Managing Growth - Barriers and Preconditions

What actually is (successful) growth?
In my article about the Five Phases of Growth, I have discussed why it may be necessary to grow. However, you cannot stress enough, that growth for growth sake is not the right approach. On the contrary, growth has to be part of the complete corporate development. It has to take into account internal resources and external forces, and – ideally – it is a planed part of the corporate strategy. This statement is necessary because there may be situations when growth is a forced reaction to changes in the external environment (e.g. when the target market booms and demands more of the organizations products or services).

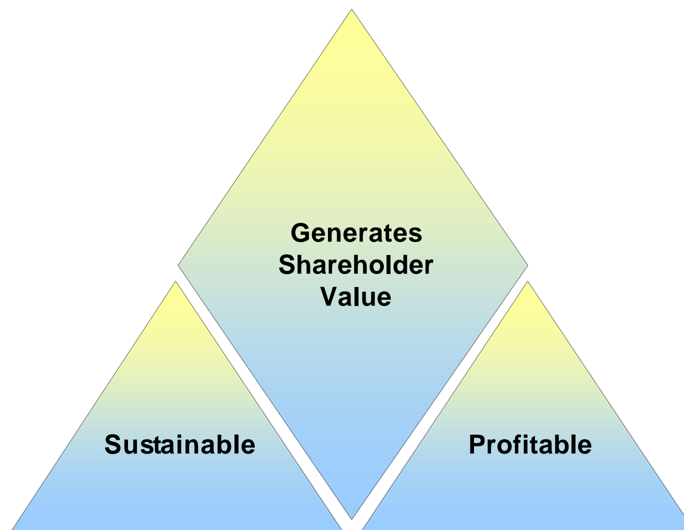
What is growth? We can measure corporate growth with statistics about

- Revenue
- Profits
- Number of staff
- Number of subsidiaries.

There are several strategic options, how organizations can grow:

- Internal growth (e.g. entry in new markets, launch of new products)
- Mergers and acquisitions
- Joint ventures
- Leveraging (licensing, development of a network of franchise partners).

However, true growth is more than adding something to the company – people, office space, sales force. That means that the company gets larger, but is it growing strategically?
Successful growth fulfils the following criteria:



A growing organization should always generate value. Successful growth can be measured by the criteria of sustainability, profitability and shareholder value generation.

Reality teaches us the following about growth:

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- Growth does not necessary generate shareholder value. A look at recent developments at all major stock exchanges (especially the ‘growth’-segments like NASDAQ or Neuer Markt) provides more than enough evidence.
- Successful corporate growth needs focus on and leadership in some core businesses.
- Success of failure in growth is not a matter of industry or size of the organization. It is, however, a matter of managerial decisions.

That sounds simple, but it is not. According to a study of Bain & Company, only a one out of seven organization manages to grow successfully.

Barriers to Growth

Barriers to successful corporate growth are complex. The main reason is a lack of a growth strategy – or failure to implement one. A poll from ADL and Fortune revealed that only about 25% of all respondents finally realized their intended strategies.
This allows two conclusions:

- Parts of the management have deficits, which prevent realization of the strategy. These deficits may base in communication or the inability to translate the overall vision and strategy into smaller steps and projects for particular divisions.
- In some companies, the whole planning process is little more than rubbish, since they fail to analyze their environment correctly and hence to develop appropriate projections and scenarios.

In addition, the personal intentions and aspirations of the owners may limit growth, if they simply are not related to growth objectives. We find such situations mainly in smaller, owner-managed organizations, when the purpose is not entrepreneurship, but to guarantee the owner a certain level of income.

Moreover, there may be barriers to growth on operational levels:

- Lack of financial means or insufficient access to outside capital
- Lack of qualified staff / expertise
- Lack of preparation to take risks
- Lack of willingness and ability to change (“we always did it that way”)
- The “this is not invented here”-syndrome – the lack of willingness to take on external knowledge

Preconditions for Growth

The most important thing an organization should have is a strong core business. Such a core business has the following characteristics:

- It is a unique, profitable combination of strategic assets (e.g. equipment, intellectual property rights), skills and abilities (e.g. expert knowledge of workforce), products/services, and relations to external environment.
- It distinguishes the organization from its competitors.
- It enables the organization to serve a particular market segment with a perceived value added.
- It may be a single line of business or a combination of several divisions.
- It is the long-lasting major source of growth and value generation.
- It does not necessary contribute the largest proportion of revenues, but it does contribute the largest proportion of profits (A-product)

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These characteristics of a core business reveal which further preconditions are needed in order to achieve growth:

- Development and implementation of a (growth)strategy
- Sound financial basis
- Ownership or development of two to three profitable core businesses
- Market leadership with these core businesses (even if it is in a narrow niche market)
- Management focus on these core businesses
- Continuous monitoring of external environment, early realization of and reactions to changes in the market
- Avoidance of unnecessary diversification into unknown businesses

The last point needs some explanation. Diversification into new businesses is not wrong in itself. Changes in the external environment may force the organization to explore new products in new markets. Management should however avoid looking for better prospects in unknown territory (here: business) only because they are not successful in their traditional fields. The Dakota Red Indians say, “When you realize that you are riding a dead horse, get off.” That is exactly the point here: is our horse (our traditional business) really dead or are we not able to ride it? The answer to that question gives valuable advice for the further development and for changes that might or might not be necessary.

The general message for corporate growth is:
Start with the exploitation of your *existing* competitive advantages.

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