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Edited by Edward D. Hess , Robert K. Kazanjian
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1 The challenge of organic growth

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THROUGH much of the 1990s, corporations realized extraordinary growth in revenues and earnings. As this trend unfolded, senior executives began to experience significant pressure from financial analysts, shareholders, and others for continued growth as measured by quarterly reports of performance against forecasts. In the aftermath of the technology bubble, and as the accounting and financial scandals of 2001 and 2002 surfaced, it was apparent that a portion of the earlier reported growth was the product of a mix of widespread earnings management and financial engineering, serial acquisitions, and the utilization of accounting and tax manipulations to create specific financial results. The vitality and substance of those results are now being questioned in various regulatory, legal, and legislative forums. In other cases, firms may have developed innovative strategies or products that led to high growth, but as the firm matured or approached market saturation, growth slowed. For a range of reasons, then, many firms have "hit the wall," experiencing flat revenues after an extended period of high growth.

As a result, executives in many companies now struggle with an increased emphasis on internally generated, or organic, growth, which is qualitatively different in the substance and character of the key tasks central to success, from growth via acquisition. As Rita McGrath notes in Chapter 9, with a sample of over 900 large companies she examined, approximately 6% of all companies who were growing at even a modest rate overall could be accurately described as growing organically. This suggests that although more firms must pursue organic growth strategies, few are endowed with the skills, processes, and experiences necessary for success. Additionally, the economic environment for growth presents daunting obstacles in the form of saturated markets, the inability to raise or even maintain prices in the face of intense competition, and economic uncertainty due to geo-political conditions.

Therefore, the purpose of this book is to identify the central problems, both strategic and organizational, of organic growth and to propose both conceptual and practical approaches to these problems. The chapters that follow are contributed by both leading scholars working on growth-related issues and senior executives from successful growth companies. This work was originally presented at the "Hitting the Growth Wall: Growth in Large Organizations" conference at the Goizueta Business School of Emory University, hosted by the Goizueta Center for Entrepreneurship and Corporate Growth and sponsored by Siemens Medical Solutions.

Although there is a burgeoning literature on growth via acquisition (Hitt, Harrison, & Ireland, 2001; Sirower, 1997), there is little on organic growth. Most is captured within sub-questions related to product/service innovation (Kazanjian, Drazin, & Glynn, 2002) or geographic market expansion (Zook & Allen, 2003). Given the paucity of research on organic growth *per se*, we chose to take a fresh look at this issue. First, we profile four companies selected because of their challenging but novel approaches to organic growth. Each of these companies offers a grounded example of the organic growth challenges and solutions from a general manager's perspective. Additionally, we invited recognized research experts to share their current perspectives on organic growth. Based on these inputs, three central themes of organic growth emerged. We have organized the book into three sections that correspond to these themes.

Case examples of successful growth companies: the general management perspective

Given that most of the academic research on organic growth is highly specialized and narrow in scope, we felt it important to capture several integrated perspectives on the issue. Therefore, this first section of the book presents the specific growth-related challenges and successes of four highly successful companies. These case examples point to several central strategic and organizational themes that we address later in this chapter. In Chapter 2, "Profitable growth at Siemens Medical Solutions," Erich R. Reinhardt describes the path to growth originating with a focus on internal operating problems. In 1995, Siemens Medical Solutions (MED) faced a dramatic challenge when the FDA temporarily shut down four manufacturing plants for non-compliance with

Good Manufacturing Practice (GMP). Additionally, with higher overhead costs than competitors and excess manufacturing capacity, MED was projecting a financial loss for 1996. Following a detailed diagnosis, senior management identified three main objectives: restructure the business, continuously improve operational efficiency, and capitalize on new business opportunities. Reinhardt's detailed description of the activities and decisions provides a road map to the creation of renewed offerings, capabilities, and assets that fed organic growth. Subsequently, MED realized seven years of profitable growth and increases in market share.

In Chapter 3, "UPS: Brown's organic growth story," Edward D. Hess describes the dramatic growth of the company from its origins in Seattle, Washington in 1907 as a local delivery service, to a $36 billion global logistics and distribution company. Hess describes several elements central to growth at UPS. Geographic expansion was the original focus, as UPS extended its reach nationally and then, in 1975, expanded to other markets outside the United States. With a global distribution system in place, UPS pursued growth in related markets for synchronous commerce and supply chain management with industrial and commercial customers. This required approximately thirty small acquisitions and a significant investment in information technologies to complete the full range of assets and capabilities needed to compete effectively. Hess pointedly notes that these acquisitions were executed to gain specific capabilities, not market share. Subsequently, the strategy was to concentrate on organic growth across both the consumer and synchronous commerce markets. Finally, Hess describes the organizational characteristics and UPS practices of focusing employee efforts on successful execution, highlighting the role of measurement systems, promote-from-within policies, local hiring in international operations, and the employee-centric ownership culture of the company.

Chapter 4, "Execution: making growth happen at The Home Depot" by Tom Taylor, tells the story of extraordinary organic growth since the founding of the firm in 1978. The path of growth mirrors that described in earlier chapters in some regards. Established in Atlanta, Georgia, The Home Depot initially grew with the increase in the number of stores, eventually covering the Southeast and ultimately the entire country. Through this process, The Home Depot became the fastest growing retailer in US history, while at the same time twenty-five of their top

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competitors in the "do-it-yourself" retail market failed. However, in 1999 The Home Depot "hit the wall." Between 1999 and 2002, sales growth declined 13 percentage points and same-store sales dropped for eight consecutive quarters. With the forthcoming retirement of the founders of the company, and recognizing the coming decline, the Board chose a successor from outside the company. Bob Nardelli joined The Home Depot in 2000 and launched a process to integrate strategy and operations. The strategic emphasis centered on enhancing or strengthening the core business, extending into services and related areas, and finally expanding into new markets such as government customers and high-end consumers. In executing this strategy, Taylor describes a range of changes including expanded measurement and accountability, heavy investment in technology accelerators, and balancing decentralization of field operations with increased centralization of procurement and merchandising. With these changes came increased emphasis on analysis by senior management and a focus on details. This altered strategy and organizational approach led to fundamental questioning of earlier assumptions about the customer base and their shopping preferences, which then led to over $1 billion invested in store design, merchandising, and location. Resulting recent performance indicates increases in growth and same-store sales.

In Chapter 5, Edward D. Hess also profiles the remarkable growth achieved by SYSCO, the largest food marketing and distribution company in North America. With sales of over $30 billion and 157 profit centers, SYSCO has delivered double-digit growth in sales and net earnings for more than thirty years. Hess describes the evolutionary character of growth as the company expanded geographically throughout the United States. In similar fashion, new food products, non-food products, and services were added to satisfy the needs of existing customers more effectively. Further, SYSCO segmented its customer market into four price points for greater market focus. Finally, it emphasized internal cost efficiencies through supply chain management innovations and the aggressive adoption of enabling technologies. It is noteworthy that the company was created through the merger of nine separate family-owned foodservice operations, creating the infrastructure and network of assets that generated subsequent growth. None the less, Hess indicates that SYSCO has grown more via internally generated growth than as a result of acquisitions. He then presents SYSCO's internal organizational practices emphasizing broad-based employee ownership of company stock, a highly decentralized operating structure, and human resource strategies emphasizing promote-from-within, a rigorous measurement regime, an aggressive performance management system, and a highly open and entrepreneurial culture.

Strategic alignment for organic growth

The chapters in this second section of the book concentrate on central strategy questions related to organic growth, underscoring issues reflected in the experiences of Siemens, UPS, The Home Depot, and SYSCO. These questions include: (1) if organic growth is to be the strategic priority of the firm, how is it defined? (2) what is the relationship of acquisitions to organic growth? and (3) what resource alignments and practices are associated with successful growth companies?

In Chapter 6, "Strategic position, organic growth, and financial performance," William F. Joyce extends his recent well-regarded study of the determinants of performance with a sample of 200 firms in fifty industries to investigate organizational elements that influence organic growth (Joyce, Nohria, & Roberson, 2003). The original study was designed to identify four firms per industry, tracking their performance over a ten-year period. Within each industry, the four firms selected for study were: a "loser" whose performance lagged throughout the decade; a "climber" whose performance improved throughout the decade; a "tumbler" whose performance rose for the first five years, then dropped off for the remaining five years; and, finally, a "winner" whose performance led the industry by a significant margin throughout the decade. Winner firms demonstrate several characteristics significantly related to growth. Thus, growth is heavily emphasized in the strategy of the firm throughout the study period. Interestingly, he finds that "winners" begin by emphasizing acquisitive growth in the first five-year period, but emphasize organic growth in the final five-year period. Additionally, he finds that successful organic growth firms excel at disciplined execution, operate within formal structures that are flat, enhancing responsive decision-making, and build performance-oriented cultures.

A strategic focus on organic growth assumes a clear, specific definition, but the measurement of organic growth is a complex task.

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In Chapter 7, "Defining and measuring organic growth," Edward D. Hess offers such a specific measure with supporting rationale, and then applies that measure to identify the leading organic growth firms for 2001 and 2002. He argues that total corporate growth can result from four sources: (1) internal operations or organic growth; (2) acquisitive growth; (3) growth from investments; and (4) growth that results from aggressive interpretations of Generally Accepted Accounting Principles (GAAP) and associated financial reporting practices. These four sources of growth are not only distinct, but are produced by separate organizational skills and processes. For example, financial engineering is a very different competence than repetitive, organic growth. In this chapter, Hess sets forth a financial model that attempts to quantify and discriminate among various types of growth, with the result being a better definition of organic growth.

As discussed earlier, because of the tremendous pressure for growth, many firms engage in acquisitions. In Chapter 8, "The make or buy growth decision: strategic entrepreneurship versus acquisitions," authors Michael A. Hitt, R. Duane Ireland, and Christopher S. Tuggle argue that while acquisitions can be successful, many of them produce negative returns while providing growth (Hitt, Harrison, & Ireland, 2001). Thus, while producing immediate growth, they may not maintain a level of market value that meets or exceeds investors' expectations unless they are integrated with other growth-creating strategies. They argue that many firms therefore must generate value-creating growth through other ventures. These ventures include expansion into new international markets or engaging in entrepreneurial activities (Hitt, Ireland, Camp, & Sexton, 2001, 2002). To do so, firms can invest internally in R&D (in high-tech industries, as does Siemens Medical Solutions) or otherwise develop creative opportunities for growth (as does The Home Depot). They then argue that firms should engage in "strategic entrepreneurship" (Ireland, Hitt, & Sirmon, 2003) to make these types of efforts successful. They also note that these organic growth initiatives may be aided by the infusion of ideas, knowledge, and competencies gained through previous acquisitions. This chapter explores the means by which firms can become strategically entrepreneurial, including developing an entrepreneurial mindset; allocating resources to growth projects proportionate to their strategic priority; and fostering creativity and innovation through an entrepreneurial culture and leadership style.

Organizing for organic growth: understanding key roles and processes

The following chapters, in the final section, address the role and leverage of organizational resources that emerged as a critical challenge to growth at Siemens Medical Solutions, UPS, The Home Depot, and SYSCO. The direction and marshaling of those resources to creative, innovative ends is central to performance. More specifically, these chapters explicate: (1) the role of sponsoring managers in nurturing and spawning new ideas; (2) the challenges to the subsequent internal corporate venturing process; and (3) the processes of linking and leveraging internal and external knowledge and resources as vehicles for organic growth.

There is consensus in the academic literature that innovation and creativity are central to organic growth. Much of this work highlights the role of senior management in allocating resources to entrepreneurial projects and fostering a climate conducive to risk-taking. Much less has been written on the critical role of middle managers in identifying and championing new ideas that comprise the core of new products, services, and businesses. In Chapter 9, "The misunderstood role of the middle manager in driving successful growth programs," Rita McGrath describes the role of middle managers in the internal innovation process that is so central to organic growth. She offers a detailed description of the activities and tasks critical to success. These include developing an inventory of opportunities as well as the articulation of relevant screening criteria. Once an initiative has been selected, tasks shift to funding, monitoring, making choices of structural reporting relationships, and establishing connections with other relevant corporate resources. Finally, as the project succeeds and grows, middle managers are central to the acquisition of new skills and capabilities as well as buffering the effort from dysfunctional political pressures.

Philip Anderson opens Chapter 10, "Organic growth through internal corporate ventures," with a presentation of growth options available to firms that have "hit the wall" and have experienced flat revenues. Although noting that firms can grow by acquisition of other companies, he concentrates on the variations of organic growth. Following a brief discussion of two approaches to organic growth – extending an organization's geographic reach, and expanding into new roles along its existing value chain – the remainder of the chapter develops the option of new business creation through the use of new internal corporate ventures (Kazanjian, Drazin, & Glynn, 2002; O'Reilly & Tushman, 2004), an option that has been in and out of fashion several times over recent decades. Anderson frames the challenges of managing intra-corporate new ventures by contrasting their growth and development with that of independent start-up new ventures, describing domain restrictions and conflict over charters within the firms as restrictions not faced by independents. He then offers the example of Singapore Technologies' launch of their new-venture incubator, Incubators@Work!, as one approach to addressing these challenges.

Within the alternatives for growing organically, increasing revenue from existing customers in core businesses has clearly emerged from the case examples of UPS, Siemens, The Home Depot, and SYSCO. Douglas Bowman and Das Narayandas also note in Chapter 11, "Linking customer management efforts to growth and profitability," that a natural tack for many firms is to seek more business with their current customers. This approach may be more effective and profitable than to search for and develop new customers. A challenge, however, is how to invest firm resources to achieve this goal. Bowman and Narayandas propose profit-chain-link (or cascading) frameworks (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994) as useful for linking operational resources (under the influence of vendor managers) to sales and profits at the customer level. Vendor managers also support investments in customer satisfaction programs and customer loyalty programs. According to such a framework, resource inputs are invested to deliver product/service value; product/service value, in turn, is a determinant of customer satisfaction; customer satisfaction influences customer loyalty; and customer loyalty is a contributing factor for customer profitability. When properly specified, profit-chain-link frameworks allow for a rich description of the complex linkages between firm effort and customer sales and profitability, namely, nonlinear linkages and differential responsiveness occasioned by customer-specific (or situation-specific) factors. According to Bowman and Narayandas, controlling for situation-specific factors illuminates, to some degree, why similar levels of customer management effort and/or performance can yield quite different customer-level sales and profitability outcomes. It also leads to guidelines for adapting customer management efforts at the customer level with an eye towards doing more business with a given customer and improving profitability.

Raghu Garud, Arun Kumaraswamy, and Vallabh Sambamurthy carefully develop the role of organization-specific knowledge as a foundation for organic growth in Chapter 12. In "Harnessing knowledge resources for increasing returns: scalable structuration at infosys technologies," they argue that knowledge-infused resources (such as knowledge workers, proprietary technologies, and internal work processes) can increase with use, and at an increasing rate. Further, they argue that existing knowledge produces new knowledge via the application process. They identify mechanisms that firms might apply to induce the scalability of organizational knowledge – what they call "scalable structuration." The authors then describe a case example of Infosys, a company that relied extensively on a knowledge-based approach to organic growth. Through the case, they find that in exploiting existing knowledge, firms must explicate the knowledge for future use, and then develop that knowledge to make it a collective asset available to all. They finally caution organizations to avoid the potential for competence traps that result from rigidities associated with over-reliance on existing perspectives and knowledge stocks (Leonard-Barton, 1992; Levitt & March, 1988).

Knowledge management also emerges as a central theme in Chapter 13, "Stay tuned: knowledge brokering via inter-firm collaboration in satellite radio," as Chad Navis, MaryAnn Glynn, and Andrew Hargadon explore how firms assemble knowledge through inter-firm collaborations to enable innovation and organic growth. They argue that collaborative partnerships serve as integrating mechanisms that can amass new resources and overcome the institutional constraints to the creation of new growth platforms. They illustrate their ideas with case illustrations of two satellite radio firms, XM and Sirius. They propose that collaboration of this type occurs in two stages. In the first stage, collaborations are aimed at securing legitimacy for the new venture. This entails positioning the service to be familiar to mass market outlets, in this instance multi-channel radio service to automotive vehicles, which requires collaboration with partners with strong reputations in automotive and technology sectors. The second stage leverages the positional advantages of the first stage by targeting more specialized niche markets. Such specialized niches pursued in this case were the marine/boat market, weather reporting for the aviation

Table 1.1. *Organic growth issues by chapter/author*

	Case examples										
Issue	Siemens	Home Depot	SYSCO	UPS	Joyce	Hitt *et al.*	McGrath	Anderson	Bowman & Narayandas	Garud *et al.*	Navis *et al.*
Organizational transformation	✓	✓									
Developing a platform for growth	✓	✓	✓	✓	✓	✓	✓				✓
Growth via geographic expansion	✓	✓	✓	✓		✓		✓			
Developing innovative products and services	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Efficiency and the use of technology	✓	✓	✓	✓	✓						
Role of people and leadership		✓	✓	✓		✓	✓			✓	✓
Role of measurements, rewards, and employee ownership		✓	✓	✓	✓						
Organizational structures and processes					✓		✓	✓		✓	✓
Customer centeredness	✓	✓	✓	✓					✓		

