Do You Have the Disciplines to Grow?

HOW GROWTH COMPANIES DO IT. BY ROBERT P. GANDOSSY AND MICHAEL TREACY

All companies are capable of achieving double-digit growth. Economic conditions are an important but relatively small factor. Competition matters, but it can be outfought and outflanked. Customers are demanding and fickle, yet they can be retained through superior value creation. The key ingredient is instilling the discipline for sustained and profitable growth.

Five years ago, we began studying the differences between steady, fast-growth companies and also-rans. We discovered many firms that managed to grow consistently, even in the worst of times. Each had built a portfolio of growth initiative. But creating the right strategies is not enough. Companies that reach double-digit growth year after year—such as UPS, Capital One, Wal-Mart, Dell, First Data and Cardinal Health—excel at four common disciplines centered around people and organization.

The first discipline involves performance standards. Leaders at these companies simply have a higher standard, and it permeates the environment. You can feel it when you walk into the lobby of a high-growth company: There is much more intensity and managers and employees always feel stretched, pushing themselves to do more. Leaders fully understand the cost of mediocrity and have less tolerance for it. Annual incentive plans for the CEOs of these companies pay out, on average, 82 percent of their targets. Slow-growth companies pay out, on average—if you can believe it—108 percent. In other words, high-growth companies set the bar higher and slightly miss their targets.

For Charlie Fote, CEO of First Data, the $8.4 billion financial transaction processing company, one of the keys to driving growth has always been setting goals that are closer to 20 percent rather than 10 percent. "If you aspire to 20 and you get 17," he told us, "you're still way ahead of 10." After awhile, this "stretch" standard becomes the norm.

The second discipline is having leaders who model the behavior they want to see in others. We're always amazed at the

number of frustrated executives who complain that their people don't seem to know what matters. The fact is, they do. They pay attention to what gets attention. If you don't pay attention to details, customers or your own talent, neither will anyone else. Fote, for example, convenes a 6 a.m. conference call every morning with his direct reports.

The third discipline is focus. Leaders at the top growth companies are ruthlessly focused; they are clear and unwavering in their priorities. Over its first decade, Capital One, the brash $9.8 billion credit card issuer, averaged nearly 30 percent annual earnings growth. Cofounder and Chairman Richard Fairbank believed success depended on mass customization, and that mining customer data would enable him to tailor product and price perfectly. Capital One probably conducts more experiments than any other company in the industry—over 60,000 last year alone. "While we have lots of irons in the fire," Peter Schnall, the company's chief credit officer, says, "real growth comes from the small number of focused initiatives where we really place our bets."

This focus shows up in management's strategic priorities, such as where investments are made and which functions they choose to perform in-house and which ones they outsource. High-growth companies have a clearer understanding of their core capabilities and are much more likely to outsource noncore activities.

The final discipline centers around talent. The best growth companies are maniacal about recruiting and training great talent. Capital One runs all job applicants through a battery of cognitive and behavioral tests. General Electric hires several thousand new college graduates every year. Companies like these also are constantly assessing their talent to see who is progressing and who is failing to meet expectations.

Growing companies thrive and prosper; shrinking companies disappear. All have the capacity to grow, but not all have the will. ▲

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