Reinventing Your Company for Long-Term Growth

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

"I consider the ability to reinvent to be the core strength of all successful business people or institutions," Stephen M. Ross, chairman of The Related Companies, told a recent graduating class at the Ross School of Business at the University of Michigan.

Ross knows what he's talking about. He built The Related Companies, which he founded in 1972, into one of the most successful real estate organizations in the United States. Over the past 40 years, Ross has had to adjust many times to developments in a dynamic, competitive marketplace, and the ups and downs of many business cycles.

Why is reinvention so important? How do we identify the right time to reinvent our company? And what actions are required to reinvent and continue to grow our business?

"The greatest period of growth occurs as an adaptation to and as a result of change," Ross told the graduating class.

Changes in the Marketplace Require Reinvention
Indeed, change is the key reason that business organizations need to reinvent themselves. Sooner or later, every business will experience a slowdown in its growth rate. The classical S-shaped business lifecycle growth pattern starts out with relatively slow growth, moves into a more rapid growth pace, then plateaus. If the business does not become re-invigorated, its revenues will then decline.

Slowdowns in a company's growth are natural, and they occur for many reasons. For example, advances in technology may obsolete a company's products. Competitors will appear offering more innovative products and services, or at lower prices. Or the company may have failed to effectively execute some of its internal functions – e.g., marketing, sales, or distribution.

Whatever the reasons for the change and its impact on the company, CEOs and other senior executives need to be alert to the changes that are occurring in the competitive environment, technology, new products and services in the marketplace, and customer desires and attitudes – all of which are likely to affect their businesses. And, based on these developments, they need to develop strategies and take actions that will offset and counteract these trends, and move the company along a new and different path that will continue the company's growth.

Furthermore, they need to take these actions sooner rather than later, in order to avert a substantial decline in growth. Early problem identification and remedial action are critical to successful company re-invention, according to Paul Nunes and Tom Breene, in their article, "Reinvent Your Business Before It's Too Late," in the January-February 2011 issue of the Harvard Business Review. Nunes is the executive director of research at the Accenture Institute for High Performance. Breene is the CEO of Accenture Interactive, the company's digital marketing initiative.

"Companies fail to reinvent themselves not necessarily because they are bad at fixing what's broken, but because they wait much too long before repairing the deteriorating bulwarks of the company," Nunes and Breene write. "That is, they invest most of their energy managing to the contours of their existing operations…and not nearly enough energy creating the foundations of successful new businesses. Because of that, they are left scrambling when their core markets begin to stagnate."

The Three Key Factors that High-Performers Watch Closely

Nunes and Greene have spent nearly a decade in researching how high-performance companies reinvent themselves to continue their superior growth path over the long term. The research shows that "the companies that successfully reinvent themselves have one trait in common. They tend to broaden their focus beyond the financial S-Curve [that tracks revenue growth] and manage to three much shorter but vitally important S-Curves" -- (1) one that tracks the basis of competition in their industry; (2) one that monitors actions to renew their capabilities; and (3) one that tracks their nurturing of a ready supply of talent. "In essence…they [high-performers] focus on fixing what doesn't yet appear to be broken." Nunes and Breene call them "hidden" S-Curves because their impact is not so obvious in the short term.

Here's how the high-performance companies use these hidden curves:

The Competition Curve

High-performers "watch how competition in the industry is shifting. They see changes in customer needs and create the next basis of competition in their industry, even as they exploit existing businesses that have not yet peaked."

The Capabilities Curve

High-performers invariably create distinctive capabilities. But distinctiveness in capabilities is fleeting, so executives must invest in developing new capabilities in order to move to the next more competitive capabilities curve.

The Talent Curve

High-performing companies maintain a steady commitment to talent creation. Companies often lose focus on developing and retaining enough of what Nunes and Greene call "serious talent," i.e., people with both the capabilities and the will to drive new business growth. They often feel that operations can be "leaner and meaner," and so they may reduce headcounts and their investment in talent, which drive away "the very people they could rely on to help them reinvent the business."

Nunes and Breene conclude that, "By managing to these hidden curves – as well as keeping focused on the revenue growth S-Curve – high-performers in our study had typically started the reinvention process well before their current businesses had begun to slow. "

A Focus on Human Capital

As a corollary to Nunes and Greene's emphasis on the Hidden Talent Curve, world-renowned management expert Professor Gary Hamel, of the London Business School, stresses the importance of human capital in the transformation process.

"The need to adapt and innovate will require organizations to better use their human capital," Hamel states in his article, "Three Forces That Will Transform Management" (McKinsey Quarterly, February 2009).

"For organizations to succeed in today's 'creative economy,' they need employees who bring more than their diligence and expertise to work: employees must also bring their imagination and passion," Hamel

says. He emphasizes, however, that most employees are not emotionally or intellectually committed to their work, suggesting that "today, this lack of engagement is competitively untenable" on a global basis.

"Unless organizations in the developed world want to join the race to the bottom, they must find a management model that encourages people to bring the very best of themselves to work every day…Tomorrow's business leaders must create companies that are more adaptable, innovative, and inspiring than the bureaucratic, top-down organizations that predominate today."

What's going to help, he believes, are three key driving forces: (1) inescapable challenges in the global business environment that defy business as usual and conventional management wisdom; (2) new social technologies based on the Internet and social media that encourage greater collaboration without the weight of bureaucracy or the organization chart; and (3) the new Millennial generation of employees "who come to work preloaded with anti-bureaucracy values" and "are going to force a fundamental rethink of how we lead, manage, and organize."

Shifting More Resources to Future-Based Initiatives

Company CEOs typically focus mainly on managing and improving their existing business model (i.e., a business preservation function). But , according to Vijay Govindarajan and Chris Trimble, for long-term growth and company re-invention they need to focus as well on two other critical areas: (1) fixing problem areas (e.g., underperforming products and services, obsolete policies and practices, outdated assumptions and mindsets), as well as (2) creative initiatives to prepare for long-term growth.

Trimble is a professor of international business and founding director of the Center for Global Leadership at the Amos Tuck School of Business at Dartmouth College. Trimble is on the faculty at Tuck and is an expert on innovation within established organizations.

In their article, "The CEO's Role in Business Model Reinvention" (Harvard Business Review, January - February 2011), Govindarajan and Trimble write that, for companies to endure and continue to grow, they must get these three types of activities into balance.

Typically, they say, CEOs "bow to a myriad of short-term pressures: intense demands for quarterly earnings, risk aversion, discomfort with uncertainty, resistance to change, linear extrapolation from past experience, and unwillingness to cannibalize established businesses. As a result, many companies fail to transform themselves."

"To win both today and tomorrow," say Govindarajan and Trimble, "CEOs must operate in all three boxes simultaneously."[The three boxes represent current business preservation, fixing negative aspects, and creating new growth businesses.] The CEOs "must recognize that boxes 2 and 3 are not about what the company will be doing in 20 years; they are about the preparations it must make today. That's easier said than done, for it's not only a matter of balancing resources across the three boxes. The CEO must also know exactly what to destroy and what to create."

In reaching for the balance required, say Govindarajan and Trimble, "shifting resources from the present to the future may be the most difficult challenge for CEOs, given the enormous short-term pressures they face routinely."

They add, however, that "the most intense short-term pressures come not from clients…but from Wall Street, which demands reliable earnings growth and richly rewards CEOs who deliver it." This pressure, they say, cripples the box 2 and box 3 initiatives, because "box 3 projects inevitably have a worse-before-better impact on the bottom line. Further, CEOs' tenures are short relative to the rhythm of transformation

© 2011 CFO Edge, LLC

efforts. By the time box 3 projects pay off, many will have retired, so they are tempted to focus on the immediate and leave on a high note."

Strategies for Company Reinvention

In their recently-published book, "Rethink, Reinvent, Reposition: 12 Strategies to Renew Your Business and Boost Your Bottom Line," Lee Hopf and William Welter provide a range of reinvention strategies based on customer relationships (existing vs. new) and hard and soft company assets (existing vs. new). Hopf is a management consultant who teaches at Stanford University and the University of Minnesota. Welter is a consultant and also teaches at the University of Minnesota.

By examining different combinations of customer needs and company assets, the 12 strategies are described briefly as follows:

New Concept Group of Strategies: Existing Customers/Existing Assets
- Catch the New Wave: Shift your current business into areas that are hot.
- Put Old Wine in New Bottles: Repackage/rebrand your offerings to make them seem fresh and original.
- Revise Your Profit Model: If the way you are charging for your products and services is no longer effective, find other ways to generate revenue and profits.

Business Extension Strategies: New Customers/Existing Assets
- Aim Higher or Lower: Move significantly up-market or down-market to serve customers you previously did not reach.
- Make a Time Shift: Reach different customers by doing business on a different day or new time.
- Get a Personality Transplant: Focus on new and emerging end-user needs.

Solutions Group of Strategies: Existing Customers/New Assets
- Build Share of Wallet: Meet more of your customers' needs and desires.
- Shift to the Sweet Spot: Develop new offerings for the best part of the value chain.
- Leverage Your Core Competencies: Identify your core competencies and use these strengths to serve your customers in new ways.

Business Transformation Group: New Customers/New Assets
- Declare Victory and Move On: Realize the value you have created and use it to create something new and different in another industry.
- Keep the Knowledge, Switch the Business: Leverage the strength of your processes and systems to enter unrelated lines of business.
- Cash Out and Double Down: Sell non-performing business units and invest in the ones that have the most potential for success.

The Takeaway Message
Clearly, the competitive environment for businesses is changing more and more rapidly, and for a growing proportion of companies, competition exists not only domestically, but on a global basis.

The more rapid change results in shortened product lifecycles, requiring constant attention to what is going right and what is going wrong with current offerings, as well as a continuing focus on what the next offerings should be that will move the company to a new growth path.

The broad message of Nunes and Greene is that CEOs need to manage not only for the revenue lifecycle curve, but they also must constantly monitor the competitive developments in their market and their industry.

 © 2011 CFO Edge, LLC

And they must continuously invest in developing new business capabilities, including strong investments in hiring, developing and retaining top talent – those who will create the future of the company.

The message from Gary Hamel, an extension of Nunes and Breene, is that CEOs need to be on the lookout for highly talented individuals who are able to effectively collaborate with team members around the world, and who can creatively develop and evaluate new ideas with less regard for the restraints of corporate bureaucracy and more attention to the quality of the ideas.

Govindarajan and Trimble emphasize the strong need for shifting a significant amount of focus and resources away from short-term measures of success, such as quarterly returns, to investment in initiatives that will put the company on a longer-term growth path.

Finally, Hopf and Welter provide an array of alternative strategies that can help CEOs to move toward the path of reinvention that will keep the company growing in the years ahead.

CEOs will need to pay close attention to these lessons if they are to effectively manage their companies for long-term growth.

And in times like today, when internal company resources in terms of expertise and bandwidth may be limited, CEOs may also wish to consider seeking outside counsel to assist in analyzing company strengths and weaknesses, and developing reinvention strategies for future growth.

About CFO Edge

CFO Edge is a leading Southern California provider of interim CFO services. We are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.

 © 2011 CFO Edge, LLC