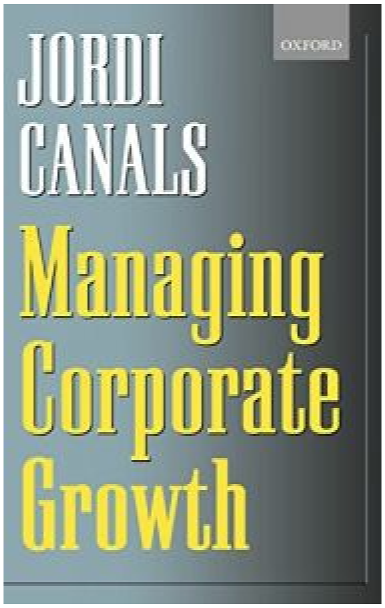

Book Managing Corporate Growth

Jordi Canals
Oxford UP, 2000

Recommendation

While most scholarly studies of business (or any other subject) can be dry and impenetrable, that is not the case with this one. Jordi Canals writes clearly and eloquently about the ups and downs of corporate growth, and includes plenty of case studies that focus on companies around the world. Citing dozens and dozens of studies (listed as references at the end of the book) throughout the text, this economics scholar never descends into the deep, dark pit of deliberately unreadable prose. The author writes that this book is for MBA students, professional managers, and entrepreneurs; *BooksInShort.com* agrees, and notes that others in business, finance and the media will also enjoy it and benefit from its insights.

Take-Aways

- Corporate growth affects companies, economies, and nations.
- Creating companies that innovate, produce value and generate new jobs contributes to a nation’s health.
- An integrative model can explain corporate growth, which is based on many factors and variables.
- Growth is about balance.
- Low growth can lead to stagnation, or it can lead to success.
- Rapid growth can doom a company or make it fly.
- Strategy is essential when dealing with growth.
- Growth is always subjective: good for some companies, disastrous for others.
- Strategic harmony is essential for healthy corporate growth.
- All growth is dependent upon both internal and external factors.

Summary

Growth Forces

Corporate growth is a complex issue for individual companies and for entire industries, economies and nations. Growing firms that innovate and create value and new jobs contribute to a nation's health. Massive lay-offs in the U.S. and other Western countries have led to the current need for growth. While corporate efficiency - one of the goals behind the lay-offs - is necessary, it is not a sufficient condition for corporate survival. Companies must think about their future evolution and growth, which should ideally occur neither too quickly nor too slowly. You can understand corporate growth and processes by looking at three basic questions:

- What factors influence corporate growth and how do they interact?
- How are growth decisions made?
- What are the limits and sustainability of corporate growth - Why do companies in some industries grow more quickly than others, over relatively long periods of time, and why are some companies unable to continue their growth?

> "Corporate growth can be a lethal medicine. Unhealthy corporate growth - from a financial viewpoint - is tremendously harmful."

Most studies of corporate growth have been incomplete and have not addressed these questions. When you study the decision-making process that companies go through regarding growth, you can see how and why some thrive, some grow recklessly and some fail. But to really understand corporate growth, look at it from the perspective of strategy - a field of study that has sadly neglected this issue.

Corporate Growth Strategy

New forms of competition have led to the stagnation of some historic corporate giants, including General Motors, Sears, and Digital in the U.S., and Thomson, Olivetti, and Credit Lyonnais in Europe. Each of these stagnating firms led its industry in innovation, profit, or growth for a time in the last few decades. While some of the stagnating companies successfully fixed their problems and are recovering, others have either disappeared by being taken over or are now fighting what may be their last battle.

> "The current competitive position of a European automobile manufacturer like Volkswagen has been affected by the industry's history - in which the actions made by Japanese companies have been decisive - and by the learning process from Japanese practices."

These companies share a common ailment: Their competitive advantages have eroded, leading to a lack of growth. These big companies are either no longer growing, or are growing the wrong way - not through innovation, but through price-cutting wars, which can lead to decreased profitability and the destruction of wealth. Growth is a separate issue from market share or size. The measurement for growth isn't a short-term increase in revenues or in sheer size, but an increase in the company's value over the long term. This is achieved through innovation and development of sustainable competitive advantages. Growth is not the same thing as going after a bigger scale or a larger market share, although these may be necessary for growth in some cases. While corporate growth is necessary for corporate survival in many companies, growth is actually a subjective goal: it is good for some companies and disastrous for others.

> "L'Oreal's success in new product development lies in the strong relationship between the research and marketing departments. In this respect, product development is a two-way street, with new initiatives coming from both ends."

Determinants of corporate growth include attracting talent and investors, maintaining sufficient control over the threats of substitution and imitation that face all companies, and overcoming the mature-industry mindset.

Carefully evaluating growth decisions will help you avoid reckless corporate expansion. Many recent studies on corporate growth focus on efficient ways of growing, because companies follow different growth paths. When you look at different types of growth strategies, don't generalize that certain paths are better than others. One growth path may be ideal for one company and disastrous for another, even within the same industry.

> "Wal-Mart's business system as a whole is more valuable than each of the activities considered individually. And the more integrated the system is, the more difficult it will be to replace it."

All growth depends upon internal and external factors, resources and capabilities, business concepts, and strategic investment decisions. The most prominent common areas of study about corporate growth are:

- The microeconomic approach - viewing growth as nothing more than the result of the company's adjustment to a supposed optimal size.
- The resource-based theory - stating that resource accumulation over time explains a company's growth.
- The evolutionary view - seeing growth as the result of the interaction of a company's routines and knowledge, with the consequence that growth is limited simply by the intrinsic resistance to change that builds within a company when its routines have been effective for a long time.
- The corporate-strategy approach - focusing on the interaction between organizational capability and entrepreneurial judgement.

Strategic Harmony

The concept of strategic harmony includes a paradox: the greater the internal strategic harmony among a certain set of company's activities, the stronger its short and medium-term competitive advantage. But if the company is unable to consider other options and change when necessary, strategic harmony may become an obstacle to adaptation when a competitor appears with a new business concept. Strategic harmony can't obviate the need to change and adapt, since only change and adaptation can guarantee a company's long-term survival. But, without short-term strategic harmony, long-term survival will be difficult and growth will suffer. Strategic harmony must be present in three key areas for a company to prosper: between strategy and its content, between activities and their strategy, and between strategic planning and the overall organization.

> "With some exceptions, corporate growth has not occupied an explicitly prominent position in the field of management."

An absence of strategic harmony can create internal or external factors that lead to a company's stagnation or decline. Internal factors include disharmony within the firm, with the firm's strategy or with its external context. This can manifest as resistance to change and adaptation of people, organizational structures and policies, even when the industry involved faces new realities.

> "Innovation can be considered as an outcome of the formal structure, systems and values of the firm. Innovation embodies an attitude that drives the organization's action and people's activities."

External factors can include disharmony between outside forces (i.e., suppliers, shippers, and customers) and the firm's strategy and activities. This hampers corporate growth, and may also impede the company's adaptation to new realities affecting current or prospective customers. Included in this category are competitors who imitate products or offer market substitutes attracting customers toward a new product or service concept that is different from those traditionally offered in the industry.

> "The external changes that have taken place in the 1980s and 1990s in industries such as utilities, banking and telecommunications have been mostly caused by deregulation, globalization and the introduction of information technologies."

This is the logical outcome of innovation and technological change: A product starts to decline and eventually disappears because another emerges with better functionality and a lower cost for the customer.

Internal and external limits to growth are interrelated in a continuous interplay. The internal context, including the company's resources, capabilities and business concept, can be seen as one corporate wing. The external context in which the company carries out its activities is the other wing. Put the two wings together and they help corporate growth fly or stop.

Strategic Harmony in Practice: Wal-Mart

Wal-Mart, which has been one of the United States' fastest growing companies since 1980, was founded in Arkansas in 1969. By the end of 1997, Wal-Mart had some 1,500 stores in the U.S., Latin America, and Asia. While the company enjoyed spectacular growth, its main competitors - including Sears and Kmart - faced mediocre growth and stagnation. It is always easier to understand what led to a company's success after the fact than to predict it in advance, but even with hindsight, understanding Wal-Mart's success is a complex matter. Many factors are involved and even experts find it difficult to estimate each one's precise contribution to Wal-Mart's evolution. Some factors that may have been important for a number of years later lost importance and were replaced by a new combination of factors.

> “Although the development of a strategic vision is necessary and indispensable, it is not sufficient. The corporate world does not move just on ideas; these ideas must be followed by actions.”

However, focusing on the elements of Wal-Mart’s success can show you its methodology. The first factor is its corporate philosophy, which the public knows because of its two famous mottoes. Its employee motto, "We care about people," and its customer motto, "We sell for less," have guided the company’s actions since its inception.

> “In a world of perfect rationality, managers study some of the opportunities existing in their environment, assess each one in accordance with certain preset criteria, and make a decision.”

These mottoes have been the driving force behind the company, which has consistently followed them, unlike other companies that take their slogans far less literally. These principles have governed Wal-Mart’s business strategy. It has adopted innovative approaches to managing people, including profit sharing, which motivates store management. Its participatory corporate culture encourages employees to implement improvements on a continuing basis. The company has a high level of decentralization in decisions about product categories to be retained or replaced, inventory management and purchasing.

> “It is obvious that a business concept like Wal-Mart’s, that shows strategic harmony, is more sustainable.”

The essence of Wal-Mart’s customer strategy hinges upon its ability to offer products at the lowest prices available, consistently, in each store’s geographical area, and on its wide product mass, which is far more varied than that of any other discount store in the U.S. While other discount stores stock an average of 30,000 items, Wal-Mart stores may stock twice as many. Wal-Mart’s policies have translated into higher profitability. Its extraordinarily high operational efficiency and its high volume, which enables lower profit margins to be offset by higher product turnover, have sustained its low price policy. These two factors are the most critical in the quest to identify reasons for Wal-Mart’s success. Its efficient cost structure (lower than the industry average) is based on these factors:

- Inventories are held in large warehouses instead of stores, giving life to the philosophy that stores are for selling, not for inventories. This improves space management. The communication system among stores, warehouses, and suppliers enables the company to get products to the shelves quickly, keep inventories to a minimum and identify best-selling products.
- Stores are located in areas where land and rent are cheaper than in major urban centers.
- Wal-Mart’s marketing costs are lower than their competitors’ costs. The "We sell for less" policy saves the company from having to run on-going ad campaigns or special promotions, marketing activities that are very expensive for its competitors.

With its lower prices and wider product range, Wal-Mart draws more customers than the competition. This customer flow is the result of the combination of Wal-Mart’s marketing policies and its well-considered business strategy. Also, Wal-Mart’s initial store locations - in small and medium-sized towns - gave it local monopolies, since some of the towns’ populations are so small there is no room for another discount retailer.

Wal-Mart’s entire business concept has been based on offering something entirely different from its major competitors’ offerings. Look at this comparison with Kmart to see how the companies differ in their approach. Wal-Mart is in smaller towns; Kmart is in large cities. Wal-Mart offers low prices all the time; Kmart offers regular promotions. Wal-Mart controls its own space and buys cheap real estate. Kmart rents in expensive locations. Wal-Mart decentralizes logistics and purchasing, while Kmart centralizes both. Wal-Mart’s policies attract customer attention, win the support of employees, and have allowed it to overtake the discount retail industry’s historic leader.

About the Author

Jordi Canals is associate dean and professor of economics and general management at the International Graduate School of Management at the University of Navarra, in Barcelona.