ETH zürich

ETH Library

Insights

Journal Issue

Publication date:
1998

Permanent link:
https://doi.org/10.3929/ethz-a-004350911

Rights / license:
In Copyright - Non-Commercial Use Permitted

Originally published in:
Insights

This page was generated automatically upon download from the ETH Zurich Research Collection.
For more information, please consult the Terms of use.

Alliance for Technology-Based Enterprise

Eidgenössische Technische Hochschule Zürich

ÉCOLE POLYTECHNIQUE FÉDÉRALE DE LAUSANNE

IMD INTERNATIONAL

No. 5, April 2000

Insights

Fueling Growth: Sizing up Technology's Role.

This issue of Insights on "growth" is based on class work performed by executive participants in the jointly offered **Mastering Technology Enterprise (MTE)** course. It was drafted by the four participants featured on the following pages, who volunteered to condense and synthesize several participant reports on aspects of growth, each of which was discussed with a group of invited senior executives during the final days of the program. The final draft was edited by Professor Derek F. Abell, Program Director of the MTE program.

The main title of this article carries with it the assumption that growth is a sine qua non for high performance; the sub-title implies that technology has a role to play but that other factors too drive growth. Both of these assumptions are correct, but not self-evident. A precise definition of growth is central to both assumptions.

We shall first, therefore, clarify why growth is important and the terms in which growth should be defined. This will lead on to an understanding of why certain particular measures of growth are important. Subsequently we shall explore how growth can be achieved, strategically and organizationally.

As we shall see, technology may play a central or subsidiary role in achieving growth. It may drive the very strategies that produce growth; or it may be used strictly in the support of other more service-oriented drivers, which are, in some cases, the fundamental fuel on which growth depends.

Why Grow?

Some companies historically showing strong top line growth, bottom line profit and even strong ROA or ROI performance have been dismayed to learn that they have been destroying, not creating, value for their shareholders. Revenue growth alone does not necessarily assure growth in shareholder value, but, more often than not, it is a vital ingredient. What shareholders really demand is that future cash flows, not just revenues or even profits, are more than sufficient to reward debt and equity holders at appropriate risk-adjusted costs of capital.

Some would go even further, arguing that the words “growth in shareholder value” should really be substituted by "growth in stakeholder value". What these critics of shareholder value are really saying is that if shareholders are getting rewarded at the expense of employees, management, and perhaps even society as a whole (for example in the case of environmental pollution or other externalities), then the system will ultimately be unsustainable. In other words, if the **distribution** of value falls short of the requirements of any stakeholder group, they may withdraw their support for the value **creation** process, thus jeopardizing the whole system.

We see clearly that growth, when not carefully defined, can be a contentious subject. For our purposes here, we shall simply assume that we are talking about **long term sustainable growth in shareholder value.** With this definition, we now have our answer to the question "why grow"? Defined broadly, as we have done here, growth and shareholder performance are one and the same thing; defined more narrowly in revenue, bottom-line profit, or even ROA/ROI terms, there may be divergence.

© Alliance for Technology-Based Enterprise

Günther Eberhard
Von Roll
Management

MTE 1999
participant

Philippe Dugerdil
Pictet & Cie,
Banquiers

MTE 1999
participant

Revenue growth is usually, nevertheless, one of the important drivers of long-term cash flow and hence a necessary, if not sufficient, condition for high performance. In all that follows, therefore, we shall assume that growth, however defined, is desirable. Let us now turn to the question of how it can be achieved.

How to Grow: Main Strategic Options

Our class debate, with a small group of guest senior executives, identified four main growth options:

a) Growing by Adaptation of the Corporate Portfolio

The world is in rapid transition – in technology, in market requirements, through globalization, because of privatization and deregulation, and in broad shifts towards a more knowledge-based, information-oriented economy. Dynamic economies are marked by strong "updrafts" and "downdrafts" across different sectors. Companies grow or fail to grow depending on how well and aggressively they redefine their overall corporate portfolio of activities as these transitions take place.

Nokia provides us with an interesting example of growth achieved by redefinition of the corporate portfolio. Nokia started as a rubber manufacturer (footwear, tires, rubber bands, etc.) at the end of the 19th century. Then it acquired a cable works company for power transmission and telegraphy. Later it diversified into electronics and semiconductors. It entered the telecommunications business through the development of digital telephone switches. During the 1980s Nokia's strategy went on to expand rapidly on all fronts (business sectors, countries and products). In the early 1990s Nokia decided to divest its non-core operations to focus on telecommunications. Realising the potential of semiconductor technology, Nokia hired visionaries (scientists, inventors, and others) and adapted their vision to products that would respond to the needs of the "mobile" market. For example, Nokia has been one of the first and strongest developers of GSM technology. In 1995 and 1996, Nokia sold its cable and television business to focus on its digital technology business exclusively (mobile phones, wireless telecommunications).

In summary, Nokia is an example of a company growing by constantly adapting to new business needs, even in periods of high success and strong market position. Nokia always invested in promising technologies while divesting away from more mature business areas. What role does technology play here? Clearly what Nokia has achieved, and others like General Electric have also achieved, is not simply to step up to new technology, but to look carefully for points where new technology (such as cellular phone technology) meet a strongly emergent market need (like the need for mobile communications).

b) Growing by “Thinking out of the Box”

Successful growth companies frequently base their approach on "break the rules” thinking and thereby re-define the often mature industries they are in. This "out of the box” thinking leads them to look at what customers really need when they buy a product or use a service.

Take, for example, EasyJet, as one of the leading European no-frills airlines. Their recipe is not only to fly point-to-point from less crowded airports such as Luton, but also to use call-centers and the Internet as sales channels for their tickets. Since EasyJet controls these channels completely, they also do away with paper tickets. By so doing they cut on costs as much as possible, and pass this saving on to their passengers in the form of much lower fares.

Technology may or may not play a key role in out of the box thinking. What does seem to be important is new creative segmentation of the market, and thinking about "different"- not just "better"- ways to satisfy companies. Almost always, a major reconfiguration of the "conventional" industry business system and its "rules of the game" can be observed.

c) Growing via New Technology

Another way to generate growth is to use new technology to make an existing product or service more attractive. A mail order company for books is nothing really new. How can, then, the blazing success of amazon.com be explained? In a traditional mail order catalogue, books are presented with only the shortest of descriptions. Maybe the "selection of the month" gets a bit more space, but still not enough to give the potential reader a clear picture of what is waiting for him. Take as a contrast the amazon.com web site. Here the key benefit is interactivity; customers can not only look up the reviews and comments previous readers have written, but also write in their own comments. By the very power of computer systems, based on their indication of needs or their previous selection, customers can get further recommendations on related books. It is tantamount to browsing through a real bookstore, but with the added advantage that the universe of books is available, as is information about each. Technology (IT technology in this case) is **the** basis of growth.

d) Growing by Adding New Services to Existing Product Technology

This option is in many ways the mirror image of the new technology strategy described in c) above. In many industries, products manufactured by the various producers are very similar and it appears that there is little room for differentiation. In such a case, opportunities can often be found by looking first at customer needs and particularly the way the product is sold and delivered to the customer, rather than at improving the product itself.

Taking again the amazon.com example, it is not the book itself that has made the difference, but the way it is provided to the customer and the services that are provided around the product. For a traditional bookstore, it is virtually impossible to provide service levels in terms of information and choice at the levels provided by amazon.com.

Along these lines, one of our student groups imagined a virtual wine cellar providing aged wine "just in time" through Internet orders. The fundamental concept was that wine, for an increasingly urban population, is difficult to store for a long period of time. Hence the idea of a decentralised warehouse, providing quality old wine, at a very competitive price. Finally, the web site would also provide further services, such as advice on which wine would best match a given meal.

While new services may rest on technological platforms, technology itself is often not the key driver. Services are the drivers, and technology is used to support these new service concepts.

Viviana Ferreres de Nielsen
Novartis Nutrition Research

MTE 1999 participant

Means to Ends

Three additional points may be made about how growth can actually be achieved.

a) Think Big and Leverage the Idea Globally

In today's environment, successful business ideas can generate rapidly accelerating growth across borders or even continents. AOL, which started off not so long ago as a simple bulletin board, is now an enterprise linking people around the world, providing online services such as e-mail, as well as content from a broad range of sources. No matter where you are in the world, as long as there is a phone connection nearby, you can log on to this exciting virtual world through a steadily growing communication infrastructure. AOL has succeeded for many reasons, but one of them has been their ability to "think big" from the beginning, and on a global basis.

Richard Zbinden
Applied Workgroup Computing

MTE 1999 participant

b) Look for Technology/Market Intersections

New technology is often a necessary driver in modern growth scenarios. However, it is not usually sufficient. There also has to be a customer need, in order to provide the nucleus of a growth business. Let's take for example the so-called "functional foods" or "nutriceuticals". These have developed at the crossroads between bio-technology and modern man's need for a more healthy diet. These products look set to provide bright new marketing and sales opportunities to companies like Nestlé

and Unilever in the food industry, but also to companies like Novartis who come from a pharmaceutical background.

c) Organize for High Growth

Three organizational points were highlighted by our deliberations within student groups, and later with our senior executive guests:

First, a successful growth company must develop a culture of personal development and learning. In short, the successful 21st century company must become a learning enterprise. Knowledge must be freely shared among all the people and all experiences, either good or bad, should be systematically collected to increase the company's knowledge. The efficiency of the company will come from the network of interconnected people participating and benefiting from the shared knowledge base.

But this knowledge-sharing aspect of growth does not stop at the boundary of a company. Today, highly successful companies emerge in learning clusters of related and sometimes complementary enterprises. Examples of such clusters range from Silicon Valley high tech enterprises, to Swiss watch manufacturers in central Switzerland, to Wall Street financial institutions.

Second, it is very important to detect the potential "intrapreneurs" in a company and in its business system partners, and to provide them with the space to act. This means, among other things, formulating ambitious goals, protecting intrapreneurs against bureaucracy, offering a relatively free action area, encouraging individual responsibility, idea development, and communication, and providing a work atmosphere of fun, challenge and openness. It is extremely important to attract and retain these talented people as they are key to achieving growth.

In a technology-based company, intrapreneurs are quite likely to come out of the technical side of the business. But they must be able to combine technical competences with the broader competences needed to understand markets and lead with a general management perspective. These are rare birds. It is precisely this profile which we as participants in the joint IMD/ETHZ/EPFL "Mastering Technology Enterprise" program, share.

Third, company top management has to provide a clear vision for growth, a clear mission for people to follow, and an organizational structure and assignments to get things done. This "top-down" work must then be complemented by "bottom-up" innovative contributions which support these overall directions.

Conclusions

Today most people look towards the virtual world and expect high growth primarily from the e-business or e-commerce sector. It should however, be kept in mind that even in mature industries, extraordinary growth is possible. Companies like NUCOR in commodity steel have shown that smart strategic thinking and hard work will generate company growth even in industries that everybody would consider as unattractive and where products are usually viewed as commodities.

But companies must understand that growth is a dynamic concept. Recipes for today's growth could be the reason for tomorrow's failure. Whatever the future holds, having growth as an objective, and knowing how to achieve it make good strategic sense. Technology is likely to play an important, but sometimes not all-important, role.

Alliance for Technology-Based Enterprise

CTM
Zeltweg 48 - CH 8032 Zurich
Phone: +41 1 632 59 29
Fax: +41 1 269 90 01
Email: info@ctm.ethz.ch
Internet: www.ctm.ethz.ch

Insights originates from the joint work of professors from the two Swiss Federal Institutes of Technology and IMD.
Insights is published three times each year, distributed free of charge and is also available on the Internet at www.ctm.ethz.ch