

The Third Opinion

Gambling On Breakthrough Growth

Saj-Nicole Joni, 02.09.06, 1:00 PM ET



There's been a shift in expectations for leaders.

The message behind CEO shakeups, proxy battles (Icahn and **Time Warner** (nyse: [TWX](#) - [news](#) - [people](#)), for one) and the breakup of conglomerates such as **Cendant** (nyse: [CD](#) - [news](#) - [people](#)) is loud and clear. Markets, investors and boards are looking for top management to deliver growth that drives performance and increases long-term competitive advantage.

At this year's World Economic Forum, the topics of innovation, creativity and sustainability led the agenda, while issues of cost cutting, outsourcing and global supply chains took a back seat. The tricky question of how to create breakthrough growth always seems to lead the agenda, but the toughest parts are rarely talked about. The truth is, leading breakthrough growth is a subtle, high-risk balancing act.

The first challenge is coping with contradiction. The focus of growth is to create "more"--value, revenue, margin, market share. Paradoxically, companies cannot maximize their full potential of breakthrough growth without decisively forcing loss.

Take **General Electric** (nyse: [GE](#) - [news](#) - [people](#)), long known for driving growth by focusing on acquisitions in markets it could dominate. To drive new, sustained, organic growth, GE has given up its long-held axiom of "be first or second, or exit" and is fundamentally shifting its thinking.

Earl Jones, the director of Water Scarcity Solutions for GE Infrastructure, puts it this way, "For a company the size of GE, a cornerstone of driving organic growth is that we have to be in high-growth markets, even if we're not the dominant market share leader. Over the past four years, our leadership team has reworked our portfolio, expanding into exciting high-growth markets, such as Predictive Healthcare, Spanish Language Television, Water and Security, while selectively exiting slower-growing markets."

Sometimes the drive for growth means taking a step back. **Bank of America** (nyse: [BAC](#) - [news](#) - [people](#)) significantly expanded its investment banking business over the last five years, but now appears to be shying away from the associated volatility and capital requirements. Instead, it's putting resources behind a different kind of growth. The bank reorganized in mid-2005, and while the overall investment banking market is up, Bank of America's investment bank has already seen a decline in its year-over-year revenue and margins.

While driving loss is often done quietly, top leaders responsible for breakthrough growth must, in the privacy of their inner circles, reflect long and hard, making tough choices about necessary losses as part of the equation. They cannot afford to be surprised by the growth-loss equation, but must learn to embrace it.

Insight and Stamina

The hardest work often takes place before you see any growth at all: leading breakthroughs requires a combination of great instincts and sheer guts. Flexibility and rapid experimentation cycles require the ability to try new things and to stop them quickly, admitting mistakes, when they no longer make sense.

Top management is responsible for making the tough calls on how long to incubate something without pouring resources down an unproductive rat-hole. Before the tender shoots of new growth break through to the surface, how do you know how long to hang in, and when to cut your losses and exit? It takes guts to stick to something when it isn't yet showing results and instinct to know when something is dead before arrival.

For **Jerry Fishman**, CEO of **Analog Devices** (nyse: [ADI](#) - [news](#) - [people](#)), breakthrough growth hinges on the ability to distinguish core technologies from fads, making long-term investments only in what's core. It also depends on being able to quickly convert core technologies to market-leading products when the trends hit. "We rarely focus our predictions on the short term," Fishman says. "We have built a robust business model with a broad customer base and products with long life cycles, both of which are unique in our industry. We use these assets to fuel our portfolios of investments. This is hard work and takes years before we see the results. It takes a special kind of leadership, combining insight into leading-edge technologies, with customer needs and sometimes, nerves of steel."

Howard Lance, CEO of **Harris** (nyse: [HRS](#) - [news](#) - [people](#)), believes the key to growing faster than the markets is to bring together technology with deep and intimate knowledge of the missions and problems of his customers. "There is no one silver bullet and our trajectory of growth requires that we put the hard customer work in up front, long before we see the results. We also know there are necessary losses: replacing certain people with new talent and leadership that offer new competencies may be what it takes to get to the next level of growth."

GE is applying its competency in process improvement to drive organic growth, focusing on what GE believes are the three core growth processes: Inquiry-to-Order, Order-to-Remittance and New Product Introduction. "We believe that growth is a process," says Jones. "We are investing significantly in Lean 6 Sigma to continuously improve our core growth processes. This is a comprehensive and global initiative which we are leading with focus and passion, for we believe it is critical to sustained organic growth."

This is a gutsy move, requiring leadership with finely honed instinct about the lines between the art and science of relationship.

Move Forward, Only Glance Back

Leadership of breakthrough growth requires a sophisticated point of view on what is core while having the flexibility and will to shed everything else. Chris Trimble, co-author of *10 Rules for Strategic Innovators – from Idea to Execution* (2005 HBS Press), pinpoints this capacity as one of the great tensions of breakthrough growth within an existing company. "You have to be able to both 'borrow' the assets that give you a leg up in building a new business and simultaneously you have to 'forget' most of the ways the existing businesses operate, if you want to get a breakthrough result. You start with forgetting, and you borrow as little as possible. The litmus test for borrowing is getting access to capabilities your competitors would kill to have. As to the rest, build it new."

This process applies to big and small companies alike. **Yuchun Lee**, CEO of **Unica** (nasdaq: [UNCA](#) - [news](#) - [people](#)), a Summit Partners portfolio company, says breakthrough results are a key driver of his leadership. "I focus by looking for where the bottlenecks are and getting them fixed. This changes over time. We lead our market because we anticipate this and are able to move faster than anyone else."

It's A Portfolio Play

Breakthrough growth goes hand-in-hand with new levels of technical edge. Far too many new technologies have failed to translate into high growth and margins. Sustaining breakthrough growth requires the ability to innovate both with and without technical edge, creating an integrated entity that can execute on bringing value to the market.

You can take market share without technical edge, but it's easier if you have it. As you review your portfolio for breakthrough growth, make sure the portfolio is weighted toward technical edge.

Uncertainty, Discernment And Stress

When the stories of breakthrough growth are told from hindsight, there is a logic and brilliance to the winning moves. Unfortunately, that is rarely the whole story, and even less the experience of its leaders. Before the win is secured, leadership must face the great uncertainties (loss as well as gain), discern what's core in high-stakes games and have the willingness to drive a portfolio of options versus going for the one big win. It's a lot of heavy lifting and sleepless nights. While victory is sweet, it's not for everyone.

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