Leadership Imperatives To Achieve The Holy Grail of Business: Long-Term Growth

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In all human endeavors we tend to revere stars that perform at a superior level over a long and illustrious career. Sports Hall of Famers Aaron, Montana, Jordan, Pelé, and Nicklaus and arts honorees Ozawa, Tharp, and Simon have earned legendary acclaim for performing immeasurably beyond the reach of most mere mortals.

In business, as well, a few widely recognized companies have been able to deliver consistently superior growth over the long-term, including Amazon, who last year became the fastest company to reach $100 billion in sales, and J&J, 3M, and The Ball Corporation, each of whom has been out-innovating and outgrowing the overall market for more than a century.

The Elusiveness of Long-Term Growth

But these are exceptions to the rule that most companies are unable to sustain superior growth. For example, in perhaps the most definitive study of long-term business performance, the Corporate Executive Board (CEB), analyzed the long-term revenue growth of approximately five hundred Global 100 and other companies over the past half-century. The study found that only 13 percent of large enterprises could sustain a real annual revenue growth rate of as little as 2 percent over successive decades.[1]

Given increasing globalization and technological disruption, it is becoming harder than ever for companies to sustain growth. Researchers at the Deloitte Center for the Edge found that the "topple rate," measuring the frequency with which companies lose their market leadership position from year to year, has grown by nearly 40 percent over the past forty years. The consequences of stalled growth are severe, often leading to a collapse in market value, bankruptcy, or strategic exit at distressed prices. In fact, the average life expectancy of a Fortune 500 company has declined from around 75 years half a century ago to less than 15 years today.[2]

Nonetheless, CEOs are an optimistic lot, and have continued to promise superior results, despite the long odds against sustained growth. Bain consultants James Allen and Chris Zook examined the annual reports of the Forbes Global 2000 and found that, on average, CEOs projected that their company would grow at twice the rate and be four times more profitable than the industry average. In other words, as Allen waggishly notes, "the entire world of business is projecting to take share from the entire world of business." But after examining the performance of the Global 2000 over the decade 2001–2011, Bain found that only about 10 percent of companies actually met their growth targets.[3]

The consequences of broken promises have taken a toll on CEO job security. Global CEO turnover has increased by 29 percent between 2000 and 2015, with a growing number of incoming CEO's coming from outside the company, signaling the desire for a change in strategy.[4]

These harsh realities point to two burning questions of relevance to all senior executives:

1. **Why is it so hard for companies to *sustain* above-market business performance?**
2. **What can companies do to beat the odds and crack the code to securing the holy grail of business: long-term profitable growth?**

The answers are rooted in the challenge of mastering three key leadership skills essential to drive long-term business growth: customer centricity, continuous experimentation, and ruthless patience. Fortunately, executives can realistically aspire to become growth superstars, even if wistfully accepting the elusiveness of Hall of Fame acclaim in other endeavors.

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The Leadership Challenge

The impediments to long-term growth have been widely analyzed, most often pointing to *dysfunctional management mindsets* that unwittingly encourage strategic inertia and *inappropriate incentives* that promote short-term profit maximization at the expense of long-term growth. Clayton Christensen codified these pervasive factors in his seminal work on disruptive technology. In *The Innovator's Dilemma*, published twenty years ago, Christensen noted that to sustain long-term market leadership, companies must consistently disrupt their existing product lineup with "the next new thing" in each of the categories in which they compete.

This does not mean simply adding incremental improvements, which propels many companies into a no-win, feature–function arms race. Instead, successful companies must rethink their consumer value proposition and consider entirely new product concepts aimed not only at current customers, but also at those poorly served by current offerings.

Unfortunately, most incumbent market leaders lack the internal processes and management mindsets to promote corporate entrepreneurship, and tend to establish incentives that reinforce short-term profit-taking, while dissuading risky or long-term business development. As a result, most companies eventually find themselves riding the tail end of their product life cycles to stalled growth—or worse.

And therein lies the challenge. Most established market leaders are extremely reluctant to disrupt themselves and, as a result, are eventually overtaken by newcomers bringing radically different solutions to market that are better and/or cheaper than existing products.

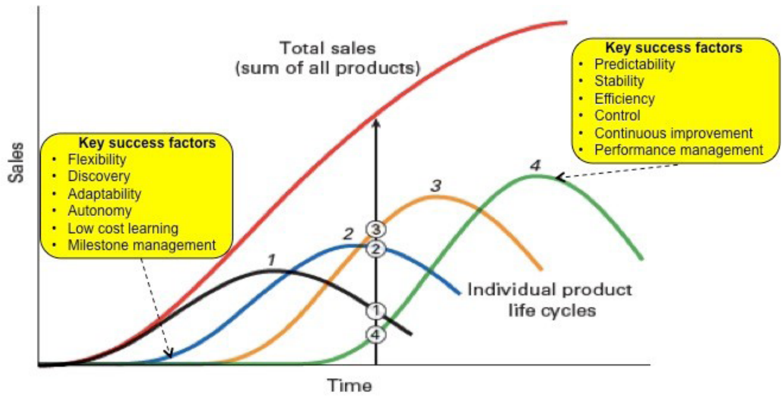
Peter Drucker insightfully recognized the solution to this problem as the defining challenge of effective *leadership*, identifying four essential functions that the CEO—and only the CEO—must perform:

1. **Define the meaningful outside;** that is, a realistic, accurate, and evolving understanding of the market and competitive environment.
2. **Decisively decide what businesses to be** (and not to be) in.
3. **Balance the present and future** in allocating human and financial capital.
4. **Shape and personally exemplify desired corporate values** that nurture a culture strongly aligned with continuous, meaningful innovation and world-class execution.[5]

Drucker's insights make a clear distinction between the requirements for effective *management* versus the priorities for successful *leadership*. In a large organization, the role of management is to efficiently and reliably execute the current core business—or, in metaphorical terms, to ensure that the trains run reliably on time. In contrast, leadership is about communicating a compelling corporate vision, and, when necessary, helping an organization grow by reallocating resources and changing corporate systems and structures. In essence, leadership is about strategy and change—metaphorically about ensuring the trains are headed to the right destination. Thus, the ability to maintain long-term profitable growth is *the* ultimate measure of effective CEO leadership.

Corporate Innovation

To see how this applies in practice, consider the outcome of effective CEO leadership. Companies that achieve long-term growth continuously launch successful new products and businesses, whose growth trajectories more than offset declining sales of aging products. This is shown in the figure below, where total company sales at any given time is equal to the sum of sales from each product at their respective stage of the product life cycle. The challenge for CEO's is that the key success factors for businesses operating at opposite stages of product life cycle development are profoundly different.



For mature businesses, effective management requires disciplined processes focused on efficiency, control, continuous improvement, and predictable achievement of financial performance targets. At the other end of the product life cycle, managers need the freedom to search for a scalable, repeatable new business model.

Given the inherent ambiguities associated with early stage ventures, the key success factors for corporate entrepreneurship include flexibility, adaptability, low cost learning and a commitment to hitting development milestones rather than traditional measures of financial performance.

The management focus and mindsets required to nurture an early stage venture would be chaotically ruinous, if applied to a mature business, just as the process rigor and discipline required to manage a complex, mature business would suffocate the fluidity and adaptability critical to corporate entrepreneurs. So, in essence, achieving long-term growth requires a company to ambidextrously accommodate distinctly different business models under one roof—

one devoted to *exploit* the firm's current assets and competitive advantages, and the other to *explore* new capabilities and markets critical to future growth. As we've seen from long-term growth statistics cited earlier, few CEO's have been up to the task.

An aspiring corporate intrapreneur faces even more daunting challenges than an independent startup entrepreneur. That's because intrapreneurs need all the skills of an entrepreneur—vision, creativity, perseverance—*plus* the ability to effectively play "the inside game," to successfully navigate within a complex corporate hierarchy.

Independent entrepreneurs can expect to have dozens of doors slammed in their face by prospective investors, customers, and partners before finally gaining acceptance for a new business concept. In contrast, just one internal "no" vote of confidence—be it from a boss, a finance director, or internal business unit concerned with protecting its existing product—can kill a nascent intrapreneurial endeavor. Corporate antibodies are often quite effective in protecting their incumbent turf, budget, or status quo position from the perceived threat of invading new business ideas!

Another constraint impeding corporate innovation is that the risk/reward for intrapreneurs is far worse than for entrepreneurs. Intrapreneurs in corporations with limited fault tolerance often face severe downside consequences in pursuing an inherently risky new business idea.

And even if a new business venture works out, intrapreneurs may find that their upside payoff is limited to a modest bonus and shared praise. As the old saying goes, “success has many fathers, but failure is an orphan.”

In contrast, outside entrepreneurs have little to lose if they are willing to live on a shoestring while chasing their dream. Failure is not unusual, so there is no lasting stigma associated with a busted venture, and new entrepreneurial endeavors are always on the horizon. And, of course, the upside rewards for entrepreneurs who do succeed in launching a breakout new business can be enormous. It is therefore not surprising that incumbent market leaders are so often toppled by entrepreneurial newcomers who out-innovate and out-grow established enterprises.

These realities bring us back to Peter Drucker’s sage observations that it is the CEO’s paramount responsibility to create a corporate culture conducive to continuous innovation that drives long-term growth. To identify the critical leadership requirements, it is useful to examine the distinctive behaviors of the two best performing CEO’s of this millennium: Steve Jobs, who laid the groundwork to build the highest valued company in the world, and Jeff Bezos, who continues to set records for the fastest growing company in history. Three shared traits of these inspirational leaders stand out: customer centricity, commitment to experimentation, and ruthless patience.

Customer Centricity

Perhaps no CEO in history is given more credit for an innate understanding of what consumers value than Steve Jobs. Jobs' legacy is often expressed in terms of the extraordinary products launched under his watch—iMac, iPod, iPhone, and iPad. But the real leadership lesson to be learned derives from his visceral commitment to delivering a superior customer experience, not just with great products, but also at every consumer touchpoint with the company. To this day, Apple's commercials emphasize how its products and services enrich people's lives, rather than promoting advanced features and functions more typical of advertising in the consumer electronics category. Whether or not Tim Cook can sustain his predecessor's remarkable ability to anticipate consumers' evolving needs with category-redefining products will ultimately determine his legacy.

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Perhaps no moment in Steve Jobs' storied career better captures his customer-centric mindset than one of the lowest points in Apple's history. Jobs returned to Apple as CEO in 1997 after having been fired by his board twelve years earlier. The company he inherited was in deep trouble, having lost nearly $1 billion the prior year, while facing a market cap of only $3 billion in free fall.

The first thing Jobs did upon resuming his leadership role was to pronounce Apple's intent do a few things extraordinarily well, rather than doing lots of mediocre things. At the heart of Jobs' "shrink-to-grow" strategy was a commitment to obsessively focus on consumer benefits. Any product at the time that wasn't delivering a demonstrably superior consumer experience was axed, including Apple's Pippin game console, Newton tablet, QuickTake camera and several software products. As a result, Apple laid off 3,000 workers.

With employee morale at an all-time low, Jobs had the courage to voluntarily take unscreened questions from an audience of thousands of workers and business partners at Apple's 1997 Worldwide Developer Conference. Early in the session, Jobs was confronted by a disgruntled employee who challenged the CEO with the following question.

“Mr. Jobs, you’re a bright and influential man. But it’s sad and clear that on several counts, you don’t know what you’re talking about.” (Then going on to challenge Apple’s reasoning in cancelling a software product that cost this worker his job.)

An audible gasp went up from the audience. It is rare indeed for a CEO to be so bluntly confronted in such an open forum. The exchange warrants watching for its remarkable melodrama and insight. Jobs took a long time to answer, signaling his genuine desire to give a thoughtful and honest response. The pregnant pause added palpable tension in the room. Jobs agreed with his inquisitor that the discontinued product undoubtedly had several technical merits that he didn’t fully understand.

But then, Jobs delivered an impassioned plea for the need to reframe the company’s mission around delivering superior customer experiences, which would form the core of the Apple’s strategy for the next twenty years.

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“One of the things I’ve always found is that you have to start with the customer experience and work backwards to the technology. You can’t start with the technology and try to figure out where to try to sell it. I made this mistake probably more than anybody else in this room and I have the scar tissue to prove it. We have tried to come up with a strategy and a vision for Apple that starts with what incredible benefits to give to the customer and working with the customer, not starting with the engineers and figuring out what awesome technology we have, and how we can market it.”

This exchange came many years before the launch of the iconic products—iPod, iPhone, and iPad—that embodied Jobs’ customer centricity and triggered one of the greatest turnarounds in corporate history. Apple’s market cap has gone from ~$3 billion in 1997 to over $600 billion today. Neither Steve Jobs (nor his successor) ever talked about wanting to become the most valuable company in the world. Rather, this was the outcome of Jobs’ enduring and inspired commitment to a customer-centric strategy. This is the essence of what Drucker described as the CEO’s responsibility to define the meaningful outside, that is, a realistic, accurate, and evolving understanding of the market and competitive environment and to decisively decide what businesses to be (and not to be) in.

Jeff Bezos is also widely recognized as an obsessively customer-centric CEO, as he first articulated in a letter to shareholders in Amazon's first annual report (coincidentally also in 1997). In later expanding on his approach to new business development, Bezos clearly places customer needs at the heart of Amazon's business strategy.

"There's an old Warren Buffett story, that he has three boxes on his desk: in-box, out-box, and too hard. Whenever we're facing one of those too-hard problems, where we get into an infinite loop and can't decide what to do, we try to convert it into a straightforward problem by saying, "Well, what's better for the consumer?"

Amazon's customer-centric core ideology has helped the company make many tough decisions over the years. For example, many Amazon employees were understandably upset when the proposal first surfaced to open Amazon's online store to third-party merchants. Amazon's merchandising managers feared such a move would help competitors on Amazon's own website, but Bezos recognized that the customer preference for wider choice would ultimately make a better business decision. In another example of a contentious issue, book publishers were anguished when Amazon first proposed replacing curated professional book reviews with user reviews—often negative—on its website. Once again, Bezos sided with the preferences of his customers, and user-generated book reviews have now become an industry standard.

Putting customers at the heart of their business strategy has fueled Amazon's innovation engine, underscoring the company's willingness to disrupt itself (e.g. its Kindle and Fire tablet devices cannibalizing online book sales). Going into its 20th year as a public company, Amazon has revenues of $130 billion, and still is remarkably growing at nearly 30 percent per year.

Commitment to Experimentation

The only way to effectively deal with ambiguous future opportunities and risks that all businesses face is through continuous experimentation in search of next generation business growth over an extended time horizon.

Amazon is perhaps the best in the business at enterprise-wide experimentation. At any given time, Amazon has hundreds of business experiments underway, from Horizon 1 executional improvements to current businesses (e.g. accelerating onboarding temporary employees during holiday peak periods), to Horizon 2 extensions to the core business (e.g. drone deliveries from Amazon warehouses) to game-changing new business opportunities (e.g. Amazon's Echo artificial intelligence devices). Low-cost ongoing new business experimentation is an essential element of Amazon's corporate DNA.

As Jeff Bezos explains:

"Most experiments fail, no matter how well-designed. We've tried to reduce the cost of doing experiments so that we can do more of them. If you can increase the number of experiments you try, from a hundred to a thousand, you dramatically increase the number of innovations you produce. You only need a few big wins to make all those experiments worth it."

This is a prime example of how the CEO sets the tone that drives entrepreneurial behavior throughout the organization.

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Ruthless Patience

The third essential CEO trait to drive continuous growth is "ruthless patience." There is a deliberate tension implied by this leadership principle. On the one hand, CEO's need the patience and conviction to nurture game-changing products that may take upwards of seven years of intensive development to bring to market.

As Jeff Bezos explains:

"If everything you do needs to work on a three-year time horizon (or less), then you're competing against a lot of people. But if you're willing to invest on a seven-year time horizon, you're now competing against a fraction of those people, because very few companies are willing to do that. Just by lengthening the time horizon, you can engage in endeavors that you could never otherwise pursue. At Amazon we like things to work in five to seven years. We're willing to plant seeds, let them grow—and we're very stubborn."

On the other hand, undisciplined experimentation can be distracting and a financial drain, unless a CEO establishes a corporate culture willing to ruthlessly terminate failing new ventures.

Jeff Bezos explains how Amazon decides when to pull the plug on a new product development project:

"You can't listen to people at the beginning, when they say new ventures won't work. I've made billions of dollars on "failures" at Amazon (e.g. Prime, AWS). At some point, though, you may need to give up on a new venture idea … some as soon as within six months. When is the right time to kill a venture? When the last high judgment champion folds his or her cards (e.g. Amazon Destinations, Amazon Auctions, Amazon Wallet, Fire Phone)."

It's important to note that in creating an entrepreneurial culture that recognizes failure as the handmaiden of innovation, Bezos' employees are willing to acknowledge and learn from failure without fear of stigma or punishment. This is another example of Drucker's previously cited observation on the critical role of a CEO to shape and personally exemplify desired corporate values that nurture a culture strongly aligned with continuous, meaningful innovation and world class execution.

Connecting the Dots

In summary, I've made the argument that long-term growth requires a corporate environment where all capabilities, resources, incentives, and business culture and processes are aligned to support continuous innovation, not for its own sake, but to deliver meaningful differentiation to customers. Achieving long-term profitable growth is the ultimate test of CEO leadership. CEO's who embrace three pivotal strategic mindsets—customer-centricity, continuous experimentation, and ruthless patience—can beat the odds and crack the code to securing the holy grail of business: **long-term profitable growth.**

1. Matthew S. Olson, Derek van Bever, and Seth Verry, "When Growth Stalls," *Harvard Business Review*, March 2008 reference
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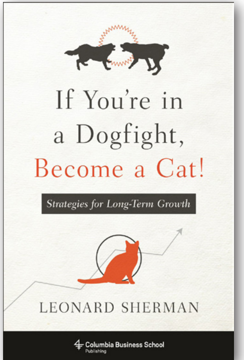

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