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Integrating three perspectives for long-term growth

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Growth is the only way to create value in the long term.

A company that does not grow by more than 7.5% per year (i.e., a doubling of revenue every 10 years) loses its attractiveness and independence in the long term.

Growth is a choice that requires companies to focus their resources and time on priority issues.

To achieve long-term profitable growth, they must integrate three perspectives: strategic & financial, environmental and human.

Growth is the only way to create value in the long-term

Consistent and sustained growth in revenue, earnings and cash flow at significant levels is critical to value creation.

An company can only create long-term value if it grows profitably at more than 7,5% p.a., or doubles in size every 10 years.

A company's value is expressed in financial turns as the sum of future cash flows. It is based on the nature of the business (growing or not; with high barriers to entry or not) and its strategic position (leader or challenger, with a growth dynamic or not).

Financial markets integrate short-term growth well but they never fully account for long-term growth.

Therefore, long-term growth companies see their value and profit increase year after year, provided that the company, that has grown and continues to grow, offers the same prospects for future growth.

The regularity and duration of growth in revenye, earnings and cash flow at significant levels is critical in value creation.

Three perspectives

Sustainable growth is only possible if the strategic, environmental and human dimensions are fully integrated into the company's growth model.

Strategic and Financial Perspectives

Strategically, growth comes from investing more than competitors (*resource allocation*), leveraging this investment impact (*business model*) across the most advantageous mix of industries, and geographies… (*strategic targeting*).

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Three Perspectives on Growth

Strategy & Finance

1 — Focus, competitiveness & investment

- Differentiating model
- Speed and scale of deployment
- Leadership vision
- Profitability to finance growth

Environment

2 — Reduction of environmental footprint

- Consistency of ambition and resources
- Focus on impactful initiatives
- Leadership (objectives, actions, follow-up, corrections)
- Impact on remuneration

Human

3 — Attractiveness for employees

- Links between human performance and financial impact
- Focus on 6 initiatives
- Deployment throughout the organization

4 — Integration, prioritization and coordination of the 3 perspectives

Long-term growth

At the core of a successful business is always an idea, a concept, a new and 'disruptive' model that requires substantial resources over short time horizons. These models do not tolerate resource dilution.

The success of new technology leaders such as Google, Amazon, Facebook, Tencent, Alibaba, and Tesla is based on superior models (faster or more precise algorithms, quality and speed of service, originality and functionality of the product or service, change or variety of offer...), stronger and more focused investments and optimal operational excellence.

The success of luxury leaders such as Hermès and Chanel is based on solid fundamentals: product creativity, manufacturing know-how and quality, distribution excellence with directly operated stores, and rapid and successful internationalization, particularly in North America, Japan and emerging markets.

Growth therefore requires building strong and resilient positions through distinctive models that generate cash to provide financial leverage for investment. Without competitiveness, there is no profitability. Without profitability, there is no growth.

Environmental perspective

It is difficult to achieve economic growth without CO_2 emissions. There is a consensus on the impact of CO_2 emissions on climate change and thus on the urgency of reducing them.

In addition to corporate citizenship, there are four economic reasons why companies should reduce their environmental footprint: increasing customer valuation for offers that reduce environmental footprint (premium pricing, although still generally low today); growing investor valuation (over the past 18 to 24 months) for environmental investments (cost and ease of financing); anticipated increased taxation, especially at the European level (under the Green Deal); and a valuation by younger generations of companies that take the issue seriously (attractiveness and talent retention).

Leaders who have successfully implemented a high-performance environmental approach implement a coherent and integrated logic from upstream to downstream: a clear, articulated, and aligned strategic vision between shareholders and teams; defining, quantifying, and prioritizing actions, with a focus on those that create competitive advantages such as eco-design, mastery of raw material supply chains, recycling...; incentive mechanisms to move from intention to execution, such as systematic operational entity management with defined objectives, regular monitoring of achievements, ongoing management control, implementation of incentive systems tied to compensation, and integration of environmental footprint into investment decisions (shadow pricing).

Companies that grasp this challenge will develop sustainable competitive advantages in terms of costs, customers, employees, and investors.

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Three Perspectives on Growth

KEY TAKEAWAYS

- Growth is the only way to create value in the long term.
- A company that does not grow by more than 7.5% per year (i.e., a doubling of revenue every 10 years) loses its attractiveness and independence in the long term.
- This long-term growth must integrate three perspectives: strategic and financial, environmental, and human performance.
- The absence of any one of these perspectives always leads to growth disruptions, which are highly destructive of value.
- These three perspectives must therefore be thoroughly integrated into the company's business model to maintain the balance necessary for long-term growth.
- It's a complexity that creates significant barriers if surpassed.

Human perspective

A company's growth logically depends on human performance, which serves as a significant amplifier of strategic and environmental choices.

Human performance truly makes a difference only when relevant choices have been made: choices regarding ambition, playing fields, business models, speed and scale, organization, and operating methods. In such cases, human performance acts as a multiplier.

Conversely, growth acts as an amplifier of human performance. When a company is in a growth dynamic and employees benefit from that dynamic, we observe a strong increase in human performance.

The critical challenge is to define a limited number of human performance levers and implement actions to create tangible and measurable inflections. These levers are not universal and depend on the nature of the business, market dynamics, customer dynamics, competitive dynamics, etc…

However, our experience shows that some of these factors are often decisive: the sharing of value with employees, understanding the company's strategy, taking pride in one's work, aligning values with reality, supporting for employee development, having women and diverse people in management, retaining of high potentials...

An incremental approach is not enough. A breakthrough is needed with and significant acceleration on key levers.

Complexity of considering three perspectives

Implementing the three perspectives is complex. Each perspective requires a specific approach that is in tension with the other two. This requires human and financial resources.

It's easy and tempting to fall into two traps:

- Prioritizing only two perspectives at the expense of the third: forsaking environmental ambition when the company holds strong profitable positions and a competitive model; or abandoning strategic and financial ambition when it seems nobler to focus on environmental and human ambition; or neglecting human ambition when strategic and environmental vision is driveb by highly differentiating technological choices;
- Fragmenting approaches by diluting resources across the three perspectives. Non-integrated consideration of these perspectives hasprohibitive costs and results in resource dilution. It does not allow for performance across all three axes, leading to an averaging of approaches and impacting growth, profitability, risk levels, and thus value creation.

The absence or inadequate consideration of any of these perspectives invariably leads to growth disruptions, which are detrimental to companies and their long-term value creation.

What to conclude?

Long-term growth, the only lever for value creation, can only be achived by implementing a growth model that integrates the three perspectives: strategic and financial, to build strong, growing positions and finance them; environmental, to seize the opportunities offered by this new dynamism and reduce the risks; human, to build a resilient model by attracting, retaining and developing talent.

The complexity of this integration lies in the short-term tensions and contradictions between these 3 perspectives. It requires continuous interaction between their objectives, actions, and achievements to achieve a balance for long-term growth with an even more rigorous strategic approach: human and financial choices and trade-offs, priorities, implementation of an operating and monitoring mode up to the highest management level. Managing and transcending this complexity is critical to creating sustainable competitive advantages and barriers. Speed is critical; resilience, coherence, and courage are indispensable.

Strategia Partners

Strategia Partners *is an international strategy consulting firm based in Europe (Paris & Zurich), the United States (New York & Seattle) and China (Shanghai). It assists Boards, CEOs, Executive Committees of major European and North American groups in their growth strategy. His approach integrates 3 perspectives: strategic and financial performance, environmental performance and human performance.*

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