Organizations and growth

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Companies cannot create long-term value without growth. More than ever, growth depends on speed. Today, it has become the key element of strategy. An analysis of companies with a long track record of success shows that these companies not only move in the right direction but, more importantly, do so faster than their competitors. It is also observed that they succeed in this because of, or rather in spite of, their organization. How can an organization become a driver for growth?

Organization as a barrier to growth

An organization is generally a barrier to growth. It slows down the implementation of strategy and does not enable the company to achieve the positions needed for competitiveness and strong growth. Every company whose ambition is significant growth acknowledges this.

The reasons for this are known:

- *The organization's poor focus on priority projects*. The organization always focuses on its largest area of activity. It promotes short-term thinking and naturally concentrates on mature activities. Growth segments have different constraints and priorities than mature segments. They require a higher level of responsiveness and flexibility, even if this means that the response will be less well developed.
- *The share of mature activities in profitability and managers' incentive systems*. Organizations focusing on both types of projects will be better off (and this is normal) favoring short-term profitability and the biggest potential gains rather than investing their time in growth segments offering lower immediate profitability. Generally, when it comes to management and incentive systems, no distinction is made between mature activities, where it is necessary to optimize margins and capital employed to maintain leadership and remain competitive, and growth activities, where investments are needed to achieve leadership positions.
- *The organization's habits*: it can be difficult for organizations and employees used to working in mature environments to have the appropriate instincts for growth environments. When an organization is used to thinking in terms of optimization and high added value, it is more difficult to develop high-growth models requiring different approaches and a great deal of flexibility.

The responses are less obvious. They imply a significant shift in focus and habits and the reassessment of an established system. They cannot be marginal at the risk of being ineffective. They require the acceptance of some malfunction or temporary sub-optimization. Sometimes, the organization must be "killed" to make room for growth.

1 – Positioning growth projects at Chairman or CEO level

Growth projects must be positioned, whether temporarily or for a longer period of time, at the highest level of the company. They then become a major issue for the group and the subject of specific monitoring and focus.

For example, Novartis stepped up growth in "small emerging countries" such as Malaysia, Colombia and countries in sub-Saharan Africa by setting up a temporary organization reporting to the Chairman, called “Group Emerging Markets”. Between 2008 and 2010, this organization made it possible to define a transverse approach for these regions, focus

investments on the products and means of access needed for growth, and structure company functions around these objectives.

Similarly, certain new activities representing a small share of a company's business but with high growth potential must be positioned at Chairman or CEO level. Assa Abloy, the global leader in door closing solutions for individual customers, developed Global Technologies, a new high-growth activity specializing in commercial markets and reporting directly to the CEO.

2 - Specializing the organization

In Western groups, the natural tendency of managers is to develop synergies across organizations to lower costs, take advantage of overall size and ensure global coherence, even for functions where such coherence is not relevant. This is true for R&D, marketing, local structures and support functions. In this situation, growth segments are "integrated" into the heart of the organization. This is not the right solution. For high-growth potential projects, there is a benefit in having teams specialize as much as possible in these new projects, accepting to forgo theoretical synergies in the short term in exchange for more relevance, responsiveness and speed.

For example, Gap rapidly grew in e-commerce by creating an entity at CEO level encompassing its various brands: Gap, Banana Republic, Old Navy, Piperlime and Athleta. The new organization violated the sacrosanct principle of brand autonomy at every stage of the value-added process. In e-commerce, there was a need to recruit high-caliber staff, set up productive teams and invest in appropriate tools. This justified the change in perspective and is today enabling the company to generate more than 15% of its revenue through this channel and experience strong global growth after a long period of stagnation.

Similarly, Kingfisher, Castorama's parent company, decided in 1993 to launch a new low-price concept, Brico-Dépôt, for advanced do-it-yourselves and renovation projects. The launch involved separating the teams for the two concepts in order to give the new concept a chance to develop. For 15 years, synergies between the two entities were low, including in purchasing. This enabled Brico-Dépôt to grow significantly and Castorama to successfully reposition itself in the "Easy" do-it-yourself segment (see attached table).

3 - Changing the focus of the organization

When specialization is not possible because the scale effects are too high to split up organizations, more focus needs to be put on growth projects.

A significant proportion of budgets and time spent by these teams must be dedicated to growth segments. This approach must be approved strategically at the highest level of the company and result in clear-cut decisions. It must then lead to specific processes in terms of product or service development priorities, the participation of local markets in decision-making and ensuring overall coherence.

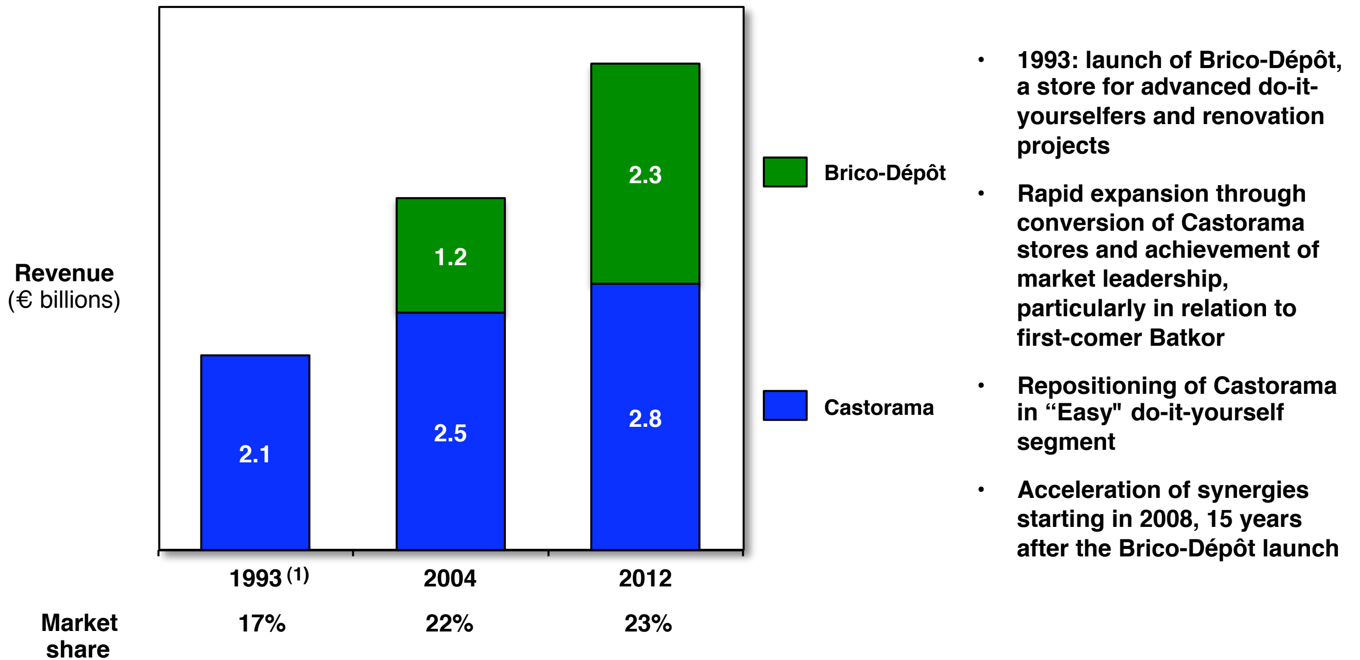
Cisco adopted this type of approach many years ago, reversing its investment focus. Historically, the teams over-invested in projects designed to over-segment, optimize and increase the complexity of products and services and means of access. Future high-growth projects had to make do with available surpluses and the goodwill of teams working overtime on these types of projects based on their level of motivation. Today, projects focusing on optimizing, protecting margins, over-segmenting and defending the company's positions are no longer priorities. The organization’s is focused on growth: growth projects must account for 60% of development projects.

4 - Relocating and globalizing teams

In many industries, emerging market countries largely generates growth. This means that business models must be adapted to these regions. It is not possible to move at the right speed in emerging markets using mature models. Teams must be relocated to these countries. This is true for marketing and R&D functions, as well as support functions (finance, IT, human resources, etc.). The size of emerging countries should very quickly follow production growth

- Table -

Kingfisher France expanded Brico-Dépôt significantly while repositioning Castorama



- **1993: launch of Brico-Dépôt, a store for advanced do-it-yourselfers and renovation projects**
- **Rapid expansion through conversion of Castorama stores and achievement of market leadership, particularly in relation to first-comer Batkor**
- **Repositioning of Castorama in “Easy" do-it-yourself segment**
- **Acceleration of synergies starting in 2008, 15 years after the Brico-Dépôt launch**

(1) Castorama's revenue before creation of Brico-Dépôt
Sources: Estin & Co analyses and estimates

in these countries. When this is not possible or too complex for global products, the share of employees from growth markets should be significantly increased in mature countries.

For example, nearly 50% of the staff at Unilever's development centers based in mature markets are from emerging economies (China, India, Brazil, Russia, etc.). This makes it possible to share approaches among teams, transfer know-how and implement a global organization. Each center is integrated into a global system, rather than working exclusively for its own area,

5 - Managing in project mode

Implementing a growth strategy at the right speed may also require applying a project-mode management style to certain growth projects. The existing organization manages continuous processes for mature activities and global approaches. Cross-functional projects focus on growth projects. They help accelerate growth by simultaneously engaging a vast and coherent set of cross-functional skills. Such projects may include:

- Specific product developments (at an accelerated pace, with faster transitions from one development phase to another);
- Commercial approaches tailored to growth segments while capitalizing on expertise developed in other regions and without necessarily having direct reporting lines;
- Specific operating methods for support functions with a level of detail adapted to growth projects.

What conclusions can be drawn?

All too often, the organization is, consciously or not, at odds to the implementation of growth strategies. In the "Organization vs. Strategy" battle, the organization too often comes out the winner. Management’s role is to act on these five points to avoid two pitfalls: the withdrawal of organizations from mature activities and the loss of growth opportunities for high-potential segments. Then the organization becomes the driver of growth.

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Estin & Co is an international strategy consultancy based in Paris, London, Zurich and Shanghai. The firm assists the boards of major European, North American and Asian groups in their growth strategies, and private equity funds in analyzing and improving the value of their investments.