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ORGANIZING FOR GROWTH

By Nick South, Eddy Tamboto, and Grant Freeland

AT A GLANCE

Most growth initiatives fail because of people and organizational shortcomings. Companies neglect to rally their leadership behind the initiative. They don't put the right people and capabilities in place. Or they don't adjust the organization's structure and culture to the new requirements.

Leadership Is More Crucial Than Ever

Growth initiatives tend to disrupt the balance of power within organizations and require more time and effort from leaders than other change efforts.

Collaboration Is Critical

Growth agendas almost always require cross-functional collaboration and fundamentally different ways of working, increasing the importance of people and organizational practices.

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Growth initiatives fail for many reasons. The strategy may be flawed, or execution may fall short. Most often, however, initiatives fail because of people and organizational shortcomings. Companies neglect to rally their leadership behind the initiative. They don't put the right people and capabilities in place. Or they don't adjust structure and culture to the new initiatives.

Archie Norman, the UK business executive who has turned around several companies, once said, "Behind all financial failures is organizational failure." The same is true of growth initiatives.

Successful growth initiatives revolve around five organizational and people practices. They cannot rescue a failed strategy or poor execution, but without them the best-laid growth plan is unlikely to take root and bear fruit.

Leadership: Growth Starts Here

Growth often challenges an organization's existing business models and resource allocation. Unless senior leaders visibly and actively support a growth initiative, the inertial forces of larger legacy businesses can smother it. These leaders will likely have to spend even more time and effort on a growth initiative than on other types of change that do not disrupt the internal balance of power.

Once a growth strategy has been set, one of the primary jobs of the CEO is to ensure that the entire senior leadership team supports the initiative and is committed to its long-term success. This is difficult work. Some senior executives may feel threatened. Others may not possess the same sense of urgency as the CEO. The growth initiative will almost certainly fail if the CEO cannot bring these people around.

The composition of the senior leadership team needs to mirror the company's new focus. If all the top leaders come from legacy parts of the business, employees will perceive that the new growth initiative is just a passing fancy. Likewise, meetings of the senior leadership team and the board of directors should be disproportionately devoted to growth. If the top is carrying on with business as usual, the rest of the organization will conclude that they can, too.

Leaders need to talk about the new growth initiative clearly, continually, and consistently. They should celebrate the initiative's successes and make heroes of its leaders while honestly acknowledging the challenges in front of them.

Talk and celebration go only so far, however. Ultimately, leaders will be judged on what they do, how effectively they remove internal barriers to growth, and whom they promote to lead their growth initiatives.

Gracia Martore, CEO of Gannett Company, and her leadership team followed this script closely during the U.S. media company's multiyear growth initiative. In addition to growing organically, the company reshaped its business portfolio with a series of acquisitions and divestitures. This strategic deal making culminated in an August 2014 announcement that Gannett would split in two by peeling away its publishing business, including *USA Today,* from its faster-growing digital and broadcasting businesses. These moves have helped more than double market capitalization in the two and a half years since the announcement of the growth strategy in February 2012.

As the leaders of a decentralized company, the members of Martore's senior team understood that they needed to be fully behind the initiative. Otherwise, they could not expect the 100 business units that reported to them to embrace Gannett's new direction.

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The team oversaw task forces and other activities that focused on building the case for change, growth, and renewal. Two newly created positions—a chief digital officer and a chief marketing officer—and several senior outside hires also strengthened the leadership capabilities required to promote the growth strategy.

Capabilities and Talent: The Fuel That Ignites Growth

To generate growth, companies will almost always need new organizational capabilities and individual skills. They may need technical or functional skills, such as digital or big-data capabilities. But they may also require new types of leaders—those with experience in emerging markets, for example, if that is the source of the opportunity, or executives who are more adaptive, agile, and entrepreneurial than those running the core business. Likewise, a product company moving into services may need a sales executive who better understands the dynamics of service businesses.

Finally, growth agendas almost always require cross-functional collaboration and fundamentally different ways of working. While cost cutting can frequently be achieved within functions and without new capabilities, that is almost never true of growth.

A European television studio recognized the importance of new capabilities for the growth strategy it had recently developed. The strategy, which focused on better exploiting the creative output of the company's production business, required three types of new capabilities and closer collaboration between creative and business executives. First, the company needed stronger commercial acumen in the studios in order to uncover and exploit new revenue sources. Second, it needed people experienced in developing content that would appeal to overseas markets—a principal source of future growth. Third, it needed leaders comfortable managing both the creative and business sides of production. Historically, leaders were promoted on the basis of creative judgment rather than business skills.

The growth strategy also required new organization structures and a shift in culture; but without the new capabilities, the strategy would have faltered. Instead, it has helped the studio boost revenues, employee engagement, and shareholder return.

Organization Design: Nurturing the New Business

A new growth strategy presents important organizational choices, although many companies often fail to pay sufficient attention to them. The most fundamental choice is whether the initiative fits within an existing business, belongs on its own, or should be combined with other new ventures. These are never easy decisions. The answers are not formulaic and depend on context.

However, there are some basic principles. When the growth initiative is either distinct from or disruptive to the established core, separation makes sense. This unit can then attack the opportunity with its own talent, incentives, and cadence. When the growth initiative is adjacent—and either supportive or nonthreatening—to the core, it likely belongs within the core business organization and operating model.

These two models were on display when two companies, an airline and a retailer, both built successful e-commerce businesses with very different strategies and organizational approaches.

The most fundamental choice of a new growth strategy is whether the initiative fits within an existing business, belongs on its own, or should be combined with other new ventures.

The airline, unaccustomed to disruptive change or integrating new capabilities, created a stand-alone e-commerce unit that could not be overwhelmed by the main business. The retailer, on the other hand, was already accustomed to selling through more than one channel and store format, and wanted to give customers seamless service. It also had a strong record of change management and business model evolution. It opted to embed the new e-commerce strategy in the core business. Each decision was sound, given the organizational context, and ultimately successful.

Regardless of where the new growth initiative is housed, all companies will need to ensure that they have processes to promote cooperation across existing business and functional units. Forums, councils, and cross-functional teams are effective mechanisms for fostering this collaboration. In meetings of these groups, all parts of the organization come together to discuss progress, reset expectations, and make course corrections. These gatherings should also provide an opportunity for teams to

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celebrate successes, build engagement, and find a common purpose. And, of course, they also are the place to air disagreements and make trade-offs.

These forums are too often seen as contests with winners and losers, rather than platforms for effective team building. Executives must ensure that the right people—with the right information and the right motivation—are collaborating effectively to get work done. Well-designed mechanisms can mean the difference between the success and failure of a growth initiative.

When Gas Natural agreed to buy a controlling stake in competitor Unión Fenosa in 2008, the Spanish utility put in place mechanisms to define accountabilities and ensure collaboration. Gas Natural Fenosa, the new company, created a lean but effective corporate center by eliminating redundant roles and clarifying how the corporate functions and business units would work together. The corporate development function, for example, was made responsible for establishing growth targets and ensuring that the company stayed focused on growth.

This emphasis on collaboration and roles has paid dividends for Gas Natural Fenosa. From 2009 through 2013, its revenues grew by 14 percent annually.

Culture: Creating the New Normal

Culture—"the way things get done around here"—can either accelerate or frustrate growth initiatives. There is often a gap between a company's current culture and its target culture.

Leaders play a large role in establishing culture, reinforcing behavior, and bringing in and promoting the right people. Policies that define performance, compensation, promotions, and penalties also affect culture. If companies are unwilling to rethink their traditional incentive structures, for example, they will struggle to attract the desired kinds of people or to encourage more entrepreneurial behavior. But they also need to mesh new approaches with existing practices. Organization design—especially the assignment of decision rights and the establishment of mechanisms to encourage collaboration—also influences culture.

Behavior and culture are often afterthoughts, but they shouldn't be. As part of a growth initiative, companies can develop processes to ensure that they achieve their target culture, which will make it easier to achieve their financial targets.

As part of a large transformation, a global insurer recognized that its culture was a barrier to growth. Its leaders did not collaborate well, and accountability and trust were low throughout the organization. The insurer established new incentives for leaders that focused on promoting more disciplined, strategic, and collaborative behavior. It also created "role charters"—documents written by employees and their supervisors that describe roles as they should be, as well as the collaboration required among them—for more than 1,000 employees. The new behavioral expectations were put in place during a delayering in which each layer of supervisors designed the layers and roles—and assigned decision rights—below them. This process helped build employee commitment, break down barriers, and clarify roles and responsibilities. The insurer's stock price rose by 50 percent in the year after the announcement of the transformation.

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Change Management: Pulling It All Together

Change management capabilities are what allow companies to knit together the threads of a growth initiative. In our experience, change management is most effective when senior leaders agree on the goals and means of change and then transmit a consistent message to employees layer by layer throughout the organization. As part of monitoring change, senior executives should be able to receive feedback from deep within the organization, where the fate of change resides, in order to track progress and make adjustments. We call this process *cascading change.*

Organizations also need to rely on both hard and soft strategies to deliver change. On the hard side, they define accountabilities and metrics for individuals and give them the tools and authority to succeed at implementing them. They track progress against important milestones, know when initiatives are at risk of falling behind schedule, and take corrective action. But they also communicate and engage with key stakeholders to maintain their confidence and commitment during turbulent times.

This rigorous planning and implementation will increase the odds of success for a growth strategy.

Organizing for growth is tough work. Leaders first should recognize that a growth strategy without consideration of organizational and people issues is merely a good idea. Then they need to lay the organizational foundation so that growth has a chance to flourish.

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