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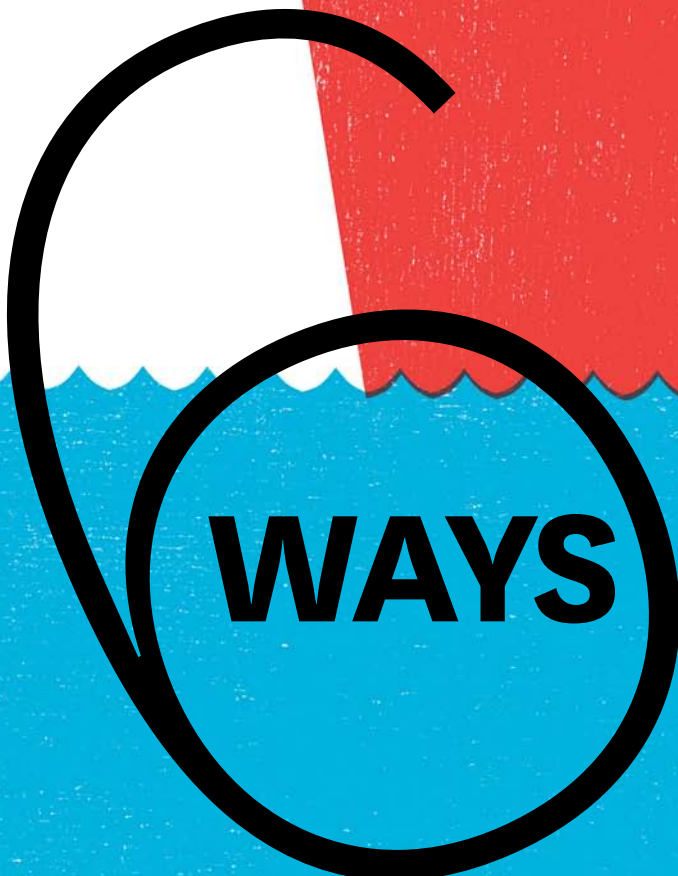
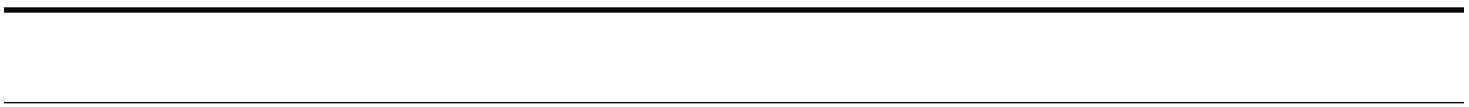
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Six Ways to Sink a Growth Initiative

Want to improve the odds for your company's latest venture? Here are the traps to avoid.

by Donald L. Laurie and J. Bruce Harreld



WAYS TO SINK A



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The CEO is confronted with a dilemma:

The revenue and profits of his company's existing businesses are rising slowly, and the businesses have already slashed their costs as much as they dare. Because their markets are mature, he knows that the company must grow if the share price is to increase, but acquisitions are expensive and risky. So he launches a slew of initiatives in areas with high growth potential and appoints some promising young managers to lead them. To ensure that the new ventures aren't stifled, he has their managers report to a special growth committee headed by a trusted staff executive and locates them a safe distance from the established businesses.

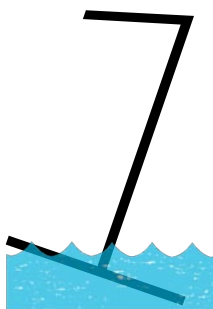
Sound familiar? It should, because that story has played out at hundreds if not thousands of large and midsize companies over the past 20 to 30 years. But after working for, advising, and studying scores of companies, we have learned that this conventional wisdom about how best to pursue growth is a recipe for failure—which explains why most new

businesses launched by established companies die, and why only a tiny fraction of companies around today, including major corporations, won't be here in 25 years.

All too often CEOs and their senior teams see managing today's earnings as their main job and don't spend enough time on the pursuit of growth and building the kind of learning organization and culture that growth requires. They fail to identify specific policies and actions that only they can take to create the conditions for success and signal to the organization the seriousness of their commitment to growth. In this article we explore six common mistakes that executives make in this arena and offer guidelines for leading growth initiatives. (See the exhibit "How to Lead Growth Initiatives: Guidelines for CEOs.") The approach we describe has created billions of dollars in new revenue and value for companies such as Alere, Cognizant, IBM, Johnson & Johnson, Medtronic, Procter & Gamble, and Unilever.

GROWTH INITIATIVE

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Failing to Provide the Right Kind of Oversight

Not so long ago, a large corporation hired us to help revive its floundering new-business activities. The company had invested \$200 million in new ventures over the previous few years. None of them had been successful. When we arrived on the scene, the company had three or four early-stage start-ups. Their progress was supposed to be monitored in two ways: The CEO and the vice president for strategy would conduct a one-hour review of each initiative every eight weeks; and the company's vice president for R&D, who had direct oversight responsibility for the efforts, would present a 15-minute summary of each initiative semiannually for the executive team.

But, distracted by other priorities, the CEO and the strategy VP let their reviews slip. Before long they were conducting them every four to six months. Making matters worse, the two executives grilled the leaders of the ventures about the wrong things. At a time when a team was trying to listen to customers in order to define a new market and determine what the most powerful business model might be, they asked questions such as How fast is the market growing? What revenue can we anticipate in 18 months? What does the pro forma P&L look like? The R&D vice president's superficial updates were shoehorned between discussions of operating and financial issues facing the core businesses. The executives running the core businesses listened with mild interest but thought they had no stake in the success of the ventures; nor were they willing to provide resources to support them.

As a result, the start-up teams got no meaningful guidance from senior management. Many of their problems—especially those that required resources and capabilities residing in the established businesses—dragged on unsolved.

This is common: The CEO and his or her senior managers don't take full responsibility for growth as well as earnings. They conduct sporadic reviews of the ventures' progress and focus on things that can't be known or don't matter. As a start-up team's collective knowledge advances far beyond theirs, and its insights deepen and become more nuanced, they have trouble understanding the conversation, let alone the issues. Consequently, they can't help

the ventures solve problems and obtain crucial resources and capabilities.

The remedy is for them to join the team on its voyage of discovery. That entails spending meaningful time with the team and with potential customers. CEOs who are deeply committed to growth devote 20% to 40% of their time to these activities. They constantly ask themselves and the initiatives' members, What serious customer problems can we solve? What do we need to learn to be effective in this new terrain? What capabilities must we assemble? What is the size of the profit pool? What business model will capture value? What are the critical milestones? How can I help the team? The executive and the team should leave each meeting with a list of assignments and their due dates.

If a company has a number of such initiatives, the CEO realistically may not have enough time to devote to all of them. In that case he or she should consider appointing a staff executive to assist. The key word is "assist." The CEO must remain the chief growth officer.

The CEO and the staff executive should be jointly responsible for closing the company's growth gap: the difference between the increase in revenue that the core businesses can attain through normal activities—including incremental growth initiatives—and the increase in revenue needed to raise the company's stock price. (If the former is 2% and the latter is 6%, the growth gap is 4%—or, for a \$10 billion business, \$400 million.) But it is still the CEO's job to create the conditions needed for growth to occur, by getting the organization to focus on long-term growth, not just current earnings; purging aspects of the culture that inhibit growth; and adapting the management system. The staff executive should have experience running operations and building businesses. One of us—Bruce Harreld—held this position at IBM, where he oversaw the company's emerging business opportunities, several of which are now billion-dollar-plus enterprises.

Initially, the staff executive and the head of the group in which the venture resides should jointly own it. The staff executive should control the funding in the early stages and take the lead in giving the start-up team hands-on support in learning from customers, achieving milestones, identifying the root causes of problems, and removing policies or behaviors that impede the venture. Throughout this period, however, he or she should be coaching the senior line manager. As the venture builds a cus-

Idea in Brief**THE PROBLEM**

CEOs spend most of their time managing today's earnings rather than fostering future growth. Very few companies are growing at a rate that will entice investors or ensure long-term survival.

WHY THIS HAPPENS

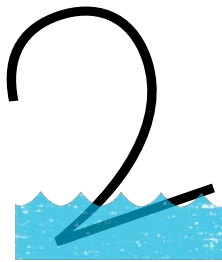
Leaders too often fail to understand the specific ways in which they can help their companies grow, and their actions too often send the wrong signals to the organization. Six common mistakes demonstrate these failures.

THE SOLUTION

To jump-start growth, executives should act more like entrepreneurs: They should get involved in the details of business model development; put their best managers in charge; measure progress, not profits; and hire the best talent they can find—but not staff up without proof of concept.

tomer base and increases its revenue, the senior line manager should take more control and ultimately become accountable for the venture.

This approach is crucial to getting senior operating executives to devote more time to the future. If an executive isn't willing to focus on emerging customers' needs and support the start-up team, the staff executive should channel the resources elsewhere.



Not Putting the Best, Most Experienced Talent in Charge

Big companies typically assign two types of people to lead growth initiatives. The first are smart, ambitious, recently minted MBAs. The CEO's rationale: The ventures are great development opportunities, and if the youngsters fail, it won't have a significant impact on the company's current performance. The second type are staff executives who have solid experience in a particular functional area and in managing projects but have never run an entire business. The CEO doesn't seriously consider seasoned executives in the mainstay businesses

as candidates. After all, he or she reasons, they are needed to deliver quarterly earnings, they lack the necessary entrepreneurial flair, and they would undoubtedly see such an assignment as a demotion.

But these positions are not "development opportunities" or jobs for staff people. Taking a start-up into uncertain terrain is fundamentally different from and tougher than running a multibillion-dollar business with established controls. Consequently, a company's best, most experienced general managers should lead these initiatives. A start-up will almost certainly have to tap capabilities residing in the established operations, and these individuals have the internal networks and the understanding of the organization's culture needed to obtain them. They know how to learn what works and what doesn't. Last but not least, they have the self-confidence required to be decisive and the skills to change course when necessary.

IBM, which is now considered a model for how to create major fast-growth businesses, discovered all this after a series of its growth initiatives failed in the 1990s. When it conducted postmortems to determine what had gone wrong, one common factor emerged: The leaders of these initiatives were staff executives who focused more on pleasing senior



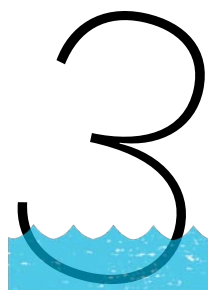
management than on understanding the market's needs.

Lou Gerstner, IBM's CEO at the time, took that lesson to heart. When the company decided to create a venture to explore opportunities in the emerging field of pervasive computing, he looked for a proven operating manager to lead the effort. His choice was Rod Adkins, the general manager of the division that manufactured IBM's pSeries servers. Gerstner knew that Adkins's appointment would send the message to all IBM executives that growth initiatives would no longer be treated as afterthoughts.

Not surprisingly, Adkins didn't view leaving the helm of a business with thousands of employees and \$4 billion in revenue to head what was initially a one-person team as a positive step in his career. "I don't know why, but I have been downgraded," he said after being asked to take the job. Gerstner persuaded him to accept by explaining that the initiative was a central component of IBM's strategy for reigniting organic growth. Over the next few years Adkins built pervasive computing into a profitable business with several hundred million dollars in revenue. Until April 2013 he was the senior vice president of IBM's Systems and Technology Group, whose 2012 revenue totaled \$17.7 billion; he is currently the senior vice president for corporate strategy. Today IBM general managers know that they must have a track record of delivering solid operating profits and growth in order to climb in the organization.

Finding the right people to lead ventures that capitalize on emerging business opportunities is difficult. Most successful general managers in large corporations are smart, have good people skills, can build confidence and generate enthusiasm, enjoy interacting with customers, know the details of their businesses, have deep product development knowledge, and reliably make their budgets and deliver results. But in addition to all this, the best leaders have something more: They are curious and can look at a problem through multiple—often counterintuitive or unconventional—lenses. They excel at mobilizing resources and are clear about where to go but

know when to change direction. They can see when a product in development will not be profitable and convert it to a service opportunity. They can spot an unmet need during the business-building process and change course to go after the bigger opportunity. As their teams pursue ideas and strive to achieve milestones, they have a clear view of what is in or out of alignment in terms of skills and capabilities, metrics, compensation, communication, product development activities, how people are collaborating and behaving, the quality of the management team, and so on.



Assembling the Wrong Team and Staffing Up Prematurely

Senior executives charged with assembling a team often grab the personnel who happen to be available: "John in product marketing will be free next week when he finishes working on XYZ, so let's put him on the team. Mary in manufacturing could devote 40% of her time to the project, so let's get her." More often than not, these people are not company stars. Furthermore, the team is created before anyone has determined exactly what needs to be done and what skills will be required.

Here is a different approach: Focus on capabilities, not available people, and staff up only when the strategy, business model, and value proposition are clear. Scaling the business prematurely wastes money.

At the outset of an initiative, create a work sheet listing the capabilities and behaviors that will be required. Then try to find the people who best fit the bill, whether inside or outside the company (see the exhibit "Focus on Capability, Not Availability"). When a group vice president at an industrial products company that wanted to move into medical diagnostic and monitoring devices did this, we helped him identify the best places to recruit the necessary

CEOs who are deeply committed to growth spend 20% to 40% of their time with new-venture teams and with potential customers.

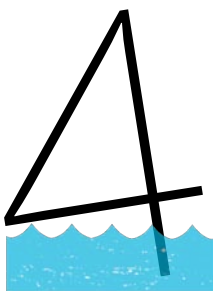
FOCUS ON CAPABILITY, NOT AVAILABILITY

Instead of staffing a venture with people who can be spared, you should assemble the best team for the initiative. One company used the tool below to help it launch a business in medical diagnostics. (All identifying information has been changed.)

CAPABILITIES NEEDED	INTERNAL CANDIDATES	SOLID OPERATING EXPERIENCE	DOMAIN EXPERTISE	SELF-GUIDED	CURIOUS	CONSTRUCTIVELY DISSATISFIED	EXTERNAL SUPPORT RESOURCES
Experience in patient care and clinical problem solving	Madeleine C.	✓		✓		✓	<ul style="list-style-type: none"> • Medical Consultants, Inc. • physicians and nurses
Understanding of future trends, implications for the business, and early warning signals	none						<ul style="list-style-type: none"> • Future Scenarios, Inc.
Expertise in point-of-care technologies: assay development and simple customer interface	Luke L.	✓	✓		✓		<ul style="list-style-type: none"> • best-in-class scientists
Experience with converging technologies	Quinton B.	✓	✓		✓		<ul style="list-style-type: none"> • professors at leading institutes focused on applying and integrating converging technologies
Skill/experience in prototyping, testing, and screening technologies for manufacturability	none						<ul style="list-style-type: none"> • need to decide whether to develop these capabilities internally or engage a firm such as Product Design, Inc.
Knowledge of complementary or enabling technologies such as X and Y	Elsa B.		✓	✓	✓		<ul style="list-style-type: none"> • technology licensing offices at leading research institutions (which can also suggest scientists with an interest in this space)
Familiarity with diagnostic applications for everything from top-tier teaching hospitals to clinics in poor countries	Henry C.	✓		✓	✓	✓	<ul style="list-style-type: none"> • chief of pathology at a leading teaching hospital
Expertise in gaining regulatory approval	Isabella S.	✓	✓	✓	✓		<ul style="list-style-type: none"> • need to identify a boutique consultancy with ex-FDA people
Sales and marketing	Harrison D.	✓	✓	✓	✓		<ul style="list-style-type: none"> • need a partner with established channel capabilities
Leader: disciplined, insightful, an experienced GM, a clever problem solver	Jonathan D.	✓		✓	✓	✓	

talent—for example, Baxter for grooming general managers, Medtronic and Johnson & Johnson for medical-device development, and UPS for logistics. Some people would be needed for only six to nine months and were hired on that basis.

Assembling capabilities is a continual process. As the product line is extended and the business expands internationally, the venture's needs may exceed or differ from the skills of its CFO, sales manager, and others on the team. So changes may have to be made.



Taking the Wrong Approach to Performance Assessment

Big companies often apply the same metrics and milestones to running their early-stage businesses that they use in managing their mature busi-

nesses. These are worse than useless to start-ups—they are harmful.

Mature businesses typically measure such things as unit volume, revenue, and earnings in relation to their P&L plans. In contrast, early-stage businesses should employ metrics that track their progress in understanding customers' problems and learning how to solve them. One useful assessment is the initiative's progress in cultivating the combination of skills and capabilities that will move it closer to the next milestone. Other measures might include the number of interactions per month between senior management and customers; the team's success in creating prototypes rapidly; the results of market tests; the volume and nature of customer complaints about the product, from the introduction of the initial prototype onward; and the start-up's ability to respond to those complaints. Not all the metrics established at the outset may turn out to be appropriate. Accordingly, they should be continually assessed and changed as necessary.

How to Lead Growth Initiatives: Guidelines for CEOs



These actions will help company leaders nurture internal start-ups and teach their core businesses how to deliver both earnings and growth.

Create the conditions.

Make earnings and growth equally important top priorities. Remove cultural impediments to growth such as risk aversion and the notion that any kind of failure is bad.

Learn with the team.

Meet frequently enough and long enough with a venture's team to help it solve problems and deepen insights. Accompany it in striving to understand the needs and problems of prospective customers and other members of the nascent ecosystem.

Choose the right team leaders.

Assign your best, most experienced general managers to lead growth initiatives. They have the internal networks required to access the larger organization's capabilities, and they understand its values and culture.

Mobilize the team.

Focus on the capabilities needed at each stage and choose people with the best mix of skills, knowledge, and behaviors, rather than those who happen to be available. If internal people don't fit the bill, look outside. Adjust compensation schemes that make it difficult to recruit new types of people. Fully staff the venture only when the strategy, business model, and value proposition are clear.

Establish metrics and milestones.

Employ measures that track the progress of an early-stage venture in identifying customers' problems, learning how to solve them, defining the size of the opportunity, and developing a business model that can capture a disproportionate share of the value.

Fund the venture.

Create separate funds for financing new ventures and divorce their allocation from the company's annual budget process. Tie funding to the achievement of milestones with realistic time frames.

Leverage the core businesses.

Employ their capabilities to build the ventures and deeply involve them in the process. Eventually growth will become part of their DNA. The result will be an enduring enterprise.

For every initiative, establish milestones that are relevant for each stage of its development. The team should be allowed to negotiate how much time it will be given to achieve a milestone—and the result should be realistic, not overly ambitious. But the team should not be allowed to leapfrog any milestones, and their achievement should be a precondition for the release of funds. This disciplined approach will help avoid a premature scaling of the business.

Worthwhile milestones include:

Identifying the customer's "pain point."

What problem is the product or service meant to solve? Conduct tests with an array of end users whose views are respected in the industry in order to determine how much the problem is costing customers.

Articulating the value proposition. Why will customers buy the proposed offering? The explanation must reflect real information from actual customers and show how the specific offering will ad-

dress the pain point and what value that has for the customer.

Selecting a method for capturing the value.

The business model should demonstrate that the market is attractive for the company. It should include a description of the profit pool, the chain of activities and processes required, and how the company will capture a disproportionate share of the value.

Building a rapid prototyping capability.

Many big corporations have the skills and processes to build and test prototypes that incrementally improve their current offerings but not prototypes of radically new products or services. In such cases management must develop the necessary capabilities or find an external partner that has them.

Conducting an initial market test. Tests of a prototype with at least one major customer or group of consumers should provide evidence that the product does indeed solve a problem that matters to customers. Depending on the industry and the

product, 18 to 24 months is a reasonable amount of time to get either the first prototype or a modified later version to market. However, shorter is always better. It is often useful to ask, How can we reduce our time to market by, say, six months?

Demonstrating the existence of a broad market. If the initial test is successful, it is critical to make sure that other customers have the same problem you have solved. One of our clients created a solution for a beverage producer. The project's engineers believed that the solution had wide applicability, so management funded its development, only to have the product flop. It turned out that the team had created a one-off solution.

Developing a business plan and a financial forecast. The business plan's own milestones should be related to tangible activities—for example, completion of a product development plan, creation of a working model, establishment of a supply chain to deliver a specific number of units, and recruitment and training of a specific number of salespeople. Key assumptions in the business plan should be linked to the financial forecast. Accurate financial forecasting is sacred in core businesses and almost always suspect in start-ups. Therefore, your finance team must be aware of the realities of early-stage business development, the key assumptions in the business plan, and the degree of confidence in those assumptions (in other words, which ones need to be tested). We have observed a number of instances in which the finance team, having not been informed of such things, misinterpreted the significance of a start-up's missing an early forecast and prematurely cut off its funding.

Creating an execution plan. Too often there are foot-high plans for developing a product and only a page or two describing the execution. This helps explain why start-ups frequently stumble at that stage. The solution is to bring together the project team, key members of the oversight team, and any corporate individuals with the authority to remove institutional barriers and have them think through the specific execution issues and create a detailed plan. It might include full descriptions of the following:

- organizational structure
- changes required in any policies and procedures that might inhibit the new business
- skills, talents, and capabilities to be assembled
- behaviors and aspects of the culture that need to be adapted for success

- an action agenda for the next 30, 60, or 90 days that specifies who is accountable for each critical task and how performance will be measured.



Not Knowing How to Fund and Govern a Start-Up

An amazing number of big companies force their early-stage growth initiatives to follow the annual budgeting cycle of their established businesses, even though start-ups' needs are not predictable. It's also common for operating executives to reallocate funding earmarked for those ventures to finance the needs of their mature operations. Both mistakes kill start-ups.

Management needs to separate the funding of early-stage ventures from the corporation's annual budget cycle, protect that money, and create special rules for allocating it. A best practice is to establish an independent budget that's distributed when—and only when—the kinds of milestones described above have been achieved. The CEO—or the staff executive assisting him or her—monitors performance, distributes money, and has access to discretionary capital should unanticipated needs arise.

Both Medtronic and Alere have exemplary systems for funding and governing growth initiatives. As executive vice president and then as vice chairman of Medtronic, Glen Nelson was responsible for the company's growth initiatives from 1986 to 2002. He oversaw the launch of what he describes as 30 “new to the world” initiatives. The ideas for them surfaced in business units and the science and technology center responsible for corporate R&D, which Nelson, who had been a surgeon before joining Medtronic, headed. He and a small team that included a technologist, a marketer, and a patent attorney decided which proposals to fund. They based their choices on the size of the opportunity, the likelihood that Medtronic could exploit it, and the projected financial return. Ideas that got the go-ahead were managed by either a business unit or Nelson's R&D unit.

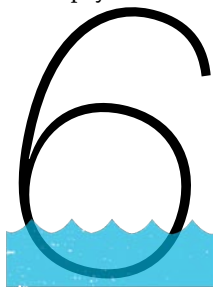
Each year, in a highly iterative three-month process, Nelson, the CEO, and the rest of the executive committee delved into product development in each of the core businesses and the growth initiatives. Each venture was given a five-year budget, and its funding could not be revoked so long as it

was achieving its milestones. Nelson controlled the release of funds, monitored the initiatives, and decided whether they had achieved their milestones. If a business unit tried to hit its financial targets by reducing its investments in growth ventures, he reprimanded its leaders.

When an initiative failed to achieve a milestone on time, Nelson says, “we were pretty analytical” in trying to understand why and what the implications were for the viability of the venture. “We did DCFs [discounted cash flow] and IRR [internal rate of return] projection on our own growth projects in the same way we did for acquisitions,” he says. “If something wasn’t going to make the returns needed, you had to cut it.” Depending on the nature of an initiative, it usually had from 18 months to seven years to become solidly profitable. Overall corporate goals were 15% to 20% growth in revenues and profits, which Medtronic exceeded during Nelson’s tenure with the company.

Alere, a health care company based in Waltham, Massachusetts, consciously allocates capital to ventures that have the potential to become growth engines. The ventures focus on monitoring and information products and services that will enable people with chronic conditions such as congestive heart failure, diabetes, bronchitis, and emphysema to take charge of their care at home with medical supervision.

To fund those efforts, Alere takes earnings from its “money machines” (its diagnostic businesses); 70% (\$110 million) of its R&D budget is allocated to what CEO Ron Zwanziger calls “game-changing” growth initiatives, while 30% (\$50 million) goes to incremental improvements of current products and services. In addition, despite substantial pressure from some investment analysts, Alere has decided not to pay dividends so that it can invest in growth.



Failing to Leverage the Organization’s Core Capabilities

For the past two or three decades the conventional wisdom has been that new ventures within large, mature organizations must be isolated to prevent the established businesses from stifling them. We believe this is wrong.

The core businesses of large companies have much to offer internal start-ups: R&D capabilities,

knowledge about and relationships with customers, market research expertise, legal talent, payroll systems, sales forces, and so on. Most truly independent start-ups spend critical time and money building these capabilities from scratch. If appropriately applied, the existing assets and skills within large organizations can dramatically reduce the risk of building a new business and the time needed for it to begin generating a positive cash flow. That is why it is so important to structure the leadership and governance of new ventures as we’ve described above.

Typically the resources of the core businesses must be adapted to serve the needs of start-ups. Market research in a large company is often geared to interviewing thousands of customers to understand their satisfaction or dissatisfaction with an existing product or brand, whereas a start-up may need to interview a few potential customers about their interest in a yet-to-be-developed offering. The finance department typically focuses on controlling budgets to achieve earnings targets and minimize risk, but an early-stage venture may need help in estimating how much money will be required to achieve a milestone or thinking through the financial implications of a shift in strategic direction.

CEOs must play a central role in helping growth initiatives tap the resources of the core businesses and use them constructively. This can present an enormous challenge for leaders who have risen through the ranks of the core businesses and have no experience in mobilizing support for early-stage ventures. But the rewards are equally enormous. By encouraging the managers of the core businesses to support start-ups through sharing resources and capabilities, and by promoting skills and behaviors such as listening deeply to customers, experimenting, and innovating, the CEO is helping the larger organization learn how to grow.

CEOS AND other senior executives of mature corporations must treat organic growth as seriously as they do quarterly profits. But they should recognize that the approach we describe will challenge the established system and conventional ways of working. Without appropriate leadership, funding, measurement mechanisms, and governance, growth initiatives will fail. When they succeed, however, the larger organization will learn how to balance its endeavors to deliver short-term profits and also generate long-term growth. ♡

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