



# Winnovation

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## Breaking the legacy chains

For most companies, there comes a moment when the only way to continue growing is, paradoxically, to divest things – to get rid of traditional parts of the business where growth has stagnated and to get into new, more innovative businesses that have the potential to grow faster.

In practice, this rarely happens. When most managers are put in charge of an existing business, they tend to feel as though they have inherited an important legacy – one which should be guarded and treasured, and then passed on to the next generation. But the question is, Will they remain chained to that legacy, or are they prepared to leave it behind and move on to someplace new?

That's why a company like Virgin is interesting. Richard Branson doesn't seem to have a sentimental attachment to anything. The moment he concludes that one of his businesses will not be profitable – if it doesn't seem to have the potential to create wealth and value – he closes it down or sells it off. He basically just gets rid of it and makes it go away.

Branson is not bothered about nostalgia. Admittedly, he may have some affection for his airline, because it's a big and highly visible flagship for the company that flies the brand around the world (without this icon, Virgin would probably be a ragtag group of companies without much of a global image). But fundamentally Branson's goal is to create wealth using all kinds of business opportunities – not to just to take his current business and make it bigger.

Most managers are not like that. The temptation is always to think about the company in terms of a set of businesses they need to be nurtured, year after year, where the goal is to make the whole thing bigger and bigger. But, at some point, that can no longer be done. As Gary Hamel points out in *Leading the Revolution*, there is a “law of large numbers” that affects companies of the \$30-50 billion size – they usually hit a wall at some point because there's just a natural limit to how fast you can grow the market value of a company that size. **The ultimate goal, therefore, is not to get bigger and bigger but to find things that create more and more value.**

This is something that must be handled very subtly. It doesn't mean that the minute some business starts to under-perform, you have to get rid of it. Instead,

you need to go in and say, “What are the chances for innovation here? What *haven't* we done so far?”

In other words, before you decide to get to rid of something, you have to ask yourself if it could be reinvented in some way. But by the time you get to the \$30 billion, \$40 billion or \$50 billion size, you need to be thinking about what to throw out, because sometimes you can only move forward if you break the legacy chain. And it is better to do that voluntarily than to wait until somebody forces you to do it.

GE, for example, sold off a lot of under-performing assets and got out of a few low-growth businesses about 20 years back. Not long ago, they also sold most of their Insurance Solutions business, and more recently it was GE Plastics that was up for sale.

Or take Nokia, which had a long history in making tires, rubber boots, paper and a whole bunch of other stuff before they decided to ditch all that and get into mobile phones. This, of course, was very difficult to do because they had been in many of those businesses for over 100 years. They could have said “No, no, we couldn't even consider doing that. These are our roots – our heritage. It's how our founders started the company. We'll always be in these businesses.” But instead they had the courage to say, “Look. These pieces of our company are holding us back. We've got to get rid of them if we want to make it to the future.”

At most big companies this doesn't happen anywhere near enough. Instead of moving on to create new, high-growth sources of profit, their nostalgia keeps them chained to the low-growth businesses of the past. This puts a serious inhibition on their power to innovate at the deepest level and therefore on their capacity for strategic renewal.

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