Leading the Way to Double-Digit Growth

Robert P. Gandossy and Shelli Greenslade

In 2002, First Data Corporation handled 12.2 billion merchant transactions in North America alone. And through its flagship subsidiary, Western Union, it processed another 200 million transactions. Its card issuing business has almost 400 million accounts on file. Most people have never heard of First Data, but since it was spun off from American Express in 1992 the company has achieved an impressive growth record. In its first decade of existence, First Data ran up a 500 percent increase in revenues and multiplied its net income sevenfold.

Wal-Mart is the largest retail store in the world and is ranked number one in the Fortune 500 and number four in the Financial Times Global 500 list. Despite a slowing economy, Wal-Mart’s sales last year increased by $26.7 billion, or 12.3 percent, to $244.5 billion—about 2 percent of the U.S. gross domestic product. To gain market share in the United States, Wal-Mart plans to open 210 supercenters that combine groceries and general merchandise, 55 new discount stores, 25 Neighborhood Markets, 45 Sam’s Clubs, and 130 stores in its existing international markets. The company acquires $1 billion worth of U.S. real estate every week. Wal-Mart sales grew at a compound annual growth rate of 15.7 percent over the past five years.

Capital One was founded in 1988 but didn’t really start growing until 1992. From 1992 to 1996, its customer base grew fivefold and receivable card balances increased from $1.7 billion to $12.8 billion. Since Capital One went public, its revenues have grown at a staggering rate—nearly 50 percent compounded—earnings have grown at more than a 20 percent rate, and return on equity has remained about 20 percent—a performance unmatched by any company in the S&P 500.

What distinguishes these companies from the rest? How are they able to sustain double-digit growth while others fail? There is no simple answer—no silver bullet that will turn a slow-growing company into a fast-growing one, but high-growth companies share several characteristics that together set the stage for double-digit growth.

Any company is capable of double-digit growth. The economy is important, but—it turns out—is a relatively small factor in the growth potential of a company. Competition matters, too, but it can be outfought and outflanked. Customers are demanding and can shift loyalties, but can be retained with superior value creation. All companies are capable of sustained profitable growth, but many lack the discipline to achieve it. And that discipline begins with leaders: the things leaders do, where they focus, and the standards they set lay a foundation for growth that permeates the enterprise.

Over the last several years, we have been partnering with Michael
Treacy, author of *Double-Digit Growth: How Great Companies Achieve It—No Matter What*, to better understand the managerial and organizational characteristics of steady, fast-growth businesses and what distinguishes them from also-rans. During the same period, our firm (Hewitt Associates) has conducted research to identify organizations that consistently produce great leaders. This research culminated in the book *Leading the Way: Three Truths from the Top Companies for Leaders*. In our research on leadership and high-potentials, we surveyed leading companies on their high-potential development and compensation practices, and we interviewed well over 100 senior executives, human resources leaders, and high-potential employees in some of the world’s greatest companies to learn what separates the best companies, the best leaders, and the best programs from others. The current research examines the relationship between leadership and sustainable double-digit growth. We used Treacy’s definition of growth to determine which companies qualify as double-digit growth companies versus single-digit growth companies. We split our sample into three groups: Top 20 Double-Digit Growth Companies, Other Double-Digit Growth Companies (not on the Top 20 list), and Single-Digit Companies.

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What we found reinforced our existing convictions regarding the role of leadership in fast-growth organizations. Great leaders are at the foundation of double-digit growth companies and these leaders are doing things differently. They get it. And they have the financial results to prove it, year after year. So what specifically is it that they do, which seemingly eludes slow-growth companies?

**Leading for Fast Growth**

Leaders in high-growth companies have five distinguishing characteristics.

*Foster an “I can beat that” culture.* Leaders at double-digit growth 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 and push themselves to do more. Leaders in high-growth companies use a number of galvanizing mechanisms that foster a collective will, a single-minded determination, an emotional energy, and a unified way of thinking.

Leaders in double-digit growth companies like Microsoft’s Bill Gates, for example, consider themselves at war with their competitors. And they make no bones about it. The late Robert Goizueta of Coca-Cola proclaimed, “If you don’t have an enemy, find one.” The effectiveness of this tactic comes as no surprise to cultural anthropologists, who have long studied how people react when faced with a serious outside threat. They bond together and develop a powerful resolve, a focused determination to overcome obstacles and get things done.

Double-digit growth leaders galvanize employees by having higher standards and more aspirational goals as well. For Charlie Fote, CEO of First Data, this has always been one of the keys to driving profitable growth. He says he always
sets growth objectives “closer to 20 than 10. If you aspire to 20 and you get 17,” he told us, “you’re still way ahead of 10.” After a while, this stretch becomes the norm.

**Model the behavior that’s needed.** We’re always amazed at the number of frustrated executives who complain that 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, to customers, or to nurturing talent, neither will anyone else.

This often means being out in front of employees and customers, listening, observing, and honing a sixth sense, a feel for the business that allows these executives to move faster than their counterparts. Charlie Fote explains, “The level of detail I’m involved in, coupled with being out there, I’m able to see or smell things when they’re going sideways. You can walk through an operating unit and just know. It’s a lot more than just the numbers.” To stay in touch, Fote convenes a 6:00 A.M. conference call with all his direct reports. Every day. And he never misses. His second and last call of the day are to customers.

Take that strategy, multiply it by about 1,000 and you’ve got retail giant Wal-Mart. Every Monday, members of the senior executive team head out to Wal-Mart stores around the world, where they talk with managers, employees, and customers. To ensure that they get a complete picture, they also pay a few visits to competitors’ stores. On Thursday evening, they return to corporate headquarters in Bentonville, Arkansas, armed with new insights about the market and their people. There, they discuss what they’ve seen and heard, thus allowing the organization to modify its strategies. On Saturday, thousands of store managers participate in a videoconference and the senior team shares their observations and provides direction for the coming week. Come Monday, they’re on the road again.

Impressed by the concept, Jack Welch applied it at GE, where it became known as Quick Market Intelligence. Subsequently, Bob Nardelli brought it to Home Depot. The reason Sam Walton’s concept has proven so popular—and so successful—is because it’s not only a way to stay in touch with customers, competitors, and employees, it very tangibly and visibly demonstrates what matters. It’s not words or platitudes. It’s the CEO and the executive team actually modeling the behavior they expect of others.

This modeling behavior and being out there with customers, managers, and employees provides numerous opportunities to convey values and priorities. But it also allows executives to move faster—they have a feel for the organization and its needs that are not filtered by hierarchy, spreadsheets, and PowerPoint presentations.

**Combine ruthless focus with an opportunistic mindset.** Balancing this apparent contradiction of focus with opportunism sets apart companies that are able to sustain growth from slow-growth companies. Leaders at high-growth companies are relentless about growth. “Growth is life” was the mantra at Capital One during its hyper-growth stage in the 1990s. Its people were masters at taking the market segmentation business model in credit cards and replicating in new areas. But these leaders are also opportunistic. CEO Richard Fairbank said, “The minute you define your strategy, you limit it.” So leadership at Capital One pours enormous energy into its core business, relentlessly driving it,

**Discipline begins with leaders.**
multiplying by replicating its business model into new markets but—and this is the key—making investments in new, entrepreneurial initiatives. “We always have lots of irons in the fire,” says Peter Schnall, Capital One’s chief credit officer, “but growth comes from where we place our bets.”

Leaders at Capital One, like leaders at many high-growth companies, know that to grow disproportionately, you must react to changing market conditions faster than your competitors. And once you do move, says Schnall, “you must have the courage to put top talent in to run new businesses.” In recent years, Capital One has moved aggressively in other finance businesses such as auto lending and international consumer finance—and has put some of its top talent in place to run them.

Establish the conditions for initiative. To be a high-growth company requires innovation—putting new ideas into use. And doing that everywhere. It’s not just adding new products and services—it’s improvement everywhere, every day. Intrapreneurship, empowerment, high-involvement workplace—choose your terms. Leaders at high-growth companies create the conditions for employees to move, to make quick decisions to better serve customers.

One of the values at Capital One is to encourage employees “to do the right thing,” and “it is incumbent upon leadership to create the environment for employees to make ‘do the right thing’ choices,” according to one senior executive at the brash credit card company.

At UPS, Cal Darden, who manages all of the company’s U.S. domestic operations, has a goal of creating “367,000 small business units”—to have employees everywhere act “like entrepreneurs all of the time.”

The question is how. Leaders in high-growth companies employ a number of methods to ensure people know. Certainly some of what has been described—clear priorities, modeling the right behaviors—goes a long way toward institutionalizing the environment for others to make the right choices. Many high-growth companies also have a clear process for cascading priorities throughout the organization. At GE, for example, senior leaders establish strategic initiatives in the fall and early winter and share them at the company’s annual meeting held every January in Boca Raton for its top 600 executives. These priorities cascade throughout the $130 billion company and are an integral part of the dialogue around GE’s talent.

Whatever the method, employees at double-digit growth companies are more likely to have confidence in their own organization’s future business direction (28 percent more employees at double-digit growth companies hold this view than those at single-digit growth companies—see Table 1). Employees are simply more connected. They receive the information they need to do their job well and they understand the company’s goals and how they can contribute to those goals. They are proud to work for the company, proud of the products they make, and they express a high level of trust in their company’s leadership. They are more likely to feel that their company’s products and services provide value and benefit to customers and more likely to recommend the company’s products to potential customers.

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Focus manically on talent. Jim Collins, author of Good to Great, asserts that leaders of great companies first focus on getting the right people “on the bus” and then decide where to take it. Not surprisingly, leaders at double-digit growth companies are maniacal about bringing in talent and it begins with whom they hire. The pipeline is often overflowing—Southwest Airlines, for example, receives several hundred thousand unsolicited résumés per year—but the screening process carefully weeds out those who do not fit. Capital One runs all job applicants, at every level, through a battery of cognitive and behavioral tests before hiring decisions are made. GE brings in several thousand new college graduates every year—no matter what.

Every leader talks about the importance of talent, but these companies are maniacal about it. It is their life blood. And they have simple yet rigorous processes to ensure the best talent is mobilized against the most critical business opportunities. “The thing that is most talked about in business but least delivered upon is people excellence. Most companies are miles away from it,” says Rich Fairbank, CEO of Capital One.

It’s not enough to simply get the right people “on the bus”—they need to be developed so that they can someday “drive the bus.” As fast-growing organizations develop reputations for growing leaders, their talent pipeline grows ever stronger. “It all begins with who you let in the front door,” says one executive. “If you start with the wrong people, no amount of review, feedback, training, or coaching will make a difference.”

More than 70 percent of the Top 20 Companies for Leaders that are also double-digit growth companies and 50 percent of other double-digit growth companies have specific strategies in place for selecting, developing, and rewarding leaders. By contrast, just 38 percent of single-digit growth companies have such a strategy. What’s more, the top companies recognize that culture is a definite asset when it comes to developing leadership talent. More than half of the fast-growing companies we studied cited corporate culture as a factor that enables them to develop leader quality and bench

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**TABLE 1. EMPLOYEE ATTITUDES AT DOUBLE-DIGIT GROWTH COMPANIES COMPARED TO OTHER COMPANIES.**

<table>
<thead>
<tr>
<th>Survey Item</th>
<th>Percentage Lead:*</th>
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<tr>
<td>I feel confident this company is positioning itself well for future success.</td>
<td>28</td>
</tr>
<tr>
<td>I am confident this company is making appropriate changes to be successful in the future.</td>
<td>27</td>
</tr>
<tr>
<td>I have a clear understanding of what I can do to help the company become more successful.</td>
<td>18</td>
</tr>
<tr>
<td>I have a good understanding of the company’s goals.</td>
<td>17</td>
</tr>
<tr>
<td>I know what the company expects from me.</td>
<td>17</td>
</tr>
<tr>
<td>I trust senior leaders to appropriately balance employee interests with those of the company.</td>
<td>13</td>
</tr>
<tr>
<td>I have the information I need to do my job well.</td>
<td>12</td>
</tr>
<tr>
<td>I am proud to tell others I am part of this company.</td>
<td>10</td>
</tr>
<tr>
<td>Given the opportunity, I would recommend our products/services to customers.</td>
<td>6</td>
</tr>
<tr>
<td>I feel our products provide real value/benefits to our customers.</td>
<td>6</td>
</tr>
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* Percentage by which positive responses at double-digit growth companies exceed positive responses at other companies. For example, 28 percent more employees at double-digit growth companies responded positively to the first item than did those at non–double-digit growth companies.
strength. Approximately 20 percent named it as the key enabler. Interestingly, slow-growing companies don’t share that view. Among single-digit growth companies, culture was viewed as a barrier to developing leaders by more than a third of the companies, with 15 percent ranking it as the number one barrier.

This rigor continues beyond the hiring process, as double-digit growth companies have a formal approach to developing high-potentials. Emerging leaders are given a wealth of developmental opportunities in which internal training, on-the-job learning, and external coaching are emphasized over external development programs. This focus on leadership development beyond the corporate level is critical to results. The greater depth and breadth of such focus supports high-potential identification and development, facilitates integrated performance management and review processes, and allows greater movement of talent across business units and functions. Indeed, leaders and managers of double-digit growth companies are regularly promoted across business lines and geographies.

Better Results Come from Leadership

Double-digit growth companies do many things differently than slower-growth companies. They pay differently, extending variable pay—broad-based rewards—to more people, encouraging entrepreneurship. They outsource more, and in more areas, forcing a disciplined focus on core capabilities. They manage their frontline sales people more effectively. They rely on fewer, more focused performance measures. Their people are more engaged. They communicate more and more effectively. But it all begins with leadership.

Consistent double-digit growth doesn’t come about by accident. Nor does it come from exhortations from the CEO. It requires discipline, focus, and strong execution. Knowing where to place your bets is one of the success factors of double-digit growth companies. As we’ve demonstrated, our research ascertain that one critical “bet” is leadership development. Without a strong leadership infrastructure, organizations simply would not possess the ability to sustain long-term double-digit growth. Companies that make leadership a top priority consistently see better business results. They understand that great leadership is a foundation of double-digit growth, so they focus on combining culture, strategy, performance management, development, and senior leadership support in a way that enables them to consistently deliver strong financial returns. While these firms are undoubtedly a step or two ahead of the rest, however, they are far from complacent. They are always aware that there is more work to be done and that remaining a double-digit growth company requires a perpetual, unwavering focus not only on leading for today but also on growing leaders for the future.

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