

# Organizing for Growth:

## Architecting the Organization to Support Enterprise Growth

### Consider the Following Scenarios

**Scenario 1:** Each of the business units in a multi-industry conglomerate has performed well over the past three years and as a result, the corporation as a whole has exceeded Wall Street's expectations. The CEO's concern is that the business unit leaders are strongly independent and want little to do with one another or with corporate headquarters. Left alone, the units might continue to prosper. On the other hand, the business leaders may be missing future threats from competitors or opportunities to work with the other units to expand market share. The CEO doesn't want to impose unnecessary controls on his high-flying business leaders, but he isn't confident that left alone, his leaders will do all they should to ensure the profitable growth they have experienced.

*By David A. Nadler, William A. Pasmore and Roselinde Torres*

**Scenario 2:** The executive team of a \$10 billion business unit has an aspiration to double the unit's size in three years. Members of the team are comfortable that they have planned the right combination of acquisitions and organic growth to hit their goal, but they wonder if they can pull it all off. Before they ask the corporation to commit to their aggressive growth plan, they need to know what investments will be required in people, infrastructure, systems, and processes to support a more complex \$20 billion operation.

**Scenario 3:** The CEO of a large financial enterprise has successfully completed a major acquisition and a series of smaller acquisitions to reshape the company's portfolio and better position it for future growth. With the right assets in

place, the CEO's focus shifts to two issues: 1) how does he ensure that the acquired companies perform as expected within the reshaped portfolio, and 2) since no further acquisitions will be possible for some time, what steps should he take to maximize organic growth within each line of business?



Each of these scenarios is real, and representative of the issues facing executives leading different sized companies across a broad range of industries. Beyond the absolutely essential step of identifying the right strategy, business model, and portfolio of acquisitions, these scenarios demonstrate that growth requires something more: an examination of the organization, people, processes, and systems required to support organic and acquisitive growth.

While we are delighted to receive calls from our clients to help with these issues, we continue to be amazed at how often the calls come as an afterthought rather than a routine step in the process of preparing an enterprise for growth. Waiting until the inevitable organizational problems associated with growth emerge is expensive. Lost revenues, lost talent, and lost customers lead the list of consequences, but there are many more. It is far better to recognize in advance that the adoption of growth strategies, via organic growth or acquisition, will ultimately require organizational adjustments to succeed.

In this article, we point out why strategies that have worked for one company may fail in another. Citing two research studies we have conducted on organizing for growth, we will help readers think about the elements of the organization that must be reconfigured to support growth and provide examples from our work with clients to illustrate our points.

### **Growth Is Not a One-Size-Fits-All Proposition**

Organizations should adopt strategies for growth that are responsive to their markets and align with their internal capabilities. Typically, these strategies represent some combination

of organic growth and growth via acquisition. Sustained growth results from an interplay of new offers to current customers, current offers to new customers, or new offers to new customers. Moreover, managing growth at a business unit level differs from managing growth at the enterprise level, where portfolio strategies require trade-offs on investments. Each strategy brings unique organizational challenges.

In worst-case scenarios, large companies act like losing Las Vegas gamblers, throwing money at one growth strategy after another, hoping that their luck will eventually change and never deducing why they have not been able to win. These companies don't understand why strategies that have worked for others fail for them, or why an acquisition that was on a steep growth curve suddenly flattened off after becoming part of the company's portfolio. To make growth a less-risky proposition, companies need to align their organizations with the strategies they pursue.

### **Architecting Growth**

We use a framework known as the Congruence Model to help leaders understand the elements of their enterprise that must be aligned to support strategies for growth (see "The Congruence Model," page 58).

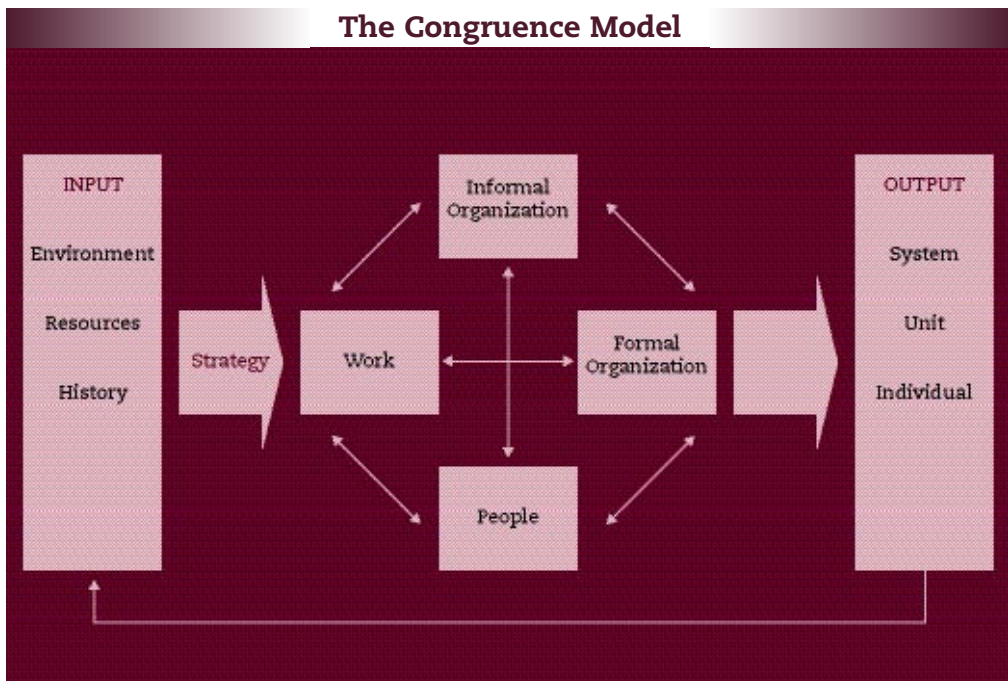
This time-tested framework helps us to zero in on the factors that are likely to affect the ability of a company to translate strategies into market share, earnings, cash flow, and ultimately share price. As we use this model to diagnose organizations, we look for congruence or fit between the capabilities of the organization and the demands of its strategy. We also look for congruence among the elements that provide organizational capabilities: work, people, formal organization, and informal organization.

For example, Cisco, Bank of America, and NewsCorp are all companies that have grown through aggressive acquisition strategies. These strategies require expertise in "work" process-



es such as identifying suitable acquisition targets, deal making, and acquisition integration. It's not surprising that these capabilities have become embedded in the "formal organization" of these companies in departments staffed by people with deep expertise. Maintaining a common corporate culture or "informal organization" is critical to the success of enterprises that grow through acquisition. Each of these companies has ways of rapidly shaping the way newcomers think, feel and behave to fit in as members of the larger enterprise.

Companies are particularly susceptible to failure when they move from familiar sources of growth to totally new strategies. A strategy that has worked well for a competitor may not work at all in an organization that lacks the capabilities to execute that same strategy successfully. Simply bolting on a new ventures unit, acquiring another firm as a foothold in a new market, or hiring a super-talented individual to lead a new business often fail as strategies for the same reason.



The organization doesn't have the necessary work processes, organization structure, talent or culture to create the rich ecosystem required to support a new kind of growth.

Does this mean that executives should never consider adopting new strategies for growth? Absolutely not. Bold new strategies are often a necessity, particularly in industries where the market is shrinking or fiercely contested. What is critical, in our view, is that executives think about new strategies and the organizational capabilities required for executing those strategies simultaneously. In the studies we will review next, there is clear evidence that companies that understand the relationship between strategy and organizational architecture outperform and outgrow those that don't.

### **What Matters Most: Mercer Delta Studies of Organizational Growth**

Mercer Delta Consulting has conducted two major studies of organizational growth. The first, in 1997, sought answers to the question "What strategies do companies with over \$10 billion in sales use to continue to grow at double digit rates?" The second study, conducted in 2005, sought to identify the practices used by companies with superior track records in terms of sustained organic growth. Here, we combine the results of both studies, along with our 25 years of experience in helping executives build successful, growing companies to derive a set of common factors that separate the best from the rest (see "Characteristics of the best high-growth companies," page 60).

Our winners began with crystal-clear strategies, a sharply defined business focus, aggressive new product development that made their own older products obsolete, and a willingness to partner with suppliers, customers and peers to allow dominance of a few pieces of the value chain without adding mass. Put simply, our winners knew how to make money. There was no debate about the business they were in or the business model they were using. When opportunities came

along to acquire companies or pursue organic growth strategies that would divert attention from their current recipes for success, our winners were quick to pass. Tough decisions were made about new and continuing investments; underperforming businesses were divested and the focus maintained on a small number of initiatives. People understood these strategies

## Characteristics of the best high-growth companies

<b>Strategy</b>	<ol style="list-style-type: none"> <li>1. Crystal clear growth strategy</li> <li>2. Sharp business focus</li> <li>3. Product/offer cannibalization</li> <li>4. Partnerships</li> </ol>
<b>Work</b>	<ol style="list-style-type: none"> <li>5. Competitive innovation</li> <li>6. Speed</li> <li>7. Cost leadership</li> </ol>
<b>Formal organization</b>	<ol style="list-style-type: none"> <li>8. Structural simplicity</li> <li>9. Management processes for growth</li> <li>10. Disciplined execution of growth initiatives</li> <li>11. Semi-autonomous business units</li> <li>12. New units/roles for “white space”</li> </ol>
<b>Informal organization</b>	<ol style="list-style-type: none"> <li>13. Leadership</li> <li>14. Pervasive growth mindset</li> <li>15. Culture of excellence in execution</li> <li>16. “Rock hard” values and culture</li> </ol>
<b>People</b>	<ol style="list-style-type: none"> <li>17. High-quality people</li> <li>18. Building a bench of entrepreneurial people</li> </ol>

throughout the company and across levels, so they could more readily orient their efforts to align with shared objectives.

Our winners surpassed their peers in the processes they used to transform inputs into outputs; that is, in the ways they went about their work. Winners typically were more successful at innovation because they were more adept at using well-defined processes for transforming consumer insights into products their customers valued. They were also faster to bring products to market, and did so more efficiently so that they could use both speed and cost as competitive weapons. They maintained a relentless focus on cost reduction, quality, and process improvement, with measures in place that tied success in these areas to compensation.

Their formal organizations were designed to support excellence and alignment in the implementation of their strategies. As companies grow, they often develop more complex structures that at some point become unmanageable. Our high-growth stars did the opposite. They believed strongly that “less is more” and sought structural simplicity that could provide stability and clear direction. It was not uncommon for them to rely on semi-autonomous business units with clearly defined end-to-end responsibilities for growth that were linked together creatively to capture the benefits of scale and leverage. They also tended to maintain only truly value-added corporate overhead and found ways to protect space for innovation that didn’t fit neatly within the business units.

The informal organizations of our winning companies were not warm and fuzzy. On the contrary, rules were clear and accepted. “Disciplined” and “focused” were used in describing these cultures far more frequently than “loose” or “entrepreneurial.” Leaders were expected to align their units with corporate goals and to push relentlessly for growth. They weren’t expected to be mavericks, or to fight the corporate culture. They were to use the processes that had been put in place to support innovation and growth rather than invent them for themselves. Many of the individuals we interviewed

described their cultures as intense and demanding. A growth mindset was pervasive, and leaders were expected to deliver the goods or seek employment elsewhere. Strong metrics closed the loop between strategies and performance, allowing these companies to benchmark against the best, learn from experience, and reward successful performers.

Finally, given the intense pressure and expectations, it's not surprising that our winners mentioned talent as a key to their success. It takes bright, driven people who are willing to take managed risks and accept responsibility for their decisions to populate a successful, high-growth enterprise in an increasingly competitive and fast-moving environment. High-growth organizations placed a particular premium on leadership development and subsequently invested in creating a "pipeline" of leadership talent who understood the company's way of operating and shared a common mindset and values regarding growth. Leaders at the top of the best companies modeled the behaviors they expected from others, including such things as moving from being risk averse to understanding how to manage risks, maintaining an external orientation, and being action oriented. "Blockers," long-service but underperforming employees, were slowly removed to make opportunities available for new leaders to emerge. Innovative people who didn't fit the culture were protected and given space to contribute fresh thinking. Strong meritocracies were in use that rewarded those who performed and sent clear messages to those who did not.

### **The Unique Challenges of Growth**

With these commonalities noted, it's important to return to where we began: namely, that companies shouldn't simply copy strengths of others to grow. Instead, executives should recognize that each company faces unique challenges associated with its environment and evolution that should determine its focus for improvement. As evidence, we present three very different cases from our recent work with clients.

### **Case 1: Growth through hostile takeover**

We assisted a large global manufacturing company that pursued growth through aggressive acquisitions. One acquisition was hostile, involving a competitor that viewed the acquiring company as their primary adversary. Shortly after the acquisition, most of the leaders from the acquired company fled, fearing that they would never be given a fair chance to succeed in the merged company. Left behind were shell-shocked employees who had no choice but to stay despite their considerable misgivings. Recognizing the challenge before them, leaders of the acquiring company asked for our help to make the acquisition successful.

First, we made certain that the top leadership team was aligned on the value expected from the deal, the specific sources of the expected value, and the critical success factors to make the deal work as planned. Next, we translated this agreement at the top into specific actions that leaders in the organization would need to take to accomplish the goals. Among these actions was the need to create positive identification with the new entity among all employees, not just those of the acquiring company. To do this, we helped leaders understand the deliberate actions they would need to take to build trust and demonstrate concern for the future of the acquired employees. With a particular focus on the social integration aspects of the combination, leaders of the merged company defined a new culture that explicitly valued capabilities that were more prominent in the acquired company than in the acquirer, such as customer orientation and respect for people. With these and other actions, the merged entity met all its financial targets, a prospect that had seemed remote only a few months before.



### **Case 2: Finding hidden assets for growth**

Our second case involves a multi-industry conglomerate with a successful track record of growth that wanted to do even better. Corporate leaders suspected that the highly decentral-

ized nature of the company was causing business units to miss critical opportunities to work together in serving customers, sharing resources, and reducing costs. Duplicated costs and lack of coordination across the company's 22 businesses were at clear odds with a strategy that called for increasing margins, improving customer relationships, and using shared assets to grow market share. While corporate revenues increased steadily, operating margins remained low compared to peers.

We worked with a design team made up of representatives from corporate and business units to rearchitect the company. As a result, the company went from the original 22 businesses to seven market-focused strategic business units. Each of the units had different but clear business designs with clear profit models. A separate unit that had focused on global customers was broken up and its capabilities transferred into business units with the largest global customers. The new, simpler structure defined focus on value-added roles for corporate functions and allowed the operating units to reduce costs through regional shared services. What remained common across the new strategic business units was a clear management system that was used to set, align and regularly review goals at all levels. Through these changes, the company was able to preserve differences in operating processes that were important to the success of the units while reducing costs and identifying previously hidden shared assets that could be leveraged for growth.

### **Case 3: Leading for growth**

Our third case involves a financial institution that was facing tremendous earning pressures. A new CEO appointed to address the issues – soon discovered what he believed was the major cause of the problem: the company's leadership. After making sweeping changes at the top, the new CEO and his new team spoke of the need to develop a new brand of leadership that could return the enterprise to profitable growth. This new brand of leadership would create a pervasive growth mindset, modeled strongly by the CEO and his direct reports.

We engaged the senior team in creating the new leadership model for the company. Leading by example, the entire top team underwent 360 degree assessment and feedback based on the new model. Then, we worked closely with the leadership team and human resources to develop a customized approach to leadership development that would touch two hundred of the company's top leaders. What made this effort unique was the personal involvement of the CEO, who attended each and every session we conducted.

The result was a dramatic change in the culture, particularly at the senior levels of the firm. A much deeper bench of talent with the potential to reach the top was identified, and the improving success of the company's performance made attracting talent from the outside much easier than it had been for a number of years. With stronger leadership in place, the company's growth has shown a positive and sustained upward trend.

## **Conclusion**

Too often, executives search for the silver bullet that will help their company grow: the new strategy, the right acquisition, the key hire. We hope that we have made clear our view that no single action will help a company grow, especially if that action isn't accompanied by supporting changes in the organization's architecture. Whether companies seek to grow via acquisition or organically, the message is the same: understand the organizational capabilities that are required to support different strategies for growth and build those capabilities at the same time new strategies are being executed.

Based on experience and research, we believe that how an enterprise is organized affects its ability to grow. It's up to leaders at the top to take the actions required to align the organization's architecture with its ambitions for growth.

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