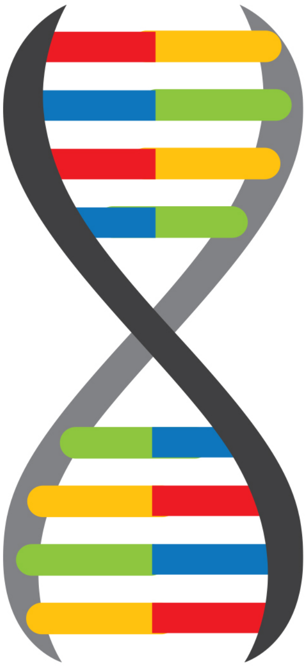
BOOST YOUR GROWTHDNA

How Strategic Leaders Use Growth Genetics To Drive Sustainable Business Performance



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CHAPTER 1

Business Growth Is Elusive

Company leaders worldwide seek business growth for many reasons. Whether it is to expand profitability to drive shareholder value, to build stronger market value in preparation for a transaction, or to allow them to support and promote their employees (and by extension their families and community), growth is desirable for just about every organization. So, why is it so elusive?

Would it surprise you to know that only 13 percent of companies are able to sustain a relatively modest single-digit growth rate for ten or more years?[1] What about the rest? They invest inordinate amounts of time and money while enduring substantial stress trying to create a growth trajectory that they believe is consistent with the potential of the organization, often with mixed or disappointing results.

For many of us, as leaders, the business is run through the management of two things: financial reports and operations. We are taught in business school that these things are important, and managing them has been rewarded in our careers as we mastered them. Yet, neither are growth-generating activities. They typically focus the organization on operational improvements or cost savings. At best, they may generate

[1] Chris Zook, *Beyond the Core: Expand Your Market without Abandoning Your Roots* (Boston, MA: Harvard Business School Press, 2004).

single-digit incremental improvement, extending the current baseline, but not changing its trajectory.

An article titled "Stop Focusing on Profitability and Go for Growth," published in *Harvard Business Review* in 2017, revealed the rise in intrinsic equity value from a 1 percent increase in growth is about five times larger than the same increase in pretax operating profit.[2] As growth-oriented leaders, we have to ask ourselves, how much of our time are we spending on managing for tomorrow versus managing for today? The article's author, Michael Mankins, says, "We hear CEOs describe one or two bets—at most—on growth while devoting most of their time to showcasing the results of restructuring, offshoring, and other cost-focused initiatives."

Growth Or Profit?

Return in Equity Value on 1 Percent Increase

Industry	Long-Term Growth	Pretax Operating Profit
Services	19%	4%
Equipment and Manufacturing	18%	4%
Chemicals, Metals and Raw Materials	18%	5%

Figure 1.1

My work with clients illustrates the same point. For example, when speaking at a conference of business owners recently, I asked one of the board members, well respected for running a tight ship, if I could review the key measures that he and his team rely on to run the business. Out of eighty-four measures tracked, 74 percent were focused on cutting expenses, while 26 percent were about driving the top line (see Figure 1.2, Metrics

[2] Michael Mankins, "Stop Focusing on Profitability and Go for Growth," *Harvard Business Review*, September 20, 2017, https://hbr.org/2017/05/stop-focusing-on-profitability-and-go-for-growth.

Tracked). That may not sound like a bad ratio, but half of the top-line measures were not about changing the top line, but simply tracking it.

Most revenue measures, taken from financial spreadsheets, are outcome measures. They are the results of other actions. That makes them *lagging indicators*. They are finite and static. Once recorded, they are in the past. The ideal growth measures are *leading indicators*, which are the behaviors and activities that predict or drive revenue growth. Don't misunderstand. I advocate for both operational and growth metrics. But as leaders who are in a unique position to change the future of the company, if we are not working on growth, who is? It isn't hard to connect the dots—if we are not championing many growth initiatives and we are not tracking growth goals, we are probably not going to achieve them.

Metrics Tracked

	Metrics		Indicators	
	Revenue	Expense	Lead	Lag
Revenue	11			11
Growth	2	2		
Net Growth	3		1	2
Cost of Goods		10	4	6
Plant		24	5	21
Service	4	10	4	10
Stockroom	1	18	2	17
Sales Dept.	1		1	
Total: 84 Percentage	22 26%	62 74%	17 20%	67 80%

Figure 1.2

What causes us to stay focused on the operating side of the business? From the time we were young, we have spent our lives conquering the *whats*—the practices and policies that others before us painstakingly put in place, and we were taught to respect. We do what we do because we are supposed to do it. Our parents raised us to, or our teachers taught us to, or our leaders rewarded us when we did. The problem is that the *whats* perpetuate behaviors that began years ago, for just reasons, and have not been re-examined to reflect changing times. Focusing on expenses and operational improvements does not question the fundamental strategic principles of a business, which may have made sense a few decades ago but are today being challenged by changing value systems, new technology, and the shifting of power into the hands of data users.

Understanding the why behind the action is a more strategic and growth-oriented way to lead and manage the business.

If business growth is a goal, it is not achieved by a focus on operating profit margins. Both are important. But ask yourself, which of these can only be accomplished by leadership? Leaders must focus on growth and charge managers with controlling margins. If leaders want to change the growth pattern, they must challenge how they manage and where they spend their time. It is critical to spend as much or more time studying and understanding market trends and behaviors as it is to manage internal functions. To nurture growth, question current operating approaches, always asking if the status quo—how we do things—makes sense in light of changing market conditions. Understanding the *why* behind the action is a more strategic and growth-oriented way to lead and manage the business. It enables discerning leaders to separate the wheat from the chaff internally, keeping practices that are still relevant, and changing those that are not.

CHAPTER SUMMARY

1. While growth is an important goal for most companies, only a small minority of them (approximately 13 percent) are effective at sustaining growth over time.

2. The rise in intrinsic equity value from a 1-percent increase in growth is about five times larger than the same increase in pretax operating profit.

3. Even growth-minded leaders spend the majority of their time focused on operational improvements and financial management and much *less* time on growth initiatives.

4. As leaders, it is critical we spend as much or more time studying and understanding the market trends and behaviors than examining our internal functions.

KEY QUESTIONS

1. What is your company's growth track record? Is it meeting or exceeding the average for your industry?
2. How much of your time (and that of other key people) is focused on managing day-to-day operations versus driving growth initiatives? Are you satisfied with that distribution of your most valuable asset—time?
3. To what extent does your organization routinely examine the "why" behind the "what"? In other words, do you approach growth by building on what you have, assuming that extending the past is the answer—or do you look at what the market is telling you and define what is possible for your organization before setting goals and objectives?