somewhat less strongly related to performance than those for Alignment (r = .427). The specific elements within this condition most predictive of year-over-year growth are Oversight and Performance Markers.

Companies in the sample are:

2.4x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Oversight element; and

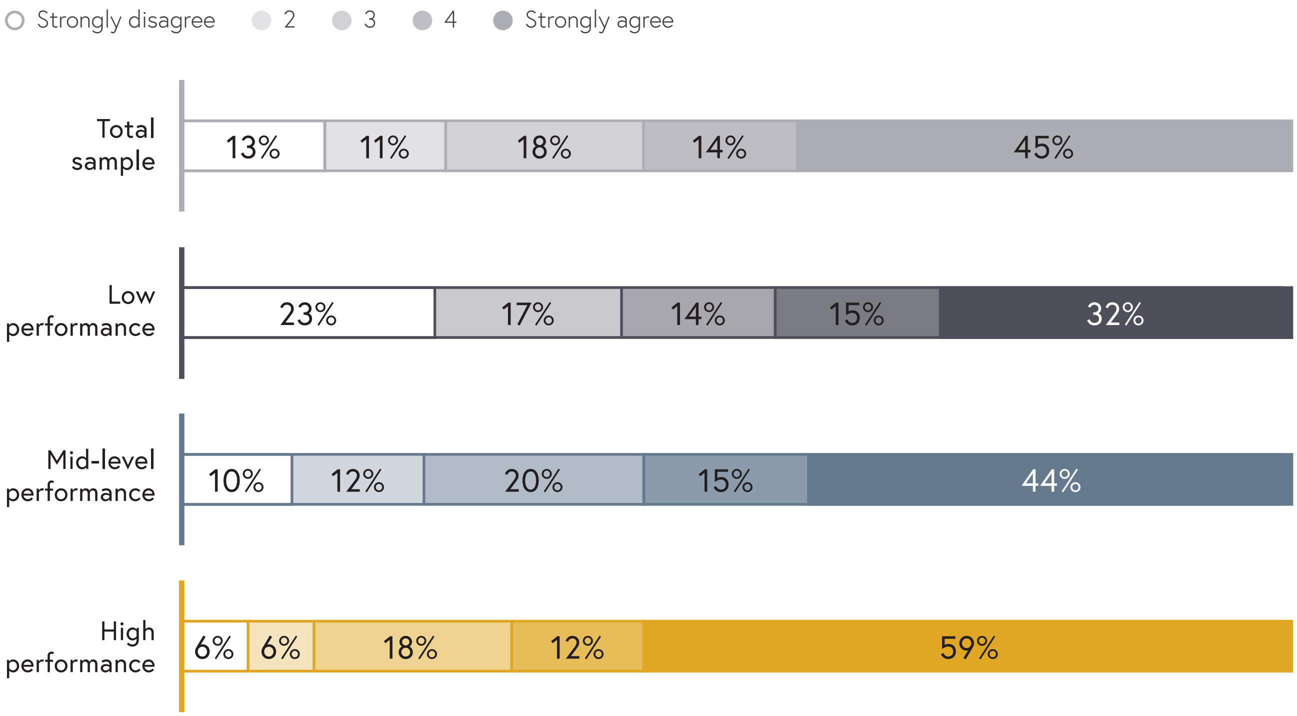
2.0x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Performance Markers element.

One of the individual question items most predictive of performance falls in the Role Expectations element, asking business owners whether their company has regularly scheduled performance reviews. This item is one of the most basic indicators that the business has made efforts to establish clear role expectations and accountability systems. About six in 10 entrepreneurs (59%) with high-performing businesses strongly agree, vs. just under one-third (32%) of those with low-performing businesses.

FIGURE 7

Please rate your level of agreement with this statement: My company has regularly scheduled performance reviews



Note: Performance groups based on company revenue, number of employees and recent growth rates.

03 | PREDICTABILITY

The Predictability condition addresses the question, **"Are the decision-makers continuously learning?"** Research has suggested that the best predictor of a company's future growth isn't the speed with which it has grown in the past but the consistency of that growth from year to year. In the early stages of business development, goal-setting is sporadic and leaders often set unrealistic objectives that go unmet. Consistent growth, by contrast, suggests decision-makers have learned how to use market data and feedback from their own systems to set ambitious but realistic targets and reduce uncertainty about meeting future goals.

The assessment includes 24 items that measure key concepts associated with Predictability, including:

+ effective management of the company's sales pipeline, including leadership focus on finding new leads and building loyalty among existing customers;
+ leaders' use of financial data to set and communicate clear performance goals and support accurate revenue forecasting; and
+ the extent to which the business maintains a culture of honesty, grounded in the use of facts and data to anticipate problems and make decisions about the future.

The Predictability condition is less strongly related to the composite performance variable than the Alignment or Discipline conditions (r= .333). Looking more closely at the component measures of performance, however, reveals that Predictability is just as strongly related to growth as the other conditions, though not as strongly related to a company's current size (i.e., annual revenue and number of employees). Two component elements of Predictability addressing Leads and Renewals are particularly predictive of year-over-year growth.

Companies are:

2.3x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Leads element; and

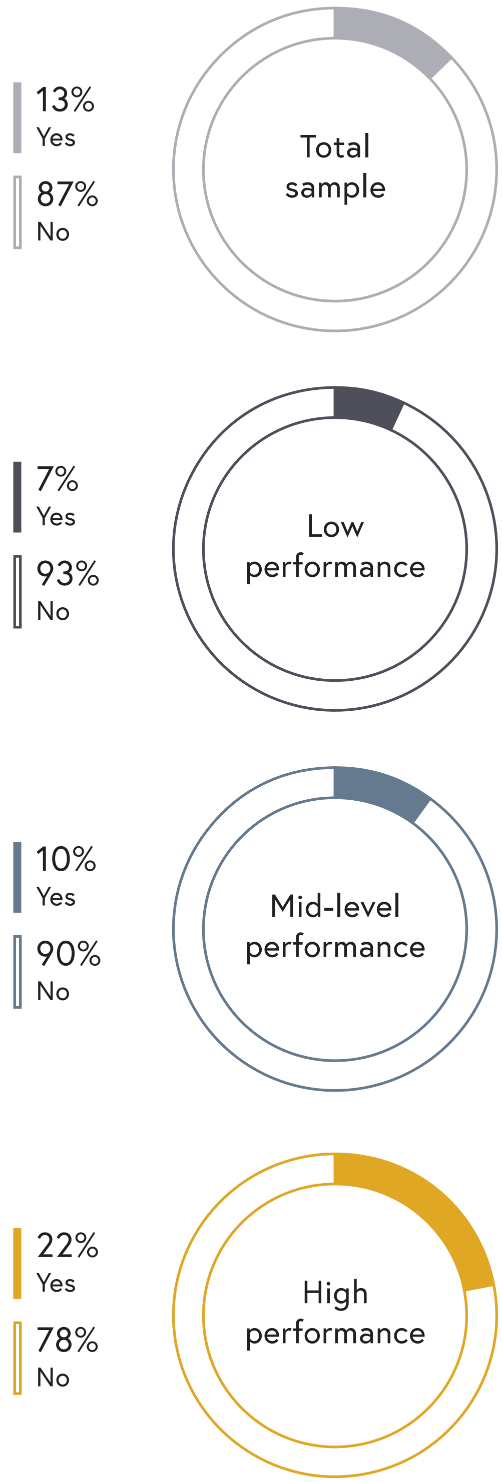
2.2x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Renewals element.

Careful tracking of its sales pipeline, including leads and renewals, is a clear marker that a company is focused on increasing the predictability of its growth trajectory and other performance indicators. Customer relationship management (CRM) software is a common tool for managing interactions with current and potential customers; high-performing companies are more than twice as likely to use it as those in the mid-level or low performance categories.

FIGURE 8

Does your company use customer relationship management software to manage and measure the sales pipeline?



Note: Performance groups based on company revenue, number of employees and recent growth rates.

04 | ENDURANCE

The fourth condition, Endurance, addresses the question, **"Can employees and other stakeholders endure the growth journey?"** The climb to mid-market status is often a lengthy and demanding one, requiring an emotional commitment from employees to stick with the company through the challenges that will inevitably arise. The Endurance condition includes two key systems that support employees' resilience: Engagement, which addresses their psychological connection to the company and its mission, and Benefits, including both compensation and healthcare and wellness benefits.

The 5CA includes 13 survey items that measure key concepts associated with Endurance, including:

+ the development of a formalized compensation system and benefits program based on clear metrics, tightly structured by standards and guidelines;
+ the presence of recognition programs, learning and development opportunities, and community events that are relevant to all employees; and
+ the extent to which employees view the leadership team as pragmatic and capable of handling uncertainty and whether they have confidence the company will meet or exceed its yearly forecast.

The Endurance condition is second only to Alignment in its relationship to the composite performance variable based on company size, current revenue and recent growth rates (r = .441). Elements addressing the perceived credibility of the company's success among employees and the presence of a range of healthcare and wellness benefits are especially predictive of year-over-year growth.

As Gallup's own research has consistently demonstrated, employees' motivation and commitment are supported by frequent and diversified recognition for different types of achievements. Almost half of entrepreneurs with high-performing businesses (48%) say their company uses three or more types of employee recognition, vs. 18% of those with low-performing companies.

Companies are:

2.7x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Credibility element;

2.4x MORE LIKELY

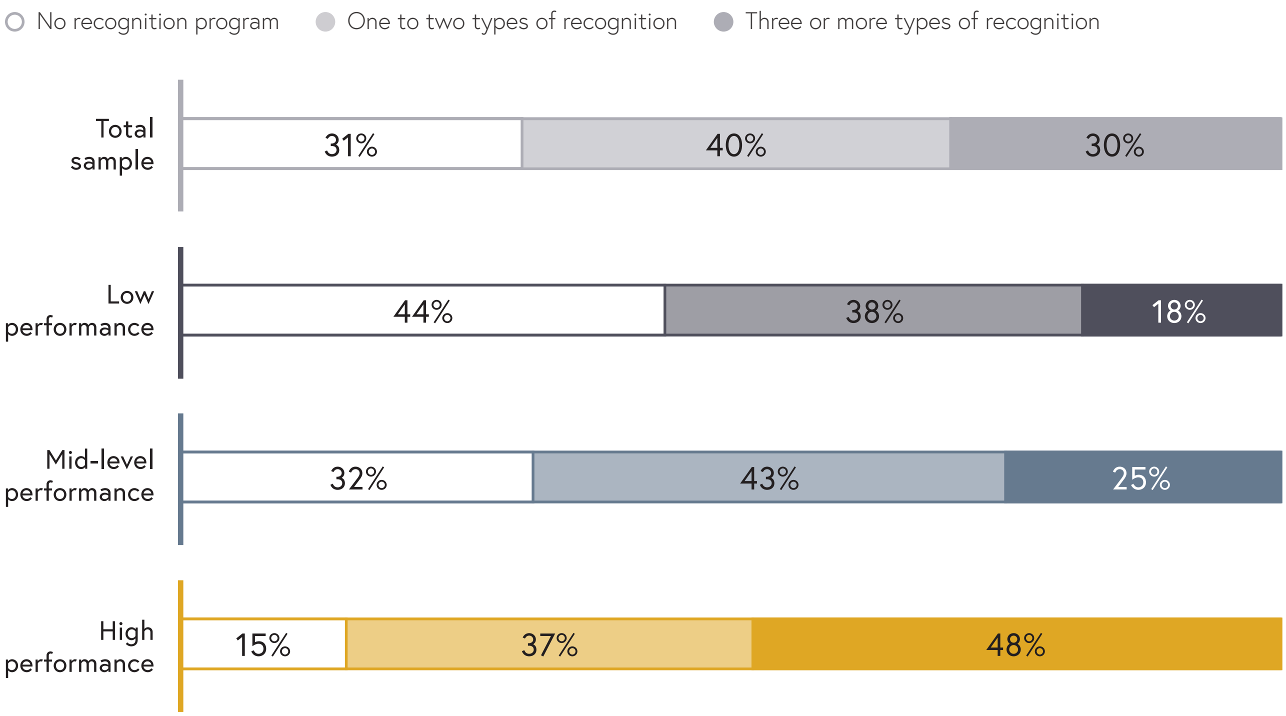
to have grown at least 10% in each of the past two years if they score highly on the Healthcare and Wellness element; and

1.9x MORE LIKELY

to have grown at least 10% in each of the past two years if they score highly on the Recognition element.

FIGURE 9

Which of the following are employees in your company recognized for? 1) Exceeding sales quotas, 2) Years of employment, 3) Peer-to-peer appreciation, 4) On-the-spot recognition for exemplary work, 5) Annual recognition event, 6) Other.



Note: Performance groups based on company revenue, number of employees and recent growth rates.

05 | VALUE CREATION

The Value Creation condition simply addresses the question, **"Is growth creating enterprise value?"** Early in the development of their businesses, many entrepreneurs do not have a firm grasp of the value of their enterprise, or even how to place a value on it. Among benchmark companies, however, the operational outcomes and market conditions that drive enterprise value are clearly understood. Benchmark companies have also demonstrated clear results with regard to Value Creation in terms of consistent year-over-year growth in revenue, free cash flow and headcount.

The assessment includes nine survey items that measure key concepts associated with Value Creation, including:

+ widespread understanding among leaders and stakeholders of the operational outcomes that create value in the company;
+ transparency of the company's capitalization table and ownership structure; and
+ achievement of consistent and predictable growth.

The Value Creation condition is an outcome of the other four conditions rather than itself a predictor of performance. Businesses' score on the Predictability condition is most strongly related to its Value Creation score (r = .471), though Alignment, Discipline and Endurance scores also predict higher Value Creation outcomes. The strong relationship with Predictability highlights one of the most important overall themes of the Five Conditions framework: that the capacity for long-term Value Creation relies on systems and feedback-processing capabilities that reduce volatility and help organizations deliver predictable performance.

TABLE C

The Predictability condition has the strongest relationship with Value Creation

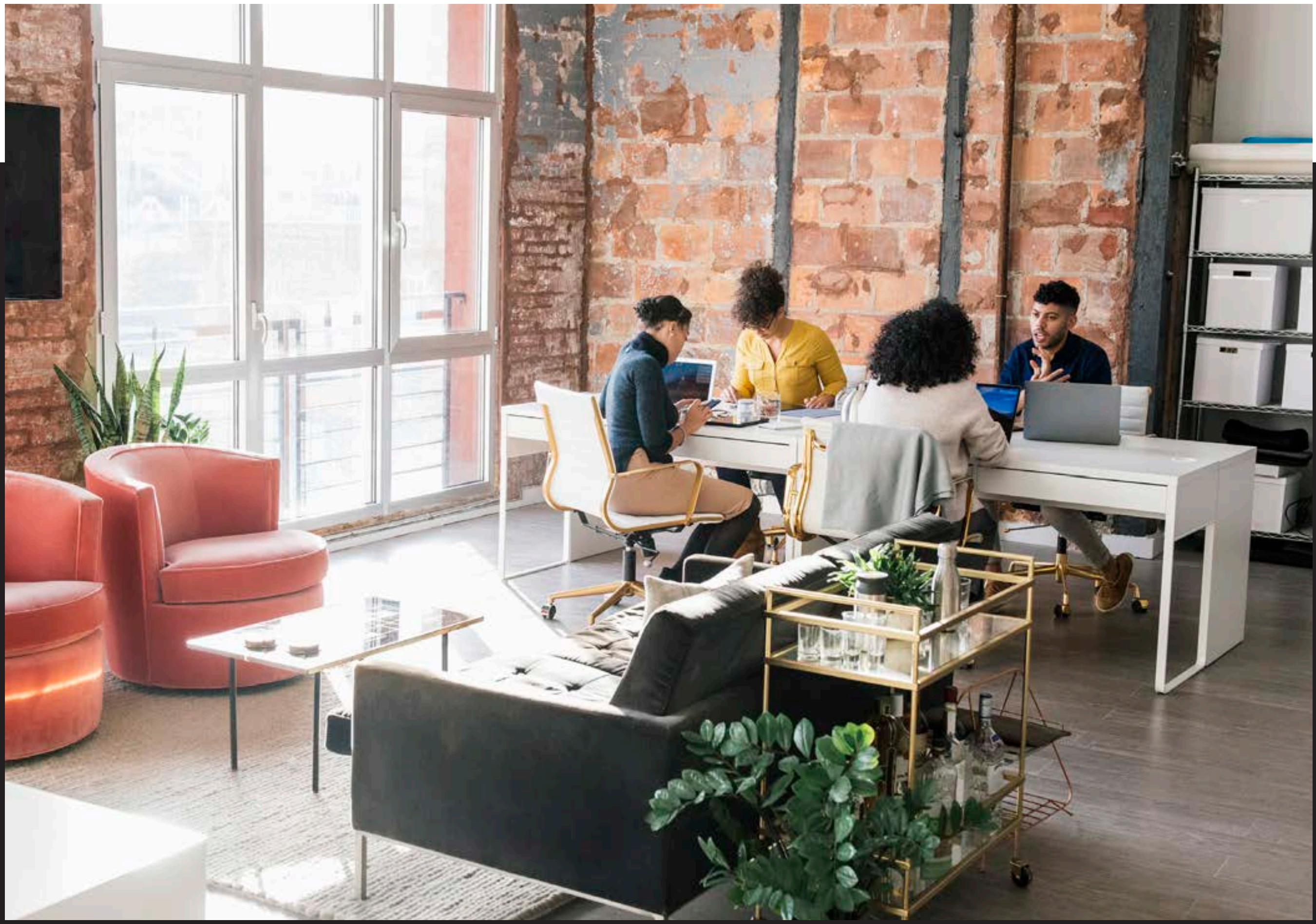
Condition	Correlation with Value Creation
Alignment	.379*
Discipline	.371*
Predictability	.471*
Endurance	.325*

*Statistically significant at the p<.01 level.

TALENT, CREDIBILITY, POINT OF VIEW AMONG THE ELEMENTS MOST STRONGLY RELATED TO CONSISTENT GROWTH

Highlighting the specific elements from across the Five Conditions framework that are most strongly related to performance provides another angle from which to view the results of the assessment among the 2,494 businesses in the sample. There are nine elements for which high scores more than double the odds that the business has seen at least 10% growth in each of the past two years relative to the average firm in the sample. These elements come from all four of the conditions intended to predict sustainable growth: Alignment, Discipline, Endurance and Predictability.

The most fundamental condition, Alignment, accounts for three of the four elements most strongly predictive of substantial growth in each of the past two years. These elements — When, Talent and Point of View — are aspects of leaders' efforts to focus the organization on aligning resources, including financing, human resources and market positioning, around a clearly defined and broadly understood objective.



The analysis also highlights three elements in the Endurance condition as among the most predictive of recent growth. These include Credibility, which measures employees' confidence in the future of the company and the entrepreneur or CEO's ability to lead it there. This relationship demonstrates one accumulating advantage of businesses that achieve repeated growth periods: The resulting credibility bolsters employees' confidence for the longer-term growth journey. High-performing companies recognize the critical importance of leadership credibility and use employee feedback systems to track it. The company's investment in competitive compensation and healthcare benefits also helps sustain employees' morale and engagement amid inevitable episodic setbacks.

The remaining elements are more straightforwardly related to businesses' potential for growth. Within the Discipline condition, the Oversight element addresses the presence of outside supervision, most commonly a board of directors. Benchmark companies use their boards as part of their growth strategy, enhancing the organization's know-how and credibility with employees and investors. Finally, two elements of the Predictability condition — a focus on lead-generation and customer loyalty for renewals — directly relate to revenue growth.

TABLE D

5CA elements for which high scores are most predictive of consistent growth

Condition	System	Element	Increase in odds that business has seen at least 10% growth in each of the past two years
Alignment	**Mission**	**When**	**4.1**
Alignment	Focus	Talent	2.7
Endurance	Engagement	Credibility	2.7
Alignment	Focus	Point of View	2.5
Discipline	Governance	Oversight	2.4
Endurance	Benefits	Healthcare	2.4
Predictability	Revenue/Sales	Leads	2.3
Endurance	Benefits	Compensation	2.2
Predictability	Revenue/Sales	Renewals	2.2

Implications

Scalable growth allows U.S. businesses not just to dramatically increase the total number of jobs in the economy, but the number of high-quality jobs. Previous research by Gallup and others has found that U.S. employees who work for larger businesses enjoy greater job security, higher average pay and other advantages related to job quality.[5] One possible explanation is that economies of scale reduce the cost of doing business, allowing larger companies to get more out of every dollar they spend and allocate more resources to benefits. Growth-oriented businesses invest the resulting profits in factors that help ensure future success.

However, such growth among U.S. businesses has been hampered recently by uncertainty about political conditions, including the current trade war with China, as well as weakening global demand.[6] That vulnerability highlights the need to ensure more companies have the tools and systems they need to avoid losing momentum and confidence with every external impediment.

As economist Gary Kunkle found in a 2013 analysis, it is incremental growth repeated over time — rather than infrequent bursts of rapid growth — that maximizes the number of total jobs created over the long run. Kunkle concludes that "growth is a learning curve" — that is, the more often companies grow, the more opportunities leaders have to learn from the experience and make better decisions for future growth.[7] But there's no reason the lessons of growth can't be transferable from one company to another — or, even better, distilled from a large sample of mid-sized businesses to others that can benefit from their experiences.

That is the contribution the 5CA seeks to make. The results discussed here offer initial evidence that the assessment can be a valid and valuable tool for business owners, policy-makers and investors to reliably assess companies' potential for growth and offer specific guidance for achieving it. Based on the current data, Gallup estimates that if even 10% of post-startup companies in the Emerging and Remodeling categories could be moved to Benchmark status, the resulting growth would produce 17 million new jobs (see Appendix D). But more than that, it would provide thousands of innovative entrepreneurs with the tools to become great employers in a labor market that sorely needs more of them.

5 Rothwell, J. & Crabtree, S. (2019). Not just a job: New evidence on the quality of work in the United States. Gallup. Retrieved from https://www.gallup.com/education/267590/great-jobs-lumina-gates-omidyar-gallup-quality-report-2019.aspx.

6 Long, H. & Van Dam, A. (2019, October 30). Economy slows, Fed hits brakes, and uncertainty clouds Washington's next steps. *The Washington Post*. Retrieved from https://www.washingtonpost.com/business/2019/10/30/us-slowdown-deepens-economic-growth-slips-percent-pace-third-quarter/

7 Kunkle, G. (2013). Building scale and sustaining growth: The surprising drivers of job creation. Institute for Exceptional Growth Companies.

Appendix A: Methodology

DEVELOPMENT OF THE FIVE CONDITIONS ASSESSMENT

The foundation for building the 5CA began in October 2014, when TrueSpace developed a framework defining the operational factors that drive sustainable growth in post-startup companies.[8] For four years, TrueSpace conducted an ethnographic study of 147 privately held U.S. companies that were past the startup stage (three years or more in age) and had aspirations to grow but were still not at the mid-market stage (past the three-year age threshold and over $10 million in annual revenue).

Based on this qualitative analysis and borrowing from the existing literature on post-startup firm growth,[9] TrueSpace developed the conceptual Five Conditions framework. TrueSpace then partnered with Gallup to develop an online assessment based on that framework to test initially in a pilot study and then in a full-scale quantitative study with a much larger sample of entrepreneurs. The following section discusses each of these steps in more detail.

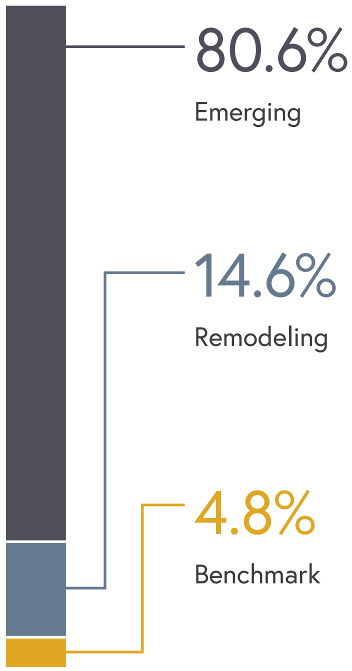
QUALITATIVE RESEARCH

TrueSpace's ethnographic research provided initial evidence of the framework's importance to sustainable growth and other business outcomes. Consultants conducted stakeholder interviews with the entrepreneurs (90% of the 147 companies were still being led by the founders), observing each company's operational performance, including year-over-year growth in revenue and headcount.[10]

The goal of this phase was to identify determinants or limits of business growth past the startup phase. Findings from this phase of the research led to the identification of four stages of development based on businesses' structure and processes, as well as the attitudes and behaviors of the entrepreneurs.

FIGURE 1

Percentage of Emerging, Remodeling and Benchmark companies in the field sample



8 TrueSpace. (2018). Five Conditions for Sustainable Growth. [White paper].

9 For example, the Edward Lowe Foundation, the Association for Corporate Growth, the BDRC Databank and Gary Kunkle's work.

10 TrueSpace. (2018). Five Conditions for Sustainable Growth. [White paper].

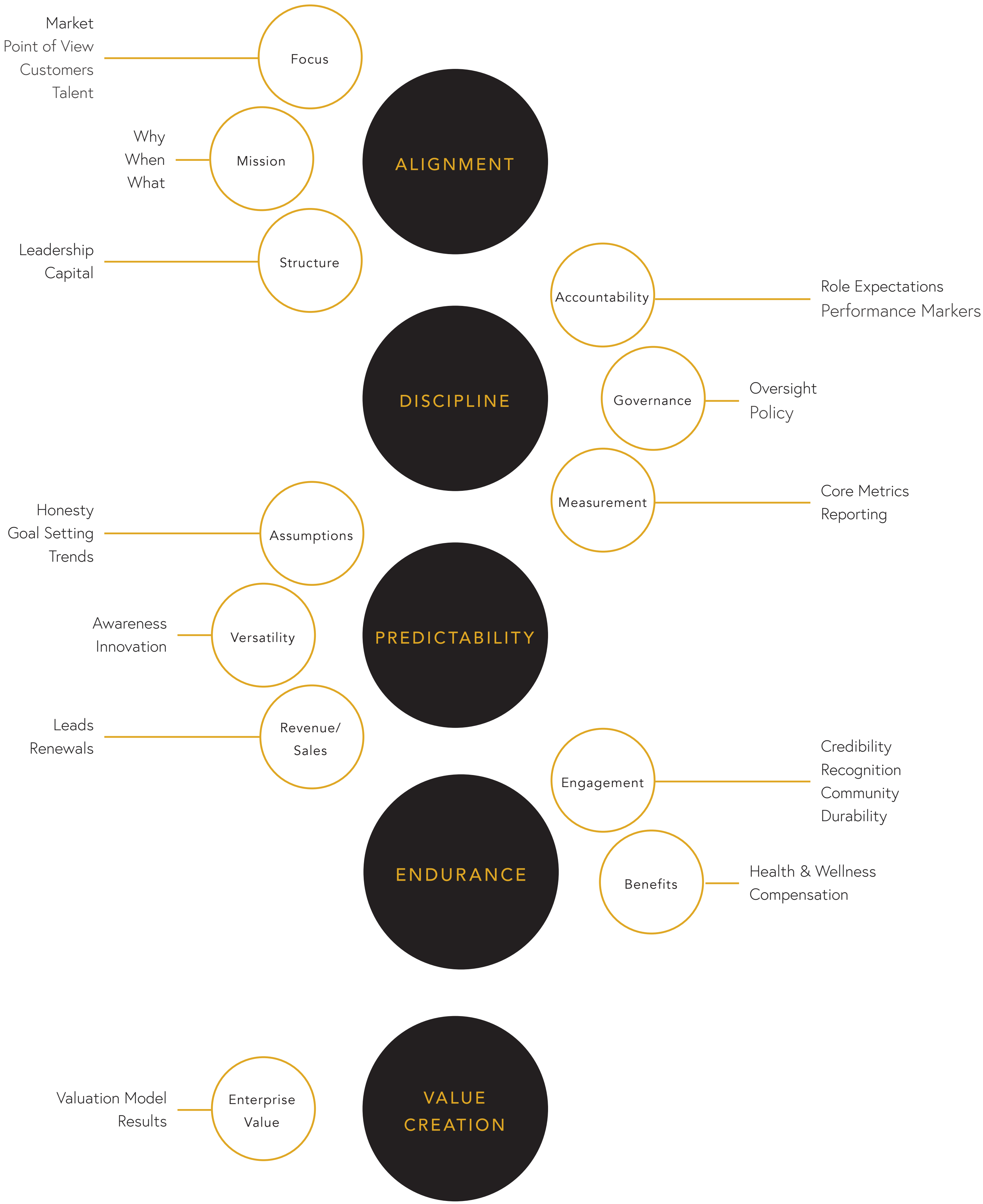
Consistent growth (defined as year-over-year growth in revenue, free cash flow and headcount) is both difficult and rare among post-startup companies. Only 1% of businesses with less than $50 million in revenue achieve this level of sustainability. Sixteen of the 147 companies had demonstrated consistent growth in the period prior to the beginning of the qualitative study in 2014. Of these, 14 exhibited continued growth through the four-year study period; this group was designated as the **Benchmark 14**.

The Benchmark 14 were very different in operational performance and outcomes from the other 133 companies. The Benchmark group had an average revenue of $6.23 million in 2014 and grew to an average revenue of $9.91 million over the next four years. By contrast, the other companies averaged $1.87 million per year in 2014 and grew to an average of $2.54 million by 2018.

Using the Benchmark 14 as the standard against which other companies in the study were assessed, TrueSpace consultants identified three additional groups based on their progress toward the Five Conditions:

+ **Emerging:** The 90 businesses labeled Emerging had the characteristics of startup companies, with a "survival" mindset oriented toward pursuing any customers and revenue sources they could rather than cultivating a clearly defined customer base and implementing a long-term plan for sustainable growth.
+ **Remodeling:** Thirty businesses had moved past the startup mentality into a Remodeling phase. These firms were developing a second layer of leadership talent, including human resources; sales accountability was being pushed to people other than the founders; and measurements were being developed to provide feedback on processes and systems beyond revenue generation.
+ **Expanding:** Sixteen businesses were labeled Expanding due to their sophisticated forecasting and planning activity, structured talent development of key roles and measurement of employee engagement. On average, these businesses experienced a 24% increase in hiring over the study period.

Based on consultants' observations of differences between companies at each stage of development, TrueSpace created a conceptual framework with five conditions required for consistent growth: Alignment, Discipline, Predictability, Endurance and Value Creation. Each condition consists of a network of systems, themselves comprised of more specific elements. There are 12 systems and 30 elements across the five conditions.



Market
Point of View
Customers
Talent
Focus
Why
When
What
Mission
ALIGNMENT
Leadership
Capital
Structure
Accountability
Role Expectations
Performance Markers
DISCIPLINE
Governance
Oversight
Policy
Measurement
Core Metrics
Reporting
Honesty
Goal Setting
Trends
Assumptions
Awareness
Innovation
Versatility
PREDICTABILITY
Leads
Renewals
Revenue/
Sales
Engagement
Credibility
Recognition
Community
Durability
ENDURANCE
Benefits
Health & Wellness
Compensation
Valuation Model
Results
Enterprise
Value
VALUE
CREATION

QUANTITATIVE RESEARCH

Pilot Assessment

Using the elements of the conceptual framework, Gallup researchers created a preliminary online assessment to test as a quantitative measure of the Five Conditions framework. This pilot assessment included 116 items, selected based on their content relevance to the TrueSpace conceptual model. In addition, Gallup researchers included questions about participating entrepreneurs' type of business (LLC, S-Corp, C-Corp), as well as their industry classification, number of employees, current year's revenue and year-over-year revenue growth.

Gallup invited the 147 entrepreneurs who were part of the qualitative study to participate in the pilot assessment to test the existence of the hypothetical constructs and build the final instrument. Of these, 51 entrepreneurs provided valid responses to enough items for Gallup to use in the research. The results of the pilot provided evidence of the conceptual Five Conditions model's validity. The pilot data were also used to evaluate the psychometric properties of each item and the assessment as a whole.

Conducting descriptive and inferential analyses, Gallup researchers studied which items best differentiated top-performing entrepreneurs from others. In addition to prior research, these analyses provided the basis for questions retained for the next phase of building the assessment. Ninety-one of the 116 pilot items were retained for the next iteration of the assessment, while 25 items were deleted since they did not help distinguish companies by performance level. Six new questions were added, and the final instrument used for the field study contained 97 items.

Field Study

Gallup administered the reconfigured Five Conditions Assessment (5CA) via web and mail to 2,694 businesses, of which all but 200 completed the survey, yielding a final sample size of 2,494. In the final sample, 553 entrepreneurs (22%) had businesses with at least 10 employees and 353 (14%) had at least 20 employees.

Gallup researchers drew from four different sources for the field sample, including:

1. A national sample of business owners drawn from Gallup Panel members aged 18 years and older, living in all 50 U.S. states and the District of Columbia. The Gallup Panel is a probability-based, longitudinal panel of 60,000 U.S. adults selected using random-digit-dial (RDD) and address-based sampling methods. Web surveys were conducted May to August 2019 with a random sample of business owners.

2. A random sample of companies in the National Establishment Time Series (NETS) Database that met various employment, revenue, industry and legal status criteria. NETS is a private-sector company that provides longitudinal microdata on U.S. businesses. The NETS sample used here was limited to for-profit, privately owned establishments that are non-subsidiaries or branches.

3. A random sample of the headquarters of companies that were both in NETS and Glassdoor and had at least 20 employees across all establishments (using NETS data) and were in the private sector. Gallup researchers collected data from Glassdoor to match with NETS, using exact matches between the company name and state location. These companies were mailed a notecard describing the survey and asked to complete the assessment on the web.

4. A sample of business owners who had previously completed a Gallup Daily tracking survey. This was a nationally representative telephone-based survey Gallup conducted 350 days a year from 2008 through 2018, using both cellphone and landline samples. At the end of the survey, individuals were asked if they would be willing to be re-contacted for a future Gallup study, and more than 75% agreed. Those who said they were a business owner and had at least one employee were asked to participate in the 5CA field study.

Appendix B: Reliability and Validity of the 5CA Index Score

Reliability refers to the degree of consistency and stability of outcomes produced by a measurement process across the replications of some aspects of the process. Here we measured the internal consistency reliability of the final Five Conditions Assessment as implemented in the pilot study. A higher degree of internal consistency is desirable because it indicates an assessment can obtain consistent responses from respondents.

Gallup's minimum standard for total score reliability on its assessments is 0.70. Table E reports the internal consistency reliability (Cronbach's alpha coefficient) of the overall assessment and the Five Conditions. The reliability score for the 5CA overall is .876, which is well above industry standards. The reliability for the Five Conditions ranges from strong alpha coefficients of .735 (Discipline) and .704 (Alignment) to more modest alpha coefficients of .566 (Predictability), .493 (Endurance) and .315 (Value Creation).

The Five Conditions represent what an entrepreneur needs to do to be successful growing a post-startup business. While the conditions are comprehensive, they are not intended as predictors of business success individually. Moreover, the modest alpha coefficients for the conditions likely reflect the small number of items per scale and the fact that items were chosen to represent the conceptual breadth within each construct that was derived from the Five Conditions conceptual model, rather than to maximize internal consistency.

Continuing research will focus on strengthening each of the conditions through revision (rewriting) of items with lower primary loadings and possibly adding new items. In addition, confirmatory factor analysis, as well as other latent variable modeling techniques, will be used to further refine the thematic structure in future iterations.

TABLE E

5CA descriptive statistics and reliability

	Number of items	Cronbach's alpha *(reliability)*	Mean	Standard deviation
Total 5CA	**97**	**0.876**	**46.5**	**8.6**
Alignment condition	31	0.704	46.3	10.4
Discipline condition	20	0.735	44.2	12.7
Predictability condition	24	0.566	52.4	10.0
Endurance condition	13	0.493	37.9	9.7
Value Creation condition	9	0.315	49.7	11.7

Concurrent Criterion-Related Validity Evidence

Criterion-related validity indicates the extent to which assessment outcomes are predictive of individual performance in specified activities.

Properties of Performance Measure: In criterion-related validity analysis, the quality of performance measures researchers use as criteria is vital. The appropriateness and quality of performance measures may be evaluated with respect to the extent that they:

+ have crucial implications for business outcomes;
+ reflect the definitions of various performance levels;
+ have a clear definition and calculation, process or rubric;
+ produce reasonable variance to effectively separate various performance levels; and
+ are accessible and can be obtained with reasonable data collection time or effort.

The key criterion measure used in the analysis was a composite of four variables that capture the company's current revenue performance over the previous year, total number of employees on staff and revenue growth over two earlier periods. Gallup researchers used self-reported data to capture performance because collecting objective metrics from a large sample of entrepreneurs was not practical. To provide a more stable measure of the various business outcomes, researchers formed a composite with unit-weighted z scores of constituent variables.

Validity Coefficients: Table F shows the observed correlations between the 5CA and the individual conditions to the composite performance variable. Table F indicates that the overall correlation between the 5CA score and Group is .525. This implies that 28% of the variation in performance is explained by the assessment.

TABLE F

Relationship between 5CA and performance

	Correlation with composite performance variable
Total 5CA score	**.525***
Alignment score	.516*
Discipline score	.427*
Predictability score	.333*
Endurance score	.441*
Value Creation score	.247*

*Correlation is significant at the $p < .01$ level.

Appendix C: Regression Analysis of the Relationship Between 5CA Scores and Business Performance

Gallup researchers conducted hierarchical regression analysis to understand the unique contribution of companies' scores on the Five Conditions Assessment in explaining entrepreneurial performance, controlling for industry, age of business and standard demographic variables such as race and gender of the entrepreneur. Table G summarizes the results.

The first block of predictors entered in the regression model consisted of industry, age of business, race and gender, while the 5CA overall score was entered in the second block. The analysis indicates that each block of variables adds substantially to the explanatory power of the model.

Type of industry significantly predicts performance. The high-skill services industry is the reference group; companies that produce goods and low-skill services are associated with higher performance. Gender is also a significant predictor, with slightly lower performance associated with women entrepreneurs. The entrepreneur's race and the age of the business are not significantly related to entrepreneurial performance. Together, all demographic variables explain just 2.1% of the variance in entrepreneurial performance.

The addition of 5CA in Model 2 raises the percentage of explained variance from 2.1% to 22.7% and is a significant predictor of performance.

TABLE G

Regression analysis of 5CA score and control variables on business performance

Model Summary	
R	.476
R square	0.227
Adjusted R square	0.223
Std. error of the estimate	0.558
df1	1
df2	1,865

TABLE G

Regression analysis of 5CA score and control variables on business performance (continued)

	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. error	Beta		
Constant	-1.771	0.080		-22.213	0.000
Type of industry: Goods	0.189	0.035	0.123	5.461	0.000
Type of industry: Low-skill services	0.077	0.030	0.058	2.598	0.009
Race: Other	-0.132	0.120	-0.023	-1.103	0.270
Race: Black	-0.059	0.070	-0.017	-0.838	0.402
Race: Asian	0.123	0.096	0.026	1.287	0.198
Race: Hispanic	0.037	0.058	0.013	0.637	0.524
Gender: Women	-0.141	0.028	-0.103	-4.999	0.000
Age of business	0.001	0.001	0.025	1.200	0.230
Total 5CA score	0.036	0.002	0.462	22.293	0.000

Appendix D: Practical Implications of Helping Improve Businesses' 5CA Scores

As noted in the conclusion to the main text, Gallup estimates that moving 10% of the estimated 2 million post-startup businesses in the Emerging and Remodeling stages of Five Conditions development to the Benchmark stage is associated with an estimated gain of 17 million new jobs. That estimate is based on the average headcount of businesses in the sample at each stage.

Average past-year revenue for companies in each group further suggests that if 200,000 U.S. businesses can progress from the Emerging or Remodeling stages to Benchmark status, they would generate an additional $5.9 trillion in revenue.

TABLE H

Average revenue, revenue growth and number of employees for Benchmark companies vs. Emerging and Remodeling companies in the sample

	Average revenue in past year	Average revenue growth for the past two years	Average number of employees
Total sample (n=2,494)	**$3,909,000**	**7.4%**	**18**
Benchmark companies (n=120)	$32,068,000	10.2%	99
Emerging and Remodeling companies (n=2,371)	$2,499,000	7.2%	14

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