grasp

… the growth challenge

Growth is a fascination for managers and investors alike. This article explores the dangers of growth, why it is attractive to us and explores some advice for making growth sustainable.

There are two kinds of growth that can ruin a business according to James Rieley, author of "Gaming the System" (2004):

1. No growth
2. Too much growth.

Just "keeping up with growth" is a risky venture; mature companies that attempt to grow by entering new businesses are widely thought to risk a 90% chance of failure or higher (Campbell & Park 2004). So why is growth important …

Why grow?

Psychologically, we find it harder to motivate ourselves in a "no-growth" environment. Financial markets reinforce this point:

> *"If you decompose the stock prices of the leading consumer product companies, you'll see that future growth accounts for as much as 54% percent of the stocks' total value."* (McGovern et al, 2004)

We live in a world where consolidation is the norm and bigger is often accepted as better. So, how do these mechanics work to make growth attractive to businesses? Growth can …

… **reduce competitor impact** (maintain/grow market share)
… **take advantage of available synergies**
(eg in indirect overheads / fixed costs)
… **reduce the impact of cyclical markets** (eg growing off-peak)
… **encourage diversification** (spreading market exposure)
… **can create additional wealth** (eg for shareholders)
… **decrease the risk of takeover**
(via positioning and all of the above)
(Rieley, 2004)

Growth can do great things but the real difficulty is in sustaining growth. James Rieley asks how many businesses say "we want to be around forever"?

Over the last 12 years of the 20^{th} century, the average UK business survived only 30 months from its formation (Barclays, 2000).

… grasping sustainable growth

The careful selection of growth projects is critical, Campbell & Clark (2004) argue that there must be a willingness to reject all projects until all conditions are met. A balance needs to be struck between mature, risk-averse management, and business models that allow risky projects to progress with little screening.

Any growth needs people to change, and evolution of current business models seems a better recipe for success than revolution. Campbell & Clark identified that fewer than 5% of the success stories they found were linked to conscious new-business development:

> *"The majority resulted from more deliberate strategy decisions that led managers to select one or two promising candidates and commit to them heavily."* (2004, p.28)

Hamel & Getz argue that this form of innovation is key: *"When a company runs out of innovation, it runs out of growth"* (2004, p.76). PwC analysed 427 of the fastest growing US businesses over 5years, identifying those where innovation was still a priority. Three quarters of these consistent innovators together achieved 61% greater top-line growth than their contemporaries. Businesses that made a high commitment to innovation - where it penetrates throughout the organization - performed even better (Flentov, 2004).

> *"Most senior managers believe that the outcomes of innovation efforts are unpredictable. They accept as given a level of randomness and failure that are not tolerated in other processes within their organizations."* (Flentov, 2004)

In a cost-conscious world, great pressure is being put upon innovators to do their work more efficiently. Some academics argue that this is not enough: *"A company can't outgrow its competitors unless it can out-innovate them"* (Hamel & Getz, 2004, p.78). The key value indicator is therefore not the absolute efficiency of innovators but the yield on innovation investments, Hamel & Getz offer some suggestions for driving innovation:

- **Get more employees to see themselves as innovators**, this gets more ideas!
- **Get more radical** as radical ideas (once screened) offer better returns
- **Get better at getting more ideas from outside**
- **Get learning more** and apply learning to risk
- **Get selective** by supporting a smaller number of projects more consistently.

Recommendations

James Rieley makes some suggestions for driving sustainable growth using four key management competences: thinking, influencing, leading and achieving …

- **Examine how your growth will impact the competition** (thinking) - Model your forecast for market growth (based on historical, continuous research and a robust view of the future), understand what share growth your absolute level of growth will require, consider how your competitors will respond to a declining share/sales. Let this challenge you to develop the industry beyond what you and your competitors now do: don't just build commodity capacity.

- **Manage stakeholders' expectations** (influencing) - Communicate your model of the future, overview the research behind it and clarify that risk is involved but has been minimised through research.

- **Be realistic about peoples' capabilities** (leading) - Objectively review the competences of your colleagues (what needs to be forgotten/learnt/brought in).

- **Consider the ability of the merging businesses to integrate** (thinking influencing leading) - Measure and develop the culture of the organisations through employee attitude surveys.

- **Ask what resources are available** (influencing)- Are there enough of the right kind of resources? When revising growth targets it is good practice to ask whether you know enough about the market, for example: does the market need to be looked at differently in the light of growth?

- **Quickly reconcile overlapping systems / processes** (thinking) - Support a value chain exercise with customer research: identify what really adds value and what is just cost.

- **Quickly remove variability** (thinking achieving) - Monitor output (randomly check samples, including from further down the supply chain) and mystery shop to uncover inconsistency.

- **Maintain effective communication** (influencing) - Check the tone of your communications through employee forums, semiotic analysis, and feedback processes (eg repeated employee attitude surveys).

- **Share best practice** (thinking influencing) - Research industry best practice, and parallel markets. Encourage adoption and transfer of best practice internally.

- **Think long-term** (thinking achieving) - Screen out wild ideas, be prepared to accept low growth if it is the profitable route, patience should allow thinking and evolution time before the next genuine growth platform comes along ...

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> *"... managers may need to develop a deeper appreciation for the grow-mature-die cycle of business and let go of the seductive grow-grow-grow view of business. Companies grow when they have a unique proposition that enables them to outperform competitors. During this phase management's duty is to exploit that advantage as fully as possible. But in the mature and die phases, the art is to return as much money ... as possible while still keeping a watchful eye out for other unique propositions."* (Campbell & Clark, 2004, p.28).

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robin@grasp.org.uk
0794 112 9025
www.grasp.org.uk

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