Gartner

CEOs Need Executive Leaders to Lean Into Growth

Published 25 July 2023 - ID G00794786 - 9 min read

By Analyst(s): David Furlonger

Initiatives: Executive Leadership: Digital Business; CIO Impact on Digital Business Strategy and Execution

The recent slowdown has focused executive leaders' attention on cost control, but most CEOs expect this phase to be short. This research will guide executive leaders on how to prepare the enterprise for higher growth.

Overview

Key Findings

- High-growth companies change dynamically in response to disruption.
- High-growth companies are more likely to pursue a digital-first strategy.
- High-growth companies invest more, on average, in experimental initiatives.
- Enterprise technology priorities suggest a two-tier investment strategy to spur growth.

Recommendations

Executive leaders guiding their enterprise's digital business initiative should:

- Align their unit's plans with the enterprise's strategy by asking the CEO to share their thoughts about the downturn or recession and what comes after it. Focusing too much on cost control can be dangerous. High-growth leaders often invest in downturns to leapfrog competition on exit.

- Maximize business performance by mapping digital projects to the enterprise strategy to determine whether the enterprise is investing where it will make the biggest difference to business outcomes.

- Find more money for experimental (“faith”-based) investments by identifying the “fear” and “fact” investments with the lowest priority or return, and slowing or ending those projects.
- Maximize the business impact of technology investments by targeting 80% of them over the next three years on the 20% of the customer base that generates most of the impact or overall corporate return.

Survey Objective

This study seeks to understand how companies approach growth today. The inquiry is comprised of three broad questions:

1. What do CEOs mean by “growth” (which studies consistently show as the most common CEO priority)? Who “owns” C-level growth?
2. How has the current politico-economic environment changed growth strategies?
3. What can we learn from “typical” versus “fast” growth companies?
4. Over the next three to five years, what opportunities do companies have for growth, including the expected role of digital in driving growth?

Data Insights

Business disruptions are staring executive leaders in the face: inflation, slowing economy, geopolitical conflicts, talent shortage and so on. And enterprises have responded in the usual ways by cutting costs and pivoting from revenue growth to profit growth. However, CEOs are starting to look past these challenges, and 55% of them expect that any economic downturn will be short and shallow. [1] They expect a period of growth will follow soon after. Executive leaders should advise their CEOs about what comes next, especially a digital-first business growth strategy. The 2022 Gartner Understanding Corporate Growth Strategies Survey provides some guidance. Companies that expect to grow 10% or more during the current fiscal year are less affected by disruption than low-growth (<5% a year) companies. Executive leaders should advise their CEOs to adopt the following four high-growth practices even amid disruption:

- High-growth companies change dynamically in response to disruption.
- High-growth companies are more likely to pursue a digital-first strategy.

- High-growth companies invest more, on average, in experimental initiatives.
- Enterprise technology priorities suggest a two-tier investment strategy to spur growth.

High-Growth Companies Change Dynamically in Response to Disruption

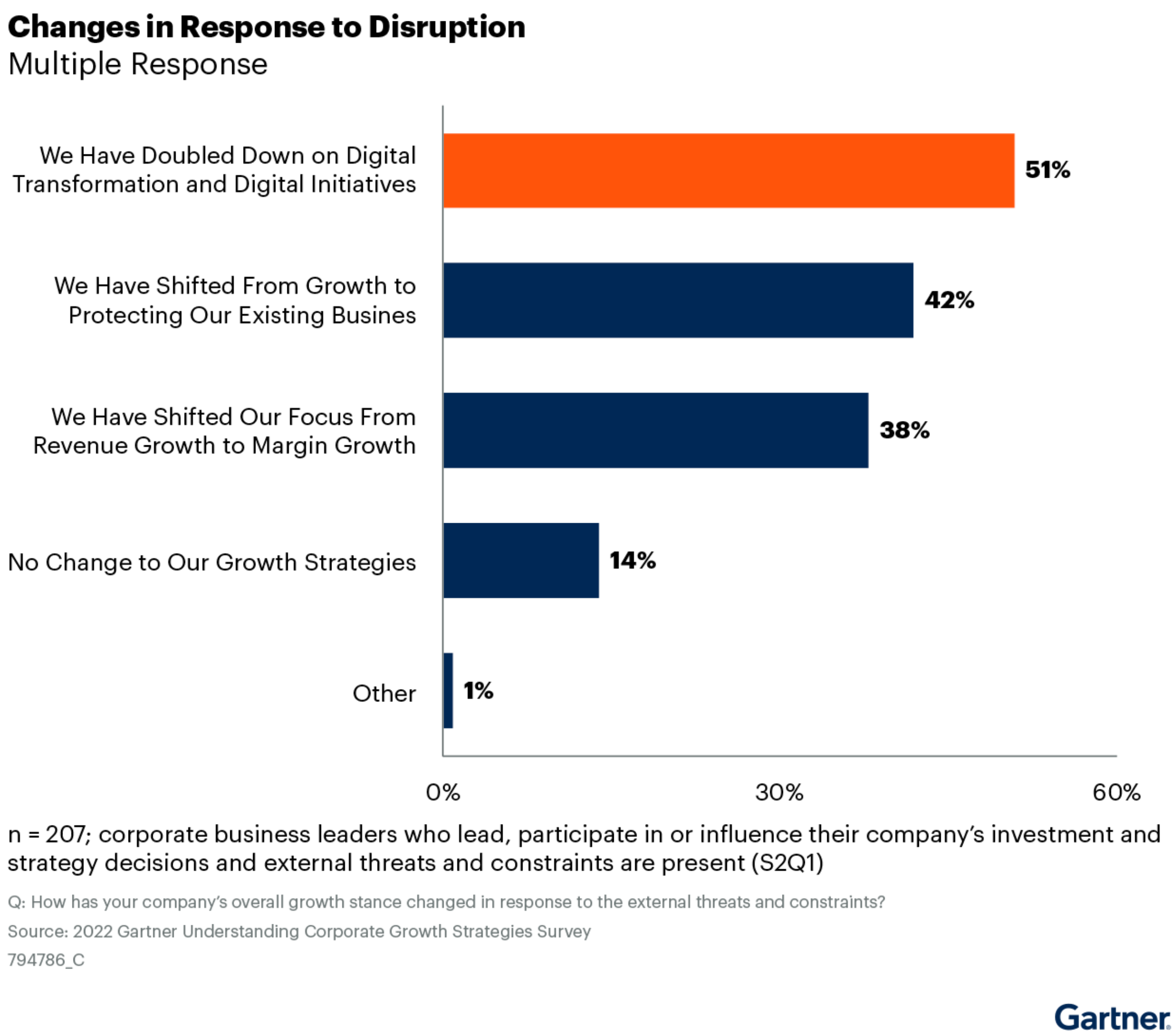
High-growth companies are more likely to redirect rather than reduce their ambition in response to disruptions. The survey asked about the disruptions that most concern respondents. Recession headed the list for low-growth companies with 43% placing it in their top three fears. Recession came third for high-growth companies, cited by 34%. In general, long-term challenges such as sustainability worry high-growth companies as much or more than immediate challenges.

High-growth companies can afford to look further ahead because they adjust to near-term challenges. [2] The survey asked, “How has your company’s overall growth stance changed in response to external threats and constraints?” (see Figure 1):

- By 10 percentage points, high-growth respondents said their enterprise focused more on digital transformation, compared with low-growth peers.
- By 12 points, high-growth companies shifted from growth to protecting their existing businesses versus low-growth companies.
- Twice as many low-growth respondents said their enterprise didn’t change their growth strategy at all.

But these results, particularly the one on digital transformation, still understate the difference between high- and low-growth companies, as we’ll see in “High-Growth Companies Pursue a Digital-First Strategy” section.

Figure 1: Changes in Response to Disruption



Recommendations

- Organize capabilities to monitor and assess market externalities to quickly and effectively identify what's new and different that could affect your business and market.
- Align your unit's plans with the enterprise's strategy by asking the CEO to share their thoughts about the downturn or recession and what comes after it. Focusing too much on cost control can be dangerous.
- Prepare for changes in strategic direction by developing an agile capital allocation strategy. For example, review investment priorities quarterly, and overweight funding on digitally enabled initiatives by phase. When predefined targets are hit in one phase, automatically release (and potentially increase) money for the next phase. If targets aren't hit, close the initiative and reallocate money to other initiatives.

High-Growth Companies Pursue a Digital-First Strategy

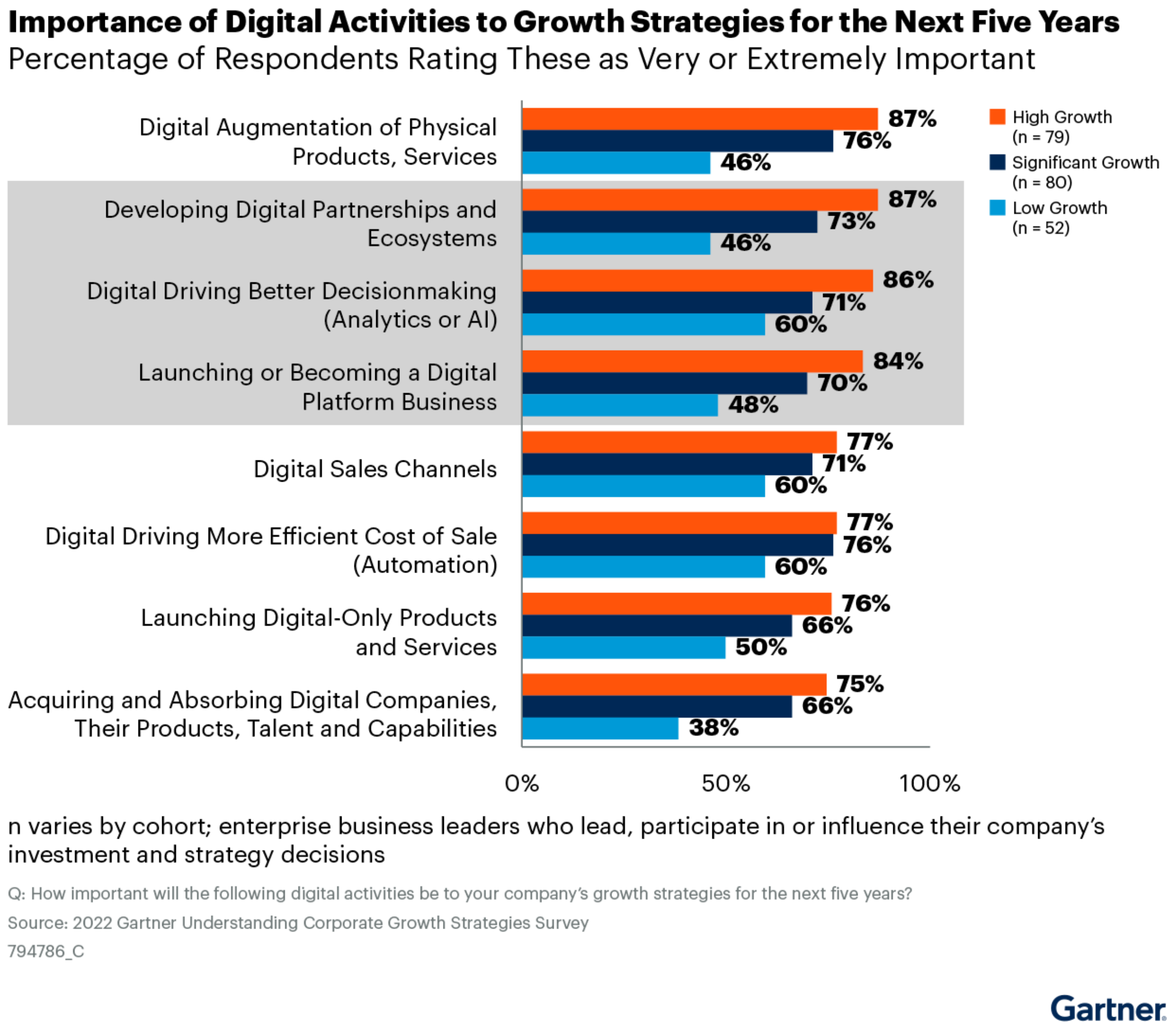
As noted in "High-Growth Companies Change Dynamically in Response to Disruption" section, most high-growth companies have redoubled their efforts around digital transformation. Digital is their business strategy. In practice, that commitment means that the vast majority of high-growth companies undertake many different kinds of digital initiatives (see Figure 2). The survey asked about eight digital initiatives, and at least three-quarters of high-growth respondents pursue each. In other words, **high-growth companies don't just focus on one or a few kinds of digital initiatives; they try many different kinds,** thereby increasing their chances of finding effective paths to business outcomes at any given moment.

Just as striking, the number of high-growth companies engaged in all eight digital initiatives exceeds the number of low-growth companies by double-digit percentages. Often there's a yawning gap — 40 percentage points in the case of digital augmentation of products and digital partnerships and ecosystems. High-growth companies are also far more likely to launch a platform business and to make acquisitions for technology and talent. High-growth companies even lead substantially in using digital for conventional purposes such as:

- Improving decision making
- Selling through digital channels
- Reducing the cost of sales

Thus, high-growth companies are much more active in digitalization than low-growth companies, and they use digital technology in more innovative ways to gain a competitive business advantage.

Figure 2: Prevalence of Various Digital Initiatives



Recommendations

- Determine whether the enterprise should undertake more aggressive digital initiatives by asking for a comprehensive review of the digital strategy at the next meeting of the senior leadership team. In particular, review the ratio of funds allocated to fear, fact and faith-based investments, and the correlation to IT budgets (e.g., run, grow and transform allocations).

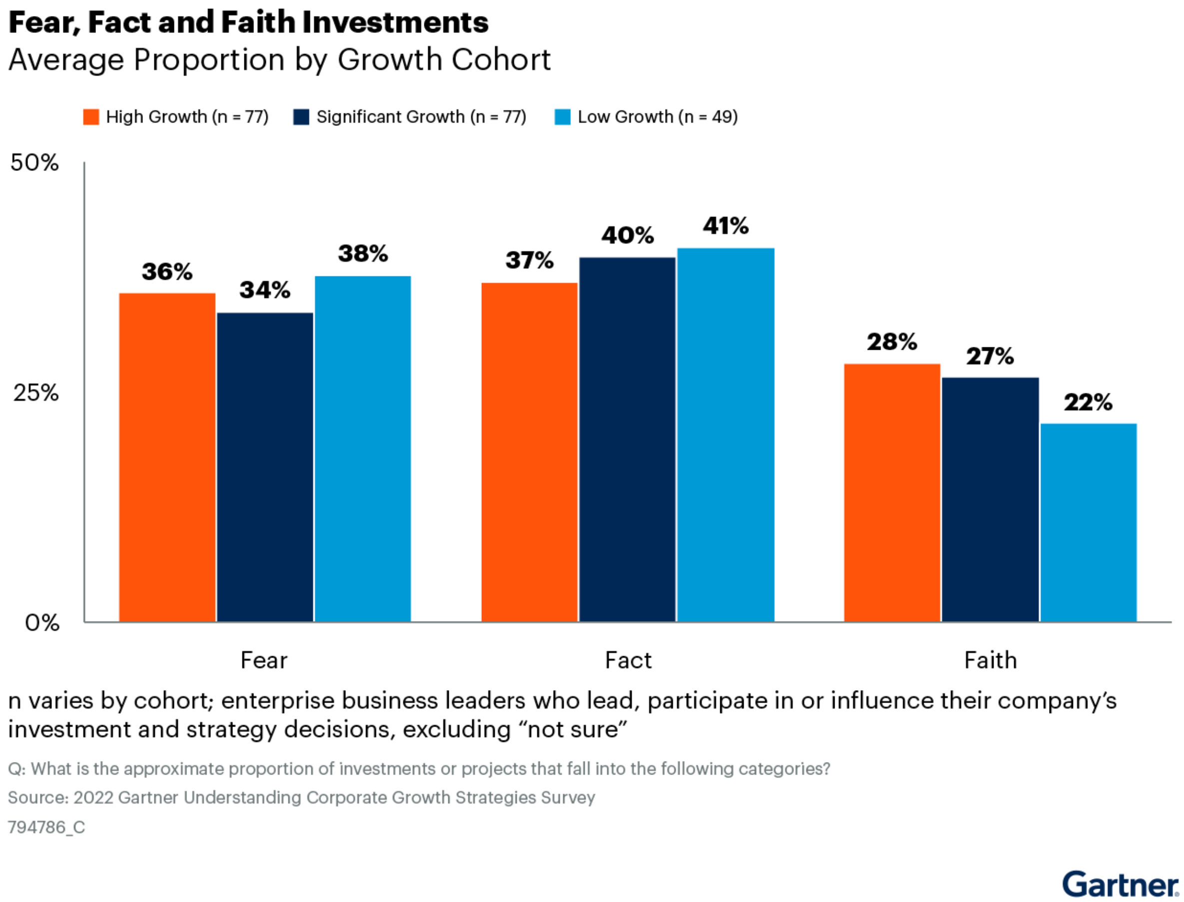
- Maximize business performance by mapping digital projects to the enterprise strategy. Pay attention to the differences between digital and nondigital initiatives and determine whether the enterprise is investing where it will make the biggest difference to business outcomes.

High-Growth Companies Invest More in Experimental Initiatives

High-growth companies spread their bets without spreading themselves thin. Where low-growth companies more often restrict their focus to tried-and-true business strategies, high-growth companies also test a lot of possibilities, looking for the next breakthrough. When one of these experiments rolls out, companies can invest to scale it.

High-growth companies spend more money on experimentation or what we call “faith” investments (see Figure 3). With faith investments, the business case is not yet clear. This is in contrast to “fact” investments, which are based on business cases with solid ROI, and “fear” investments, which are necessary to remain viable, including regulatory compliance, security and risk mitigation, and innovations needed to keep up with competitors. On average, high-growth companies free up six percentage points of their capital more for faith investments than low-growth companies do (28% versus 22%). Executives from low-growth companies should note that shifting emphasis and investment approach on a small number of projects can potentially have a big impact. Closing this gap is not necessarily insurmountable. However, a more experimental, faith-based approach requires a higher risk tolerance, business agility and mature innovation processes to maximize the chances of executing successful investments.

Figure 3: Fear, Fact and Faith Investments



Recommendations

- Determine the potential for expanding faith investments by reviewing the enterprise's risk tolerance. Many boards of directors have increased their risk appetite in response to disruption. [3]
- Find more money for faith investments by identifying the lowest-priority fear and faith investments and slowing or ending those projects.

Enterprise Technology Priorities Suggest a Two-Tier Investment Strategy to Spur Growth

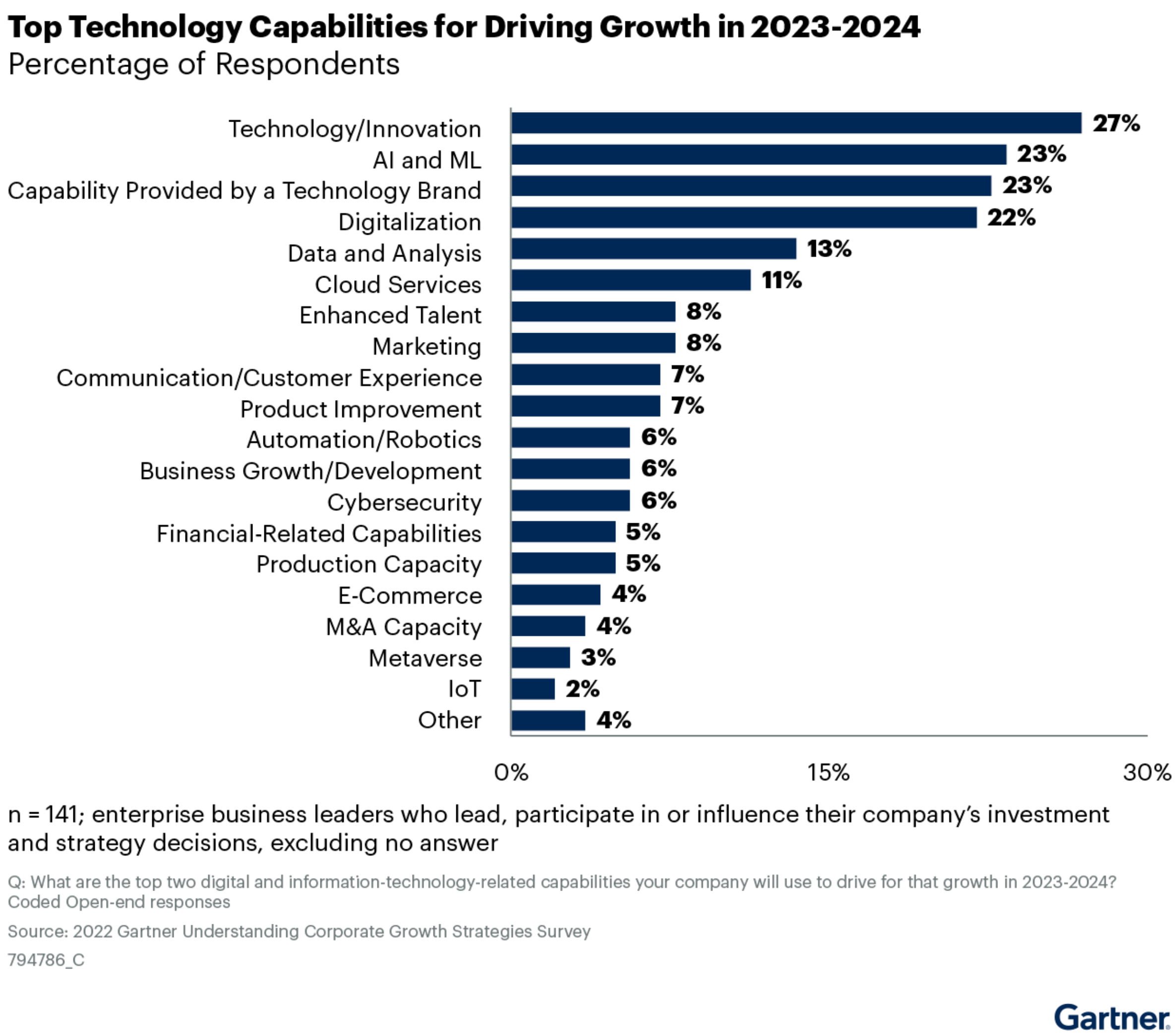
So what technologies and capabilities should executive leaders advise their CEO and executive committee to invest in to drive growth? The survey asked, "What are the top two digital and information-technology-related capabilities your company will use to drive for that growth in 2023-2024?" Respondents entered their answers free text, which we distilled into the categories in Figure 4.

Enterprises should set a two-prong investment strategy:

- Invest about 80% of the digitalization budget in the top five results (innovation, artificial intelligence [AI], partnering with technology providers to deliver digital capabilities, digitalization, and data and analytics). These areas represent the basics of digitalization on top of which enterprises can build systems to differentiate the business.
- Invest about 20% of the budget in technology capabilities lower down the list. These capabilities can reinforce the basic technologies in particular functional areas (such as finance, e-commerce and digital marketing) or differentiate the business with leading-edge projects (for instance, enhanced talent and the Internet of Things).

The level of investment and capability mix will vary by industry. For example, automation and robotics will interest manufacturers more than banks while cybersecurity will be more critical for the latter.

Figure 4: Top Technology Capabilities for Driving Growth in 2023-2024



Recommendations

- Maximize the business impact of technology investments by targeting 80% of them over the next three years on the 20% of the customer base that generates most of the returns. Document case studies and ensure a dynamic feedback loop exists for investment learnings. Adjust as appropriate.

- Review the initiatives you are engaged in to ensure they have sufficient focus on differentiating capabilities such as AI/machine learning (ML), digitalization, data and analytics, etc. Consider increasing investments as appropriate and ensure adequate promotion of the outcomes.

Evidence

2022 Gartner Understanding Corporate Growth Strategies Survey: This survey was conducted online from 8 September through 17 October 2022 to understand how enterprises approach growth today. In total, 211 business leaders who lead, participate in or influence their company's investment and strategy decisions and have good personal knowledge or can estimate their company's financial performance (e.g., gross profit margin, revenue and net profits) participated. Respondents from North America (n = 68), Europe (n = 80) and East/Southeast Asia (n = 63) responded to the survey. Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

[1] 2023 CEO Survey — The Pause and Pivot Year.

[2] Finally, Evidence That Managing for the Long Term Pays Off, Harvard Business Publishing (Harvard Business Review).

[3] 2023 Board of Directors Survey: Business Strategy in an Uncertain World.

Recommended by the Author

Some documents may not be available as part of your current Gartner subscription.

2023 Growth Agenda: High-Growth Companies Use 3 Catalysts to Drive Performance

2023 Growth Agenda: Sustainability Is an Opportunity for Business Growth

What CFOs Can Learn From Efficient Growth Companies

2023 Growth Agenda: A China Perspective

Fuel Growth During Economic Headwinds by Innovating Disruptively

M&A Remains a Growth Engine for Most Enterprises
