



## Strategic Direction

### Emerald Article: Today's contradictory challenges in achieving profitable growth: strategy guidance for "re-imagining"

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## Today's contradictory challenges in achieving profitable growth: strategy guidance for "re-imagining"

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### Contradictions

Amidst the backdrop of the global financial crisis and the ensuing recession, senior management confronts twin – and seemingly contradictory – strategic challenges. How can we maintain growth in revenue, profitability, and shareholder returns in flat or slow-growth markets? But at the same time how can we respond to criticisms leveled at the business community for its association with causes of the economic turmoil, its shareholder maximization approach, and perceived defaults in its responsibility to society?

This is not the usual stakeholder versus stockholder debate or call for more corporate social responsibility. Unlike past recessions, today the historic consequences of this recession are spilling over into new government policies and industry regulations (e.g. bank reserves, restricted credit, consumer protection guarantees, employment practices). These are creating a tighter set of constraints on business practice. Nine out of ten executives responding in the latest GE Innovation Barometer study see their ability to innovate deeply impacted. And unlike previous recessions, popular sentiment today is profoundly anti-business because business is not viewed as addressing a broader set of society's needs. The 2011 Edelman Trust Barometer survey finds that trust in business in the USA and Western Europe is mired in roughly the 50 percent range.

### Synthesizing the challenges

During a recent international management conference (the 2011 Global Drucker Forum, in Vienna) senior executives of corporations large and small admitted that these twin questions challenged their conventional thinking about strategy and kept them awake at night. Yet based on their experiences these leaders believe there is a way to regain their voice as a legitimate, credible and positive force in society while at the same time delivering superior returns for their investors.

Peter Drucker, in whose memory the conference is named, frequently asked executives: "What is your business?" In considering this fundamental question, leaders at the conference engaged in re-imagining their organizations by thinking beyond a customary mindset focused on existing products and customers. In the process they discovered that the either-or choice between enhancing returns and enhancing perceived legitimacy in society is a false dichotomy.

They find their companies can respond to society's concerns while also delivering strong growth and economic performance.

Accounts of this re-imagining approach provide evidence of success. Novartis has deepened its understanding of healthcare needs in less developed countries, reconsidered its traditional cost-reducing scale-up pharmaceutical manufacturing approach to a "scale-out" approach, and now develops \$1.5 billion in revenue (3 percent of net sales) from such efforts. Known for its industrial climate and security technologies, Ingersoll Rand

leveraged its capabilities and collaborated with local firms to develop a sustainable new business in affordable refrigeration addressing a vast need among families in the bottom of the pyramid. Over the last three years, Grameenphone, partnering with Norway's Telenor, has grown its mobile phone handset and telecom services in Bangladesh to 36 million users, increased operating cash flow and produced an average 34 percent return on equity. Last these examples suggest that the only opportunities reside in less developed nations, a GE executive recounted that after only seven years the company now generates \$85bn in revenue from its "Ecoimagination" products and solutions across its strategic business units.

## Re-imagining

Re-imagining involves three steps, each involving a suite of strategic guidance initiatives:

1. *Embrace an "outside-in" approach* – Innovation efforts are driven by emerging values in new markets.
  - *Find new ways to identify emerging values* – This often means embedding personnel within communities of interest and collaborating with local firms to understand user habits and behavior patterns. Procter & Gamble embeds researchers in families in less developed nations, and in the west has engineered a "connect and develop" program that stretches its information-seeking efforts deep into both consumer and supplier networks. These guide development in contrast to the traditional "inside-out" approach where existing products and internal technologies drive it.
  - *Simplicity at introduction* – Avoid the tendency to over-articulate new products and services. Frugal innovation establishes foundational benefits with broad appeal, then over time layers on added complexity to address more refined needs. Simplicity at first often means lower cost combined with ease of use. These characteristics are typically of less interest to internal R&D professionals, who propagate the "not invented here" syndrome.
  - *Learn as you go* – Introductions need not be perfect. Fast cycles of introduce-learn-revise-reintroduce enhance broad adoption and speed success.
  - *Tool to relevant infrastructures* – Like consumer behaviors in new markets, market infrastructures may also be very different (e.g. distribution systems, power availability, supply chains). Outside-in considers these factors as part of the solution to new value creation.

This first step can only be successful, however, with the following two steps.

2. *Re-conceive what the company does.* Move beyond the tendency to think of the company in terms of its existing products and customers.
  - *Define your core* – Existing products and services are merely outcomes of what managers and teams actually do, at the core, that create value. This is your strength. Understand it and leverage it.
  - *Agents of change* – Managers should see their roles as agents of change versus guardians of status quo. Agents of change are opportunity-focused rather than protective. Empowered, they bring excitement, energy, and urgency to new business development efforts because they see how they can make a difference in the company and in markets.
  - *Platforms* – All new business efforts should present platforms which can yield multiple product/service applications across a variety of markets. Platforms rely on the "simplicity" and "learn as you go" guidelines mentioned above.
  - *Vision and mission* – Review and retool these binding statements to provide guidance and reinforce the change approach as valued. Vision and mission serve to attract talented and motivated young people as new employees. They also communicate the company's alignment with the new markets in which it seeks to do business.

- *Corporate values* – Strengthen the commitment to values such as integrity, honesty, justice, and productiveness. Potential customers in new markets do not lack common sense; they are adept at understanding companies and increasingly judge them by such universal values.
3. Realign the organization and incentives with these ideas.
- *SBU level responsibility* – Responsibility for new business efforts of this sort must be at the strategic business unit level. Making this effort an executive suite function – or spinning it off into a “CSR Office” – reduces company-wide commitment, encourages a “we-they” mindset and in-fighting for resources, and enhances prospects for poor results. Endorsement as an SBU function ensures new initiatives will mesh well with the existing business while also meeting growth, profitability and sustainability requirements.
  - *Strategic reporting* – New initiatives of this sort will take more time to blossom than traditional inside-out efforts. Regularly scheduled reporting on their progress establishes the causal connections to long-term success. It also helps get projects back on track quickly when problems arise.
  - *Incentives for experimentation* – Positive incentives for experimentation must be provided for managers and their teams; disincentives for risk-taking and for unsuccessful efforts must be avoided.
  - *Skills investments* – Investments must be made in required new skills areas: managing co-collaborations and partnerships; cross-cultural management; managing networks. These facilitate understanding new markets and working through new infrastructures.

Drucker once commented that “social problems are actually business opportunities in disguise.” In a time of unprecedented challenges to business in terms of both growth and perceived legitimacy, an intentional approach to re-imagining the business can address both concerns. Re-imagining can harness the energy of employees and unleash their potential to make a real difference in the performance of the company and the markets that the company serves.