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Organization for Growth

By

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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.

Today, more than ever, growth depends on speed, which has become the key element of strategy. Analysis of successful companies over the long term shows that these companies not only move in the right direction but they do so faster than their competitors. It is also observed that these companies are able to achieve growth because of their organization, or rather, despite the limitations of their organization.

What can be done to turn the organization into a lever for growth?

Organization: a constraint on growth

Organization is generally a constraint to growth. It slows down the implementation of strategy and prevents the achievement of the competitive positions necessary for strong growth. This is an observation made by all companies that want to expand significantly.

The reasons are well known:

- *Lack of organizational focus on priority issues.*

  The organization consistently focuses on the broad scope of its activities. It thinks in the short-term and naturally concentrates on mature activities. Growing segments have constraints and priorities different from mature segments. They require stronger responsiveness and flexibility, even if it means having a less well-developed response.

- *The weight of mature activities in profitability and managers' incentive systems.*

  Organizations dealing with both issues will have an interest (and rightly so) in prioritizing short-term profitability and major challenges over investing time in growing segments with lower immediate profitability. Management and incentive systems typically do not distinguish between mature activities, where margin optimization and capital efficiency are critical to maintaining leadership and competitiveness, and growing activities, where investment is needed to achieve leadership positions.

- *Organizational habit.*

  Organizations and skills that are used accustomed to working in mature environments may not have the appropriate reflexes for growth environments. If an organization has been accustomed to thinking in terms of optimization and high value-added, it is more challenging to shift towards models of rapid growth that demand different approaches and greater flexibility.

The answers are less obvious. They require a significant shift in focus, habits, and and challenge to established systems. They cannot be marginal, at the risk of being ineffective.

They require acceptance of some dysfunction or temporary sub-optimization. Sometimes, we have to "kill" the organization to bring growth to life. Five key principles can help facilitate this transformation.

1 – Positioning growth issues at the President / CEO level

Growth issues must be positioned, temporarily or permanently, at the highest level of the organization. They then become a significant priority for the entire group, and are subject to specific monitoring and focus.

For example, Novartis has accelerated its growth in “small emerging markets” such as Malaysia, Colombia, sub-Saharan Africa..., by temporarily creating a Group Emerging Market organization under the President’s authority. Over a 3-year period, this organization defined a cross-functional approach for these geographies, focused investments on the offering and access modes required for growth and structured the company's functions around these challenges.

Similarly, certain new activities with low current impact but high potential need to be positioned at the level of the President or CEO level. Assa Abloy, the world leader in residential locking solutions, has developed a new, fast-growing business, Global Technologies, specializing in commercial markets, reporting directly to the Managing Director.

2 - Specializing the organization

In Western groups, the natural reflex of managers is to develop synergies between organizations to cut costs, leverage global scale and ensure global coherence, even for businesses that are not global. This applies to R&D, marketing, local structures and support functions.

In this context, growing segments find themselves ‘integrated’ into the core of the organization. However, this is not the right approach. For high-potential challenges, it makes sense to maximize the specialization of teams around these new priorities. This may involve accepting a temporary loss of theoretical synergies in the short term but gaining in relevance, responsiveness, and speed.

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The organization should be a lever for growth, not a barrier

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.
- A strong growth strategy requires an organization structured around growth.
- However, too often, the organization acts as a barrier to growth. Existing organizations are generally focused on optimization and the development of synergies. This is hardly compatible with the challenges of growing businesses.
- Five levers can be activated to change the company's outlook without undermining the benefits of the existing organization. The organization then becomes a catalyst for growth.

Nike, for example, has developed its e-commerce business by creating a CEO-level unit that encompassed its various brands. This organization broke with the long-lasting principle of brand autonomy across the value chain. In e-commerce, it was necessary to recruit high-caliber talent, build high-performance teams and invest in appropriate tools. This change in perspective has enabled the company to generate more than 15% of its sales through this chanek and to return to global growth track after a long period of stagnation.

3 - Changing the focus of the organization

When specialization is not possible, and economies of scale are too high to separate organizations, it is necessary to refocus on growth challenges.

The budgets allocated to these teams, or the proportion of time spent by the teams, must reach a significant proportion for growing segments. This approach must be strategically decided at the highest level of the company, leading to clear and decisive trade-offs. It then requires specific processes in terms of product or service development priorities, proximity of decisions to markets, and overall consistency.

Cisco has used this approach for many years. The company has flipped its investment focus.

In the past, teams over-invested in projects that over-segmented, over-optimized, and over-complexified offerings and access methods. Future high-growth projects often receive residual resources, relying on the goodwill of teams to work on such projects in addition to their core responsibilities and based on their level of motivation. Projects focused on optimization, marginal renewals, over-segmentation, and defending current positions are no longer prioritized. The organization is now laser-focused on growth, with sixty percent of development projects dedicated to growth initiatives.

4 - Relocating and globalizing teams

In many industries, emerging markets account for a significant share of growth. This means adapting business models to these geographies. Mature models do not allow us to move at the right speed in emerging markets.

Teams need to be relocated to these countries. This applies not only to marketing and R&D functions, but also to support functions (finance, IT, human resources, etc.). The composition of the workforce in emerging markets must rapidly keep pace with the growth of production in these countries. Where this is not possible, or too complex for global products, the proportion of employees from emerging countries in mature country teams must increase significantly.

For example, almost 50% of the employees at Unilever's development centers in mature countries comes from emerging countries (China, India, Brazil, Russia, etc.). This enables teams to share approaches, transfer know-how and implement a global organization. Each center does not work exclusively for its own region, but is integrated into a global system.

5 - Project management

Implementing a growth strategy at the right pace may also require dedicated project management for key growth initiatives. The existing organization manages continuous processes for mature activities and global approaches. Cross-functional projects focus on growth projects, aiming to accelerate growth by involving a vast and coherent range of skills in a cross-functional manner. These projects may include :

- Specific product developments (in accelerated method, with faster 'transitions' through the various stages of development);
- Tailored business approaches for growing segments, leveraging expertise developed in other regions without necessarily direct hierarchical ties;
- Operating modes for specific support functions, tailored in detail to meet growth challenges.

What to conclude?

Too often, the organization, consciously or unconsciously, stands in the way of implementing growth strategies.

In the 'Organization versus Strategy' battle, the organization too often emerges victorious.

The role of senior management is to act on the 5 possible levers to avoid two pitfalls: the demobilization of organizations in mature businesses, and the loss of growth opportunities in high-potential segments.

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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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