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CHOOSING THE RIGHT PATH TO GROWTH

To boost organic growth, most companies need a diverse set of initiatives—and how you sequence them matters.

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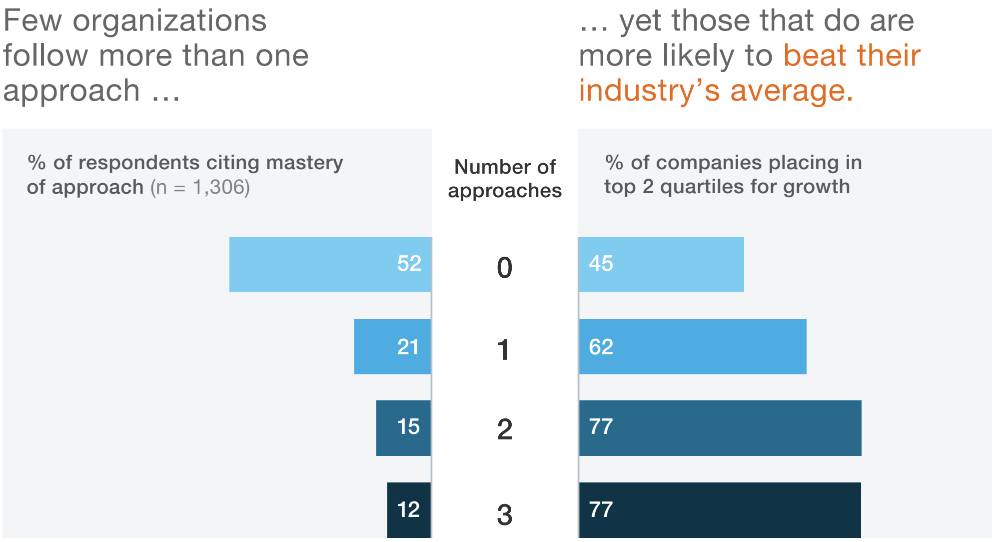
Innovation and growth are often lumped together as management concepts, for good reason: it's self-evident that innovation drives growth, and conspicuous fast growers often benefit from high-profile innovations. Our research, however, suggests growth-minded companies stand to benefit by disaggregating the two concepts. There are, in fact, multiple paths to growth, and the most common growth characteristics among above-average growers often aren't related to innovation. Significant as well, companies aspiring to the highest levels of growth need to sequence their initiatives carefully. Put differently: you probably can't do everything at once.

How many levers?

In earlier research, we explored three broad profiles that describe how companies achieve organic growth.[1] "Investors" tap new sources of funding or reallocate existing funds to capture new growth for their goods and services. "Creators" build business value with new products or through business-model innovation. "Performers" grow by steadily optimizing commercial functions and operations. Our latest findings suggest that focusing on two of these growth levers simultaneously will spur growth more effectively than emphasizing one.[2]

In fact, we found that more than three-quarters of companies that mastered two or more levers grew faster than their industry (Exhibit 1). This makes intuitive sense; combining two approaches allows for synergies that can multiply impact. Companies with strong reallocation practices (investors), for example, can provide managers with the needed additional resources to optimize higher-potential assets (performers). Too often, this sort of helpful one-two punch is the exception: companies instead tend to emphasize what worked in the past, and thus to rely too heavily on a single lens—which leaves potential growth on the table.

Exhibit 1



What about three levers? In some sense, it's the gold standard; a healthy proportion of top-growth-quartile companies were investors, performers, *and* creators.[3] That said, executing on every front simultaneously is more than many companies can handle. That's particularly the case for large organizations, where complexity tends to multiply as growth initiatives proliferate.[4]

The power and limitations of innovation-led growth

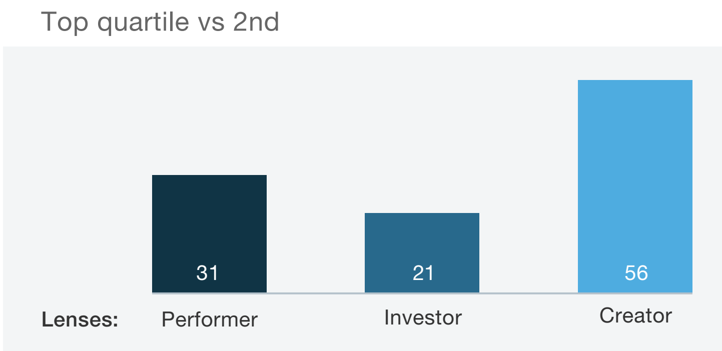
Creative companies are more heavily represented among the fastest growers. And the ability to innovate consistently appears to separate the *good* growers in the second quartile from *exceptional* ones in the top quartile. We found that exceptional growers were 56 percent more likely to have mastered creative practices (that is, reached the 70 percent successful adoption level) than the second-quartile firms (Exhibit 2).

What's also true, however, is that it's hard to get innovation right: nearly half of all the companies surveyed were weakest in creative practices, while fewer than one in five said innovation was an area of greatest strength. In addition, our research suggests that the pursuit of innovation is not the surest way to move into the top-growth tiers. Rather, the most prevalent practices among above-average growers reflected mastery of core *investor* and *performer* levers (Exhibit 3). Three of the top five practices characterizing upper-tier growers were related to investing: aligning on priority markets, engaging in portfolio management informed by prospective returns, and overseeing resources top down. Two more were tied to performing: developing high-value customer development across business units and measuring the voice of customers. The prevalence among high performers of strengths related to smart resource allocation and strong commercial

Exhibit 2

Innovative companies that have mastered creative capabilities are more heavily represented among the fastest growers.

Companies' likelihood to have mastered a lens compared with those in a lower quartile, %



performance suggests that they are more than mere table stakes for growth and that executives should not take them for granted, even if they seem rudimentary.

Sequencing the growth journey

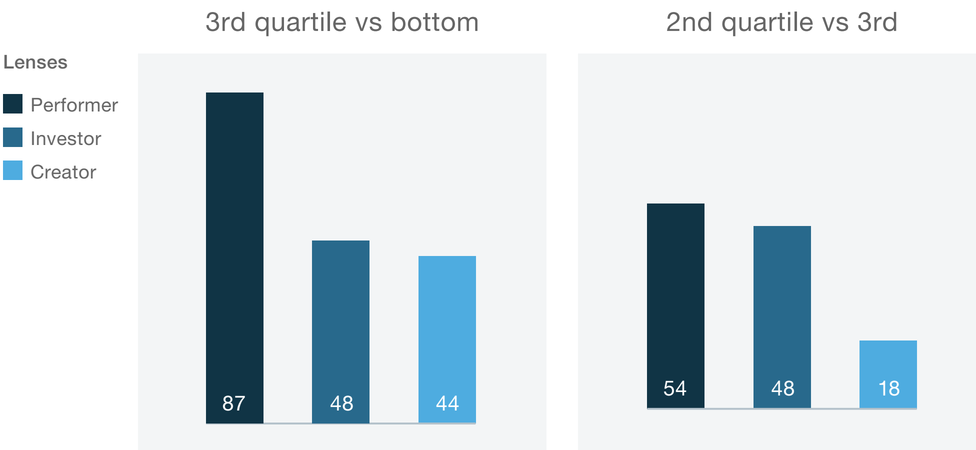
Moving your growth journey forward in a structured way will sidestep a common trap that we have observed: pushing growth and product initiatives almost haphazardly in hopes of jump-starting a strategy. Instead, companies need a more deliberate, stepwise approach to building growth initiatives and capabilities. While there is no iron law of sequencing, the data are clear that a steady pace of change is vital: we found a positive correlation between the number of growth best practices adopted by a company and the company's growth-performance quartile (Exhibit 4). Across all companies surveyed, we found that employing two additional practices, on average, correlated with an organic-growth edge ranging from one to three percentage points. Companies that regularly fine-tune and add to their capabilities appear to improve their odds of generating steady performance gains, providing additional resources that leaders can reallocate, as needed, to further their growth agenda.

Getting this right, in our experience, goes hand in hand with rigorous initiative and performance management, which includes rallying organizational support for growth priorities; supporting them with capability building, incentives,

Exhibit 3

Third-quartile companies emphasized performance, while those in the second quartile worked equally on performance and investment.

Companies' likelihood to have mastered a lens compared with those in a lower quartile, %

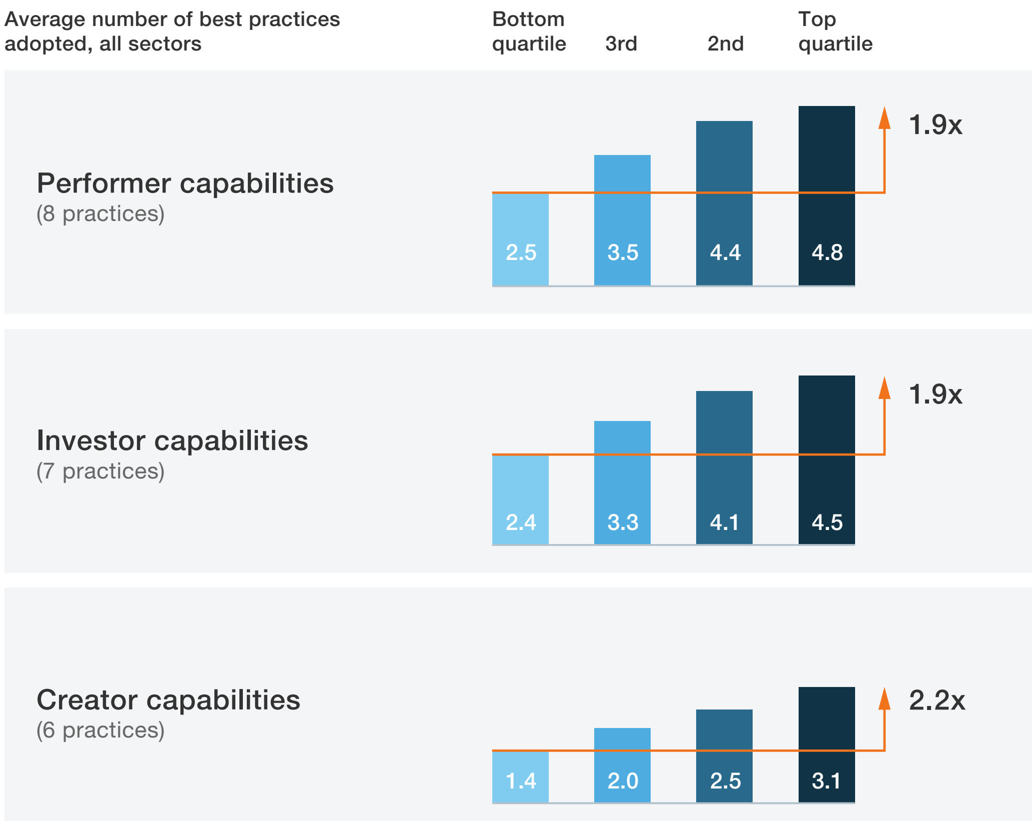


and cultural change; and looking for opportunities to exploit synergies among new business initiatives. That's the path a global manufacturer is following as it strives to shift its growth performance in critical markets from lagging to leading. The company has started by upgrading the effectiveness of its transactional pricing, marketing tactics, and core sales force—priorities that, leaders believe, will help it hold its own against rivals. Looking forward, the senior team is studying more ambitious initiatives to accelerate growth, surpass competitors, and increase market share. One avenue, for example, would boost the use of advanced data analytics, to gather deeper insights on customer-procurement practices and emerging product preferences. Those data and greater mobilization across functions would help managers uncover and share insights about untapped growth opportunities. Margin improvements from the initial steps would provide the means, confidence, and capabilities for more innovative efforts. Sales teams, R&D, and product-development functions, for example, would be able use the data-driven knowledge about customers and markets to collaborate more closely on new, higher-margin offerings aimed at nascent customer preferences.

Growth is difficult, but our research shows that it's possible to bring a disciplined approach to improving your growth trajectory. Build momentum through well-sequenced initiatives. Support them with the right capabilities. And get your organization on board with a multifaceted approach that often will rest on a strong foundation of resource allocation and execution before taking

Exhibit 4

Higher rates of best-practice adoption are correlated with higher growth-performance quartiles.



on the tougher discipline of innovation. While this may challenge some traditional growth tenets, it also offers a reason to start moving—with confidence. What you do well today prepares the way for the next leg of the climb.

[1] See Kabir Ahuja, Liz Hilton Segel, and Jesko Perrey, "The roots of organic growth," *McKinsey Quarterly*, August 2017, McKinsey.com. In related research, McKinsey looked at the share-price performance of 500 US and European companies over 15 years, which showed that for all levels of revenue growth, those with more organic growth generated higher shareholder returns than those whose growth relied more heavily on acquisitions. For more, see Marc Goedhart and Tim Koller, "The value premium of organic growth," January 2017, McKinsey.com.

[2] We studied dozens of corporate-growth programs and paired those findings with insights from a panel of approximately 1,500 managers and executives globally, across 17 industries. We surveyed executives on 36 practices and capabilities that supported their growth strategies. About half were foundational capabilities such as contract management and transactional pricing. The rest were advanced capabilities that supported the three key levers or approaches: creativity (6), investment (7), and performance (8). We defined mastery of an individual lever as successful adoption of 70 percent of the supporting practices.

[3] Top-quartile (exceptional) growth beats industry growth rates by more than four percentage points.

[4] Fewer than 15 percent of executives in our survey said they were in the top quartile for mastery of all three levers.

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