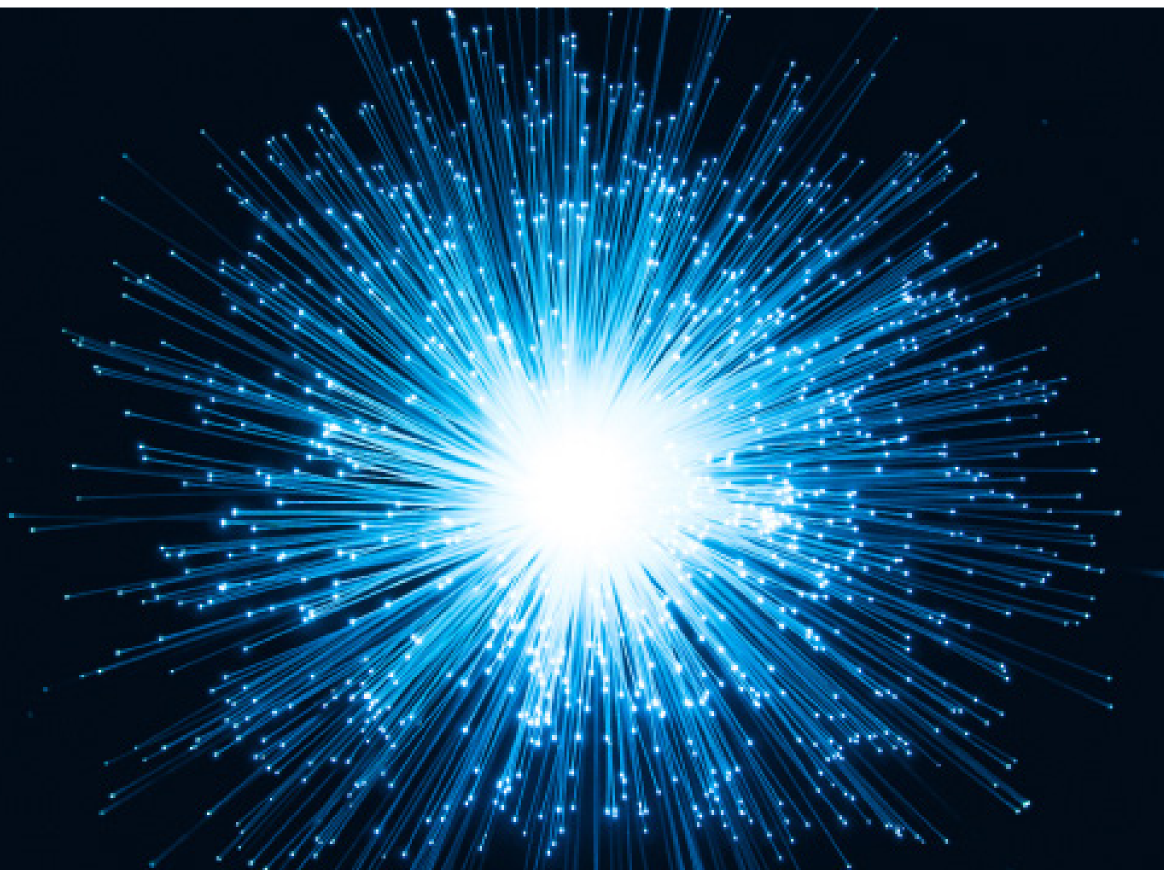
McKinsey & Company

Growth, Marketing & Sales Practice

Courageous growth: Six strategies for continuous growth outperformance

Fewer than one in four companies outpace their industry peers on revenue and profit growth. New McKinsey research reveals the six mindsets and strategies that set these growth outperformers apart.

This article is a collaborative effort representing the views of McKinsey's Strategy & Corporate Finance Practice, the Growth Marketing & Sales Practice, Leap by McKinsey, the Sustainability Practice, and the McKinsey Transformation Practice.



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October 2023

Companies that err on the side of caution, especially during turbulent times, may survive to see another day but often fail to achieve their full growth potential. Given the historic disruptions of the past five years, it's little wonder that fewer than one in four companies we analyzed outpaced their industry peers on revenue and profit growth.[1] What sets these continuous growth outperformers apart? In a word, courage.

Recent years have certainly tested the mettle of CEOs as the world moved from a business environment of low inflation and relative calm to one roiled by the COVID-19 pandemic, generationally high inflation, deepening geopolitical tensions, accelerating climate events, and the rise of generative AI. Our new research reveals that corporate chiefs who courageously pursued and stuck with through-cycle growth strategies during these wrenching shifts led their organizations to growth outperformance.

No matter how opaque the outlook, or the pressures they face, CEOs who outperform remain committed to innovation and society-positive growth strategies. They invest boldly in data-led digital transformations, analytics, and AI to grow core businesses and strategically pursue adjacent and breakout ones. They reallocate resources fearlessly, shrinking to grow when necessary. And they mobilize people throughout the organization to capture value quickly.

Our landmark research series is designed for CEOs who explicitly choose growth by setting an aspirational mindset and culture, activating pathways with the ten rules of growth, and executing with excellence. For this latest installment, we analyzed the performance of the 10,000 largest global companies from 2016 through 2022, with a particular focus on the last five years (see sidebar "About our methodology"). While many companies eked out low growth rates during this time, leaders who delivered growth outperformance pursued one or more of the following six strategies we identified (Exhibit 1):

1. *Relentlessly foster an innovation culture and mindset to accelerate growth*. Innovative growers achieve four percentage points higher cumulative TSR than other growth outperformers.[2]

2. *Boost outperformance with an unwavering commitment to sustainable and inclusive growth.* Companies that achieve stronger growth and profitability while improving sustainability and ESG scores have two percentage points higher excess TSR than companies that excel only on financial metrics.

About our methodology

We looked at the performance of the 10,000 largest companies globally from 2016–2022. Our classification metrics for the 1,000 "growth outperformers" that we identified included greater-than-median-revenue CAGR versus their sub-industry peers and greater-than-industry median profitability (economic profit/revenues) versus their sub-sector peers (based on McKinsey industry classification).

To identify companies classed as "innovative growers," McKinsey used those same criteria, plus top performance in at least six of the eight essentials of innovation (as identified in our past research), as well as proficient performance in two of the eight essentials of innovation. The eight essentials of innovation are: aspire, choose, discover, evolve, accelerate, scale, mobilize, and extend. Our assessment in this report is based on McKinsey's proprietary database of about 12,000 companies and their relative mastery of capabilities along the eight essentials. Using machine learning, natural language processing, and sentiment analysis of employee reviews, we create a score that serves as a proxy for innovation capabilities across these categories.

[1] McKinsey analysis, Corporate Performance Analytics by McKinsey, S&P Global ESG scores.
[2] Cumulative refers to the five years spanning 2016–2022.

3. *Grow your core business with smart marketing and sales investments fueled by data, analytics, and AI.* Consistent with previous McKinsey findings, some 80 percent of total reported growth from companies we track is driven by core businesses, with the rest coming from adjacent and breakout ones.

4. *Pursue adjacent and breakout businesses where you have a "right to win."* Companies that use unique capabilities and customer or value chain connections to successfully expand into adjacent and breakout businesses have 12 percentage points higher TSR than their sub-industry peers.

5. *"Shrink to grow" when necessary.* Some 30 percent of growth outperformers pursue strategies that include net divestitures that temporarily shrink revenues before returning to growth.

6. *Mobilize people to capture value quickly.* When more than 20 percent of employees own transformation milestones or initiatives, the average 24-month excess TSR-to-industry benchmarks increases to more than 60 percent.

Companies that courageously leaned into these strategies dominated the growth charts in recent years, proving that C-suite leaders can indeed unlock significant, value-creating, and even industry-redefining growth opportunities no matter what the global business landscape throws at them.

While growth priorities will differ from one company to another, these insights are a clarion call to leaders who aspire to reach the growth pinnacle of their industries and stay there. Read on for a deeper dive into our latest research, including profiles of companies we've identified as "courageous growers."

Exhibit 1

Outperformers choose growth by making courageous decisions.

Set an aspirational mindset and culture	Build an innovation culture and mindset to accelerate growth	~4 p.p. higher cumulative TSR for innovative growers vs. other performers
	Boost outperformance with sustainable, inclusive growth	~2 p.p. higher excess TSR for revenue and profit outperformers that also improve ESG ratings
Active pathways	Grow your core business with data, analytics, and AI-fueled investments	80% of total reported corporate growth still comes from the core, and 20% from adjacent and breakout businesses
	Pursue adjacent and breakout businesses where you have a 'right to win'	~12 p.p. higher cumulative TSR for outperformers that expand into adjacent and breakout businesses with strong 'right to win' rationales
	Reallocate courageously—and 'shrink to grow' when necessary	~30% of outperformers pursue strategies that include net divestitures that temporarily shrink revenues before returning to growth
Execute with excellence	Capture value quickly—mobilize your organization to own transformation initiatives	~30 p.p. increase to 60%+ excess TSR over 24 months, compared to industry benchmarks, when 20% of employees own transformation initiatives or milestones

Setting an aspirational mindset and culture

Our previous research based on data from 2005 through 2019 found that leaders who purposely pursue a growth blueprint start by fostering an aspirational mindset and culture within their organizations. Our latest research analyzing data from the past five years finds this still holds and offers further context showing that aspirations geared to continuously driving innovation while improving sustainability and ESG scores result in the strongest outperformance.

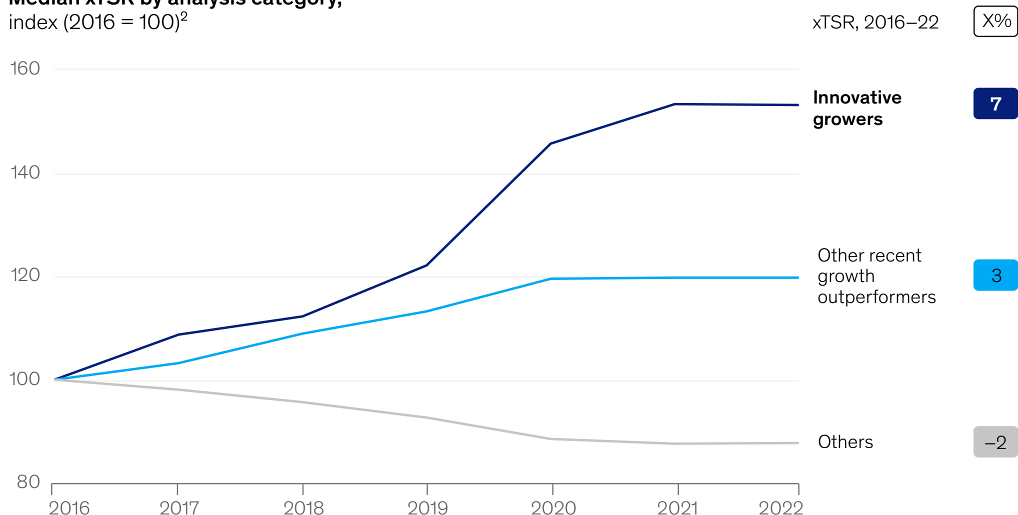
Innovative growth. Companies that outperform don't merely scale existing products and services. Rather, they cultivate new sources of growth by building an innovation mindset and culture, and they power it with investments in R&D, digital capabilities, analytics, and AI to excel beyond even other outperformers.

Our research shows that top innovative growers had, on average, four percentage points higher annual TSR growth from 2016 through 2021, and 16 percent higher median return on invested capital compared to other growth outperformers (Exhibit 2). While innovation excellence can increase any company's chance of outpacing its peers on revenue growth and profitability by 32 percent, top innovative outperformers boost their chances by 52 percent. They do this by placing innovation at the center of strategic and financial discussions and setting high digital aspirations. Innovative outperformers then go out and communicate those aspirations to all stakeholders. They talk about innovation on earnings calls at twice the rate of their peers, emphasizing it as a pathway to profitable, sustainable growth.[3] They convey achievable aspirations to employees, declare

[3] McKinsey analysis of earnings calls.

Exhibit 2

Innovative growers drive a four-percentage-point higher cumulative TSR growth versus other outperformers.



[1] Excess total shareholder returns (xTSR) calculated as the company's annual TSR less the median TSR in its sub-industry; "innovative growers" defined as companies with mastery level in at least 3 Innovation IQ main categories, along with above-industry median revenue CAGR and EP/revenues (2016–22) ("recent growth outperformers").
[2] n = 656; largest 2,000 companies globally with complete innovation data.
Source: McKinsey Corporate Performance Analytics™, McKinsey Org Analytics, McKinsey Org Data Platform and Atlas

their intention to invest in talent and digital capabilities, set clear targets, and foster a culture that is not afraid to take risks (see sidebar "Courageous grower: How John Deere fosters a culture of innovation by empowering employees"). Crucially, they act on their words by fully committing to innovation and mastering its eight essentials.

Courageous grower: How John Deere fosters a culture of innovation by empowering employees

In 2020, under the leadership of chairman and CEO John May, John Deere announced a new vision and operating model to accelerate the integration of smart technology into its agriculture, construction, and forestry products and solutions.

To help power transformation efforts, the company established the John Deere Fellows Program in 2015 to recognize individual employees who contribute to groundbreaking products for customers or fundamentally transform the way John Deere manufactures equipment. Among the 2023 fellows are a principal engineer who pioneered a new simulation method to ensure the quality and reliability of John Deere machines, and a staff engineer who utilizes AI to help create world-class products. To retain the talent to realize its innovation agenda, John Deere also measures morale every two weeks, asking employees involved in product development how they feel about the value they were able to contribute.[1]

In the quarter ending July 30, 2023, John Deere reported a 60 percent rise in quarterly profit and raised its full-year earnings guidance for net income to $9.75 billion to $10 billion, from $9.25 billion to $9.50 billion.[2]

[1] Brad Power, "Why John Deere measures employee morale every two weeks," *Harvard Business Review*, May 24, 2016.
[2] Bianca Flowers and Shivansh Tiwary, "Deere lifts outlook on profit beat, strong demand but shares still skid," Reuters, August 18, 2023.

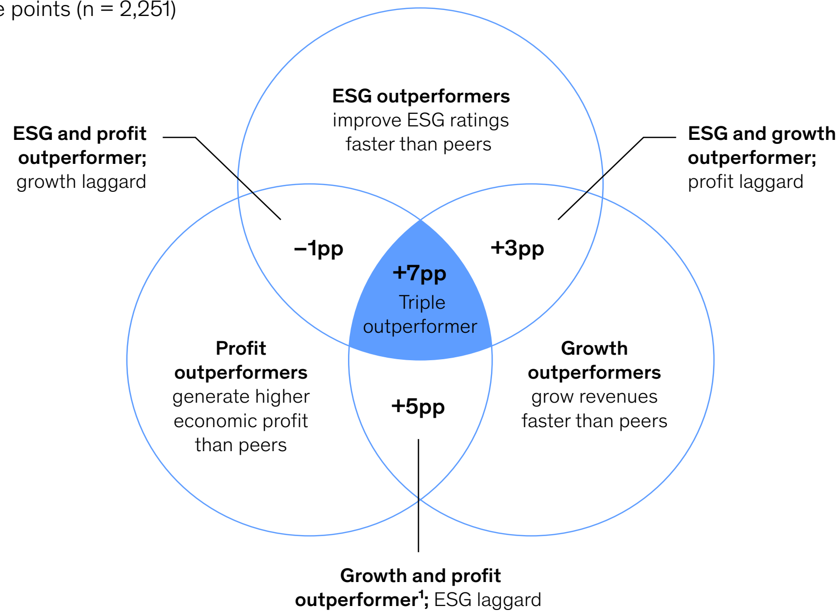
Sustainable and inclusive growth. Pursuing ESG goals may not feel like a priority when budgets are tight, and our research shows that strong ESG scores won't compensate for weak fundamentals. However, leaders who embrace a "win-win-win" mindset by boldly pursuing positive outcomes for their customers, the planet, and their company's long-term sustainability are better positioned to reach peak growth performance. Our research finds this "triple play" of achieving strong growth, robust profits, and improved sustainability and ESG scores delivers 2 percentage points higher annual excess TSR than companies that excel only on financial metrics (Exhibit 3).[4] Such triple outperformers make value-creating moves by integrating ESG into their growth strategy. They revamp portfolios to lower net emissions, build green businesses, and use sustainability as a differentiator to command a higher price premium.

For example, between 2017 and 2021, a period when fewer than one in four companies managed to top 10 percent annual revenue growth, more than half of triple outperformers reached, or exceeded that benchmark, proving not only that companies can do well by doing good, they can do better than their peers (see sidebar "Courageous grower: How DSV drives customer-centered innovations to lower global emissions").

[4] As evidenced by companies' ESG ratings improving faster than the regional industry medians. The study data relies on S&P Global ESG ratings. Economic profit margin and revenue growth margin in excess of regional industry peers as measured by average economic profit margins. Economic profit is total profit after subtracting the cost of capital.

Exhibit 3

Boost outperformance with sustainable, inclusive growth.



[1] Referred to as "Recent growth outperformer" in this piece.
Source: "The triple play: Growth, profit, and sustainability," McKinsey, August 9, 2023; McKinsey Corporate Performance Analytics™, S&P Capital IQ, S&P Global, 2017–21 data, McKinsey analysis

Courageous grower: How DSV drives customer-centered innovations to lower global emissions

Transportation is responsible for roughly 25 percent of global emissions, and the world's third-largest global transport and logistics company, DSV, aims to lower that share. "We can play a role in DSV and do something about it," CEO Jens Bjorn Andersen said publicly in 2022.

DSV joined the UN Global Compact initiative in 2009 and has aggressively raised its sustainability ambitions ever since, achieving a nine-fold increase in TSR since 2014. The company's approach involves strengthening its global position through M&A, setting ambitious internal targets including a pledge to reach net zero emissions by 2050, and continuously pursuing customer-centric, sustainable innovations.

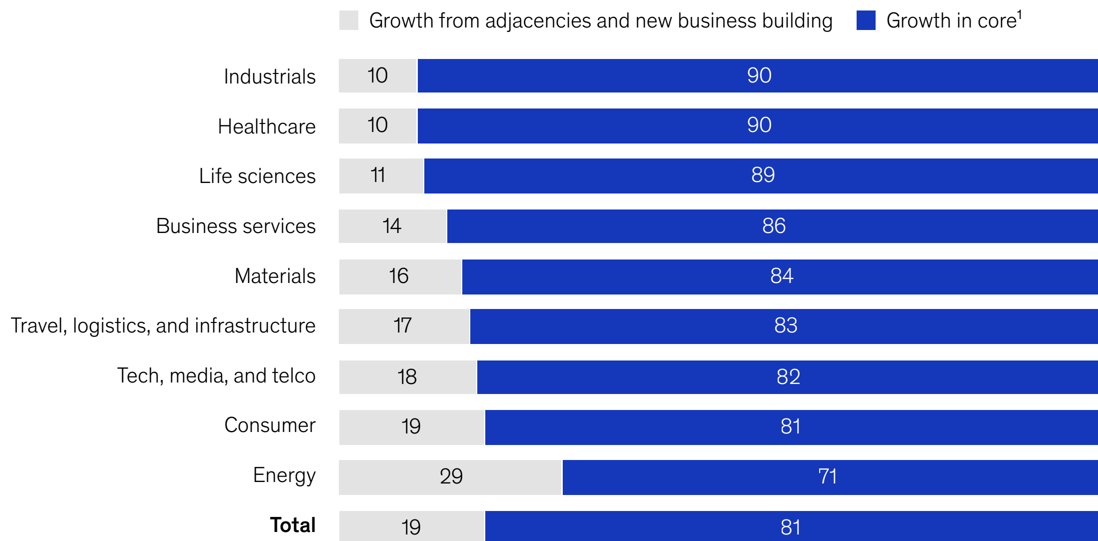
Key to its strategy is its DSV innovation hub, which works with start-ups and experts to identify promising technologies, test them, and drive adoption. In 2021, the company launched Green Logistics to help customers reduce their CO_2 emissions through a set of sustainability solutions encompassing CO_2 reporting, green supply-chain design and optimization, sustainable fuel offerings across all modes of transport, and carbon offsetting.

Activating pathways

Consistent with our previous analyses, 80 percent of total reported growth from companies we tracked is driven by core businesses (Exhibit 4). This confirms our long-standing finding that outperformers focus first on growing their core business, and then pursue additional revenue-generating opportunities by

Exhibit 4

Of total reported corporate growth, 80 percent still comes from the core, and 20 percent from adjacent and breakout businesses.



[1] Core business is defined as largest business segment in 2016.
Source: Capital IQ, McKinsey Corporate Performance Analytics™

successfully moving into adjacent and breakout businesses. Sometimes, they even shrink to lay a stronger foundation for future growth.

Core growth. Growth begins with the core. A recent McKinsey survey found that outperformers focus on "innovating new" in their core business as much or more as they do on "scaling old." The key is to do both. Outperforming CEOs know short-term budget cuts that compromise future core business growth are a false economy. Instead, these CEOs accelerate core growth by investing in people, processes, and innovative technologies to create an "institutional superpower" made up of functional capabilities that enable a company to gain and maintain an edge over competitors.

Take sales and marketing, for example. Growth outperformers devote more resources than their peers to boosting sales productivity through digital-led transformations, analytics, and AI that have clear customer use cases and robust business cases (see sidebar "Courageous grower: How Walmart's investments in innovation are driving core and breakout business growth"). They also don't trim marketing budgets at the expense of future growth. Instead, they take an investor approach. For example, we estimate that identifying 10 to 20 percent of inefficient marketing spend and reinvesting it into enterprise-wide AI, data, and analytics capabilities could drive 5 to 10 percent growth in a company's core business. In other words, companies that fuel core growth with smart investments build institutional superpowers that set themselves up to win, and to keep on winning.

Adjacent and breakout growth. Complacency is the enemy of growth. That's why companies pursue adjacent and breakout business opportunities. What sets outperformers apart is that they do it discerningly. C-suite leaders who pursue adjacent businesses where they have a "right-to-win" by leveraging unique capabilities and customer or value chain connections position their companies to generate the strongest shareholder returns.[5] Following these rationales can create value in multiple ways (see sidebar "Courageous grower: How Nintendo engages legions of fans across new channels").

[5] Chris Bradley, Rebecca Doherty, Anna Koivuniemi, and Nicholas Northcote, "Igniting your next growth business," McKinsey, July 23, 2021.

Courageous grower: How Walmart's investments in innovation are driving core and breakout business growth

Walmart has pursued an accelerated innovation model designed to fuel its core business, increase operational efficiency, and create next-level customer experiences. The retailing giant has made a series of investments in recent years to jumpstart its e-commerce business, including the acquisition of online retailer Jet.com and launching a tech incubator to identify opportunities to "shape the future of retail."

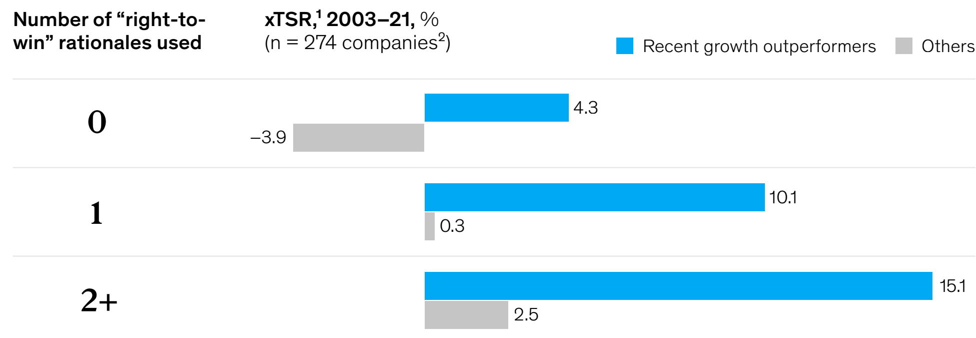
To accelerate profit growth, the company is investing in AI and automation capabilities to manage online orders and inventory, and to stock shelves. Walmart is also developing higher-margin business lines such as Walmart Connect, which sells advertising space to partners on screens across its 4,700 stores. Walmart Connect grew nearly 40 percent year-over-year in the quarter ending March 2023, and the company plans to grow it further by using in-store radios and demo stations for partner ads.[1]

[1] Melissa Repko, "Walmart is bringing ads to an aisle near you as retailers chase new moneymakers," CNBC, August 1, 2023.

Our research examining 274 industrial, technology, and communications companies finds that recent growth outperformers that successfully utilized two or more right-to-win rationales delivered 12 percentage points higher excess TSR growth versus their peers (Exhibit 5).

Exhibit 5

AI and TMT companies that pursued adjacencies where they had a strong 'right to win' generated the highest shareholder returns.



Value creation logic to fuel growth into adjacencies

Customer
Use relationships and unique knowledge of customers' pain points to sell a new product

Capability
Leverage existing assets and people to provide new offerings

Value chain
Move up or downstream to achieve cost and revenue synergies

Disruption and business model innovation
Build on industry know-how to introduce a new business model, disruptive technology, or subscription or monetization model

Note: Value creation logic classifications are underpinned by expert opinions.
[1] Median per annum for the period from adjacency entry to 2021.
[2] Advanced Industries and telco, media, and technology companies; number of companies in each subsample are as follows: recent growth outperformers (n = 70), others (n = 204).
Source: McKinsey Corporate Performance Analytics™

Courageous grower: How Nintendo is engaging legions of fans across new channels

In recent years, Nintendo has executed next-level customer-driven growth. The firm made its first moves into new channels in 2018 through the launch of its first subscription gaming service, Nintendo Switch Online, giving fans access to a growing library of beloved titles.

In 2021, it undertook an even bolder expansion into "in-person" entertainment with the opening of Super Nintendo World at Universal Studios Japan, offering fans new and old an avenue to play inside their favorite Nintendo games in real life. The company also started moving into non-software entertainment. It made its first foray with movies, delivering The Super Mario Bros. Movie in 2023—the first film release of the year to pull in $1 billion in box office sales.[1]

[1] Rebecca Rubin, "*Super Mario Bros. Movie officially smashes $1 billion globally*," Variety, April 30, 2023.

Growing into adjacencies sometimes means building a new business with a new operating model and capabilities to better meet customer demand. A recent McKinsey Global Survey of 1,000 business leaders across more than 75 countries found that companies that make business building a top-three strategic priority are more than twice as likely to report growth at least 10 percent above market rate, even during turbulent economic times.[6]

Developing and exercising business-building muscle can further enhance outperformance, our research found. Surveyed companies that launched at least four new businesses in the past ten years were more than twice as likely to generate five or more times the ROI compared to less seasoned business builders. Importantly, these serial business builders continue to devote sufficient resources to their core while successfully launching and scaling adjacent and breakout ventures.

Additionally, our research shows that successful new businesses that meet or exceed growth and scaling expectations are more likely to be supported by external as well as internal funding. External funding from venture capital, private equity, or grants can confer operational benefits, such as greater levels of discipline and demand for resource efficiency, and a higher degree of separation from the core.

Shrinking to grow. The journey to growth outperformance does not look the same for every company. For some, activating core growth, expanding into adjacencies, or building new businesses starts with getting smaller (see sidebar "Courageous grower: How Autoliv's spin-off of its electronics business set the stage for growth outperformance").

Our research finds that nearly a third of recent growth outperformers deployed strategies that included one to two years of asset divestitures that shrank revenues by more than 5 percent before returning to consistent growth. Companies may choose to spin off a business because its fundamentals do not complement the core business, or the trajectory of market dynamics suggests divesting.

No matter the underlying rationale, the strategy of shrinking to grow requires a disciplined approach to how resources—both dollars and people—are allocated and a supporting operating model that enables a successful transition from spin-off to a higher growth future. Our research shows that companies that

[6] "New-business building in 2022: Driving growth in volatile times," McKinsey, November 14, 2022.

Courageous grower: How Autoliv's spin-off of its electronics business set the stage for growth outperformance

Sometimes the path to greater growth starts with spinning off a promising business segment to enable both it and the core to thrive.

In 2017, Autoliv took investors by surprise when it decided to spin off its promising, future-EV-focused electronics unit from its core airbags, steering wheel, and seatbelts systems business. Compelling strategic reasons argued in favor of separating the two businesses, including different capability needs, market dynamics, and limited customer and operational synergies.

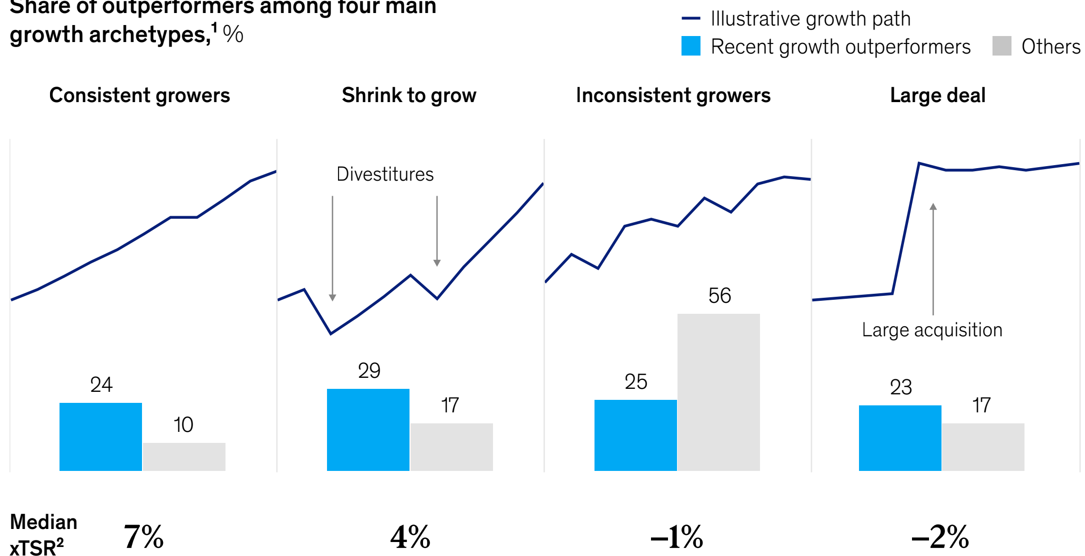
Following the spin-off in July 2018, Autoliv's annual revenues shrank, but they quickly recovered, steadily growing to achieve a record 27 percent increase in sales in the quarter ending June 2023.

engage in dynamic portfolio management to regularly assess whether they are the best owners of a business have a better growth track record than those that make an acquisition to leap into a high-growth segment where they lack a competitive advantage.

Of the growth outperformers in our analysis, those classed as "shrink to grow" achieved a 4 percent median excess shareholder return from 2010 through 2021, compared to negative 2 percent for those classed as "large deal" companies—those that had a single-year where revenues grew by 50 percent or more (Exhibit 6).

Exhibit 6

About 30 percent of recent growth outperformers have shrunk to grow.



[1]We analyzed the revenue growth of the largest 3,000 companies in 2019 from 2010 to 2021. Each company classified into one of four categories: "Large deal" are those with a single year where revenues grew by 50%; "Shrink to grow" are not "large deal", had one or two years with net divestitures (shrunk revenue by more than 5%), and grew in at least all but two of the other years; "Consistent growers" were not "large deal" or "shrink to grow", and that grew in 7 or more years of the analysis period; all others were "Inconsistent growers."
[2]Excess TSR (xTSR) calculated as the company's annual shareholder returns less the median return in its primary industry.
Source: McKinsey analysis

Executing with excellence

Mobilizing people. Outperforming CEOs not only envision ambitious growth transformations, they also mobilize employees from the C-suite to the front lines to realize value quickly.

Our research shows that when more than 20 percent of employees own transformation milestones or initiatives, the average 24-month excess TSR to industry benchmarks increases to more than 60 percent.

Outperforming companies build bold mindsets and appropriate strategies to determine at the outset which growth pathways have the greatest value-creating potential. They mobilize employees and instill ownership by investing in building their skills and deepening their functional expertise with a focus on customers and the external ecosystem. When capabilities cannot be grown internally, they build a talent win room to fill those gaps.

As they move into execution, these companies create rigorous performance management for both agile and traditional initiatives, establishing a baseline and KPIs tied to performance goals. This is potentially even more important for agile growth initiatives, where the six-month, one-year, and two-year goals are known, but the detailed actions to achieve them are developed in sprints by a dedicated agile team. In some cases, venture-capital-style stage-gated funding linked to milestones and KPIs may even be deployed.

The growth journey

Enduring growth outperformance starts with courageous leaders who choose growth, and then instill an aspirational mindset across their companies, invest in growing their institutional superpowers, and align their boards to stay the course.

These CEOs ask questions all along their growth journey (see sidebar “Questions that drive growth outperformance”), to ruthlessly manage product portfolios and reallocate resources to the most promising opportunities. They mobilize and grow their employees to realize value quickly. And they responsibly leverage emerging technologies, such as generative AI, to systematically scan for new trends, accelerate go-to-market plans for new product releases, increase the pace of R&D, and expand geographic horizons to respond rapidly and effectively to sudden market disruptions.

Questions that drive growth outperformance

— Am I choosing growth in my ambitions and adopting a courageous, through-cycle mindset?

— How am I addressing my growth pathways in the core, adjacent, and breakout businesses? Do they take into consideration the current uncertainties and global trends?

— How am I setting up my operating model and reallocating my resources and talent behind the capabilities (for example using generative AI to accelerate decision making around R&D and M&A) that will drive my growth plan?

— Do I have a healthy balance sheet to deploy capital to support my growth plan?

We know that successfully transforming a portfolio, operating model, balance sheet, and digital and talent strategies is no mean feat. We also know it's tempting to focus on belt-tightening when times are lean. However, companies that focus solely on costs are destined to leave growth on the table.

When transformations are successful, they can build enterprise-wide resilience to ensure continuous growth outperformance. This is why even when funding is scarce, and the economic outlook is uncertain, C-suite leaders who steward their companies to the pinnacle of growth performance and keep them there maintain a through-cycle mindset. They exhibit patience, stick with their strategic growth plan, and take calculated portfolio risks. They lean into short-term downturns by trimming spending in some areas while ramping it up in others, positioning their companies at the top of their industries, and keeping them there. Continuous growth outperformance doesn't happen by chance—it happens because C-suite leaders have the courage to make it happen.

Matt Banholzer is a partner in McKinsey's Chicago office, **Michael Birshan** is a senior partner in the London office, **Rebecca Doherty** is a partner in the Bay Area office**, Louisa Greco** is a partner in the Toronto office, **Paul Jenkins** is a senior partner in the Oslo office, **Greg Kelly** is a senior partner in the Atlanta office, **Ari Libarikian** and **Jill Zucker** are senior partners the New York office, **Nicolas Maechler** and **Sandra Sancier-Sultan** are senior partners in the Paris office, **Lucy Pérez** and **Andy West** are senior partners in the Boston office, **Erik Roth** is a senior partner in the Stamford office, and **Kate Siegel** is a partner in the Detroit office.

The authors wish to thank Andre Gaeta, Marc Goedhart, Claudia Kampel, Tim Koller, Lazar Krstic, Laura LaBerge, Karin Löffler, Ryan Paulowsky, Werner Rehm, Tido Röder, Scott Schwaitzberg, Erik Sparre, Joel Thompson, Janet Wee, and Michelle Wycoff for their contributions to this article and for driving the underlying research.

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