Winnovation

BY ROWAN GIBSON

How companies can stay 'forever young'

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This is the second in a series of articles on innovation as a means to achieve business success.

In biology, there's an old saying: 'Growth is the only evidence of life.' A lot of investors on Wall Street seem to echo these words when they evaluate today's corporations – and business leaders are getting the message.

At GE, for example, CEO Jeff Immelt is on the hook to deliver an incredible 8% of organic growth each year. This represents around $15 billion of new revenue – equivalent to the combined annual revenue of America's entire bookstore industry or fitness industry or music production and distribution industry!

No wonder *'Driving Growth'* has become today's dominant management mantra, not just at GE, but at companies all over the world.

Yet, if we go back to biology for a moment, we realise that there is more subtlety to organic growth than we may have previously imagined. In fact, we find out that life actually requires two very different kinds of growth.

The first kind of growth is about cell multiplication and organisation – it's about increasing the size and strength of the organism until it reaches physical maturity. In the case of human beings, it's the process that starts with a single cell and finally produces the estimated tens of trillions of cells that make up our bodies.

The second kind of growth, however, is not about size; it's about longevity. It's the process of self-renewal by which our body cells are continually replaced or repaired, as the need may be. If this process – of growing new cells to replace those that are deteriorating – could somehow be sustained, human beings could theoretically live forever.

The biology of business is not dissimilar; companies need both kinds of growth as they progress through their life cycle. In the early years, most companies are primarily concerned with scaling up their organisations as rapidly as possible with a pressing need for systems or processes to help them manage their ever expanding business.

Eventually, though, this kind of growth tends to flatten out and the company reaches a level of maturity in terms of its size and strength, just like humans and other organisms do. As Gary Hamel likes to put it, "Trees don't grow to the sky."

Again, consider GE. In the last five years of Jack Welch's tenure, which ended in 2000, GE's market value grew from around $50 billion to somewhere between $350 and $400 billion. But to do that again over the next five years, GE's market value would have had to go from $450 billion to $3 trillion!

Extrapolating from the year 2000, this meant that by 2005 GE would have had to represent 20% of the entire New York stock exchange! The chances of that happening were very remote.

Here's the point: it's simply a lot easier to grow by 100% a year when you are a $10 million firm or even a $100 million firm than when you a $50 billion firm. Because, to achieve that kind of growth rate at that kind of size, you would practically have to recreate half of the economy every year.

Of course, expanding the business remains crucial even when a company's growth rate has naturally flattened out, but at some point increasing the scale of the organisation is no longer the main issue (in fact, it may even need to get smaller to become more profitable).

That's when the emphasis shifts to a different kind of growth – the need to grow new sources of profit to replace those that may be losing their economic value. These might be new product ideas, services, strategies, markets, customers, business opportunities or competencies – whatever it takes to offset the long term irreversible decline in the economic efficiency of the company's core business model.

This is the challenge that faces companies like McDonald's, Coca-Cola, Microsoft or Dell. It's the task that bedevils Hollywood as it watches box office figures shrink and DVD sales stalling in a world of digital downloads.

It's the hurdle for big pharmaceutical firms as they confront declining R&D yields, escalating price pressure and the growing threat from generic drugs.

It's the big headache for traditional airlines as they compete with industry revolutionaries like Southwest, JetBlue, Ryanair, Easyjet or AirAsia. For all of these businesses, and many more, success now hinges not on size, but on the capacity for strategic renewal.

Like human beings, organisations start to grow old and die when they lose the power to renew themselves. That's why it's crucial to build a deep capacity for self-renewal – the capacity to replace the old and decaying with the fresh and new on a perpetual basis.

The goal is to be 'forever young.' And the fountain of youth – the only real source of renewal on the longer term – is deep, strategic innovation. It's not going to come from anywhere else. ■

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