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GROWTH IS MUCH MORE THAN JUST A STRATEGY: IT'S A SYSTEM[1]

Growth research has demonstrated that growth is much more than a strategy. Growth happens when the right kind of leadership, internal environment and processes come together to create a small-company-entrepreneurial soul in a large-company body. Growth requires experimental processes, an entrepreneurial mindset, iterative entrepreneurial learning, leadership that accepts entrepreneurial failures, and internal processes that mitigate the natural proclivities of human beings and organizations that inhibit growth.

Growth is not a linear or reductionist process. It is a human process that is modeled better by biology and complexity theory than economics or physics. Growth is a change process that requires experimentation, learning and taking measured risks that can result in mistakes and failures—that contravenes the purpose of an organization, which is to produce standardization, predictability, reliability, and consistency.

Growth requires the right mindsets, organizational environment, and processes. The mindsets, organizational environment, and processes that enable growth are different from the mindsets, internal environment, and processes that facilitate exploitative execution. That is the challenge—to manage those tensions or differences so that the result is both excellent growth exploration and exploitative execution.

[1] This note is adapted from the works of Edward D. Hess: "Why Everything You Know About Growth Is Probably Wrong" (UVA-S-0172), (University of Virginia Darden School Foundation, 2010); *Grow to Greatness: Smart Growth for Entrepreneurial Businesses* (Stanford University Press, Upcoming 2012); *Growing an Entrepreneurial Business: Concepts & Cases* (Stanford University Press, 2011); *Smart Growth: Building an Enduring Business by Managing the Risks of Growth* (Columbia Business School Publishing, 2010); Hess and Goetz, *So, You Want To Start A Business? The 8 Key Business Concepts You Must Know,* (Free Press, 2008); *The Road To Organic Growth: How Great Companies Consistently Grow From Within* (McGraw-Hill, 2007); Hess and Kazanjian eds., *The Search For Organic Growth* (Cambridge University Press, 2006); Hess and Cameron, eds., *Leading With Values: Positivity, Virtue & High Performance* (Cambridge University Press, 2006).

Consistent business growth is more likely if leadership (1) creates an organizational environment that promotes growth behaviors and deters behaviors that inhibit growth and (2) behaves in ways consistent with that intended environment. That enabling organizational environment is what we call an internal Growth System (System). Systems enable both individual and organizational growth mindsets, growth behaviors, and the utilization of growth processes.

What Is a System?

In general, a system is a combination, ordering, or assemblage of things or processes that work together to produce a more complex result. A system can be an alignment like our solar system. It can be a combination of organs, blood vessels, and muscle like our digestive system. Systems are common in engineering, biology, complexity theory, and the cyber-intelligence field. In a system the different components interact with each other to create more than the sum of the parts.

For our purpose, a Growth System is a seamless, consistent, self-reinforcing alignment of strategy, structure, culture, leadership behaviors, HR policies and processes, and measurements and rewards that enable and promote defined growth behaviors. Note that we are talking about behaviors and not financial results. Behaviors produce financial results. For each desired growth behavior, each part of the System has to be designed to send a consistent positive message. For behaviors that inhibit growth, each part of the System has to send a consistent negative message.

The Discovery of Growth Systems

This concept of a Growth System came from the research of companies that produced consistent above average growth for more than five years. Such companies are rare. At least six academic studies have found that less than 10% of the companies studied produced above average growth consistently for more than four years, and less than 5% did so for more than seven years.[2] A study of over twenty of those companies in greater detail to find explanations for their sustained growth produced surprising findings. Contrary to common management theories, these consistent growth companies did not have differentiating strategies or the best talent or visionary leaders or even unique products or services or the lowest priced products.[3]

[2] Hess and Kazanjian (2006); Mark Lipton, *Guiding Growth: How Vision Keeps Companies on Course* (Boston: Harvard Business School Press, 2003), 36–37; Matthew S. Olson, Derek van Bever, *Stall Points: Most Companies Stop Growing—Yours Doesn't Have To* (New Haven, CT: Yale University Press, 2008); Sven Smit, Caroline M. Thompson, S. Patrick Viguerie, "The Do-or-Die Struggle for Growth," *McKinsey Quarterly* 3 (2005): 35–45; Hess, Kazanjian (2006), 103–23; Robert R. Wiggins, Timothy W. Ruefli, "Sustained Competitive Advantage: Temporal Dynamics and the Incidence and Persistence of Superior Economic Performance," *Organization Science* 13, 1 (2002): 81–105; Robert R. Wiggins, Timothy W. Ruefli, "Schumpeter's Ghost: Is Hypercompetition Making the Best of Times Shorter?" *Strategic Management Journal* 26, 10 (2005): 887–11.

[3] Hess, (2007).

What these companies did have were Systems that produced a highly engaged work force, humble and passionate leaders, and a learning environment of constant improvement. Creating and maintaining a Growth System is hard work—in fact, so hard that a System can become a differentiating competitive advantage. Maintaining a System requires near-maniacal sensitivity to actions, policies, and communications to ensure consistency. This is crucial because inconsistencies or mixed messages from any part can dilute a System's effectiveness. These Systems are very sensitive to inconsistencies because inconsistencies create hypocrisy and destroy trust.

Where have we found such Systems? Best Buy, Costco, UPS, Southwest Airlines, Starbucks, Tiffany & Company, Room & Board, Levy Restaurants, Stryker, McDonalds, TSYS, Ritz Carlton, Outback Steakhouses, Walgreen, Whole Foods, IBM, and Sysco are some examples of companies that have created Systems.

Defining Growth Behaviors

You probably are wondering how we create a Growth System when we already have an existing culture, HR policies, and measurement and rewards policies. And where to start? You start by defining the beliefs and behaviors that enable growth in the context of your strategy and capabilities.

There is no single growth behavior that will transform a business into a consistent high growth company. **Table 1** shows the growth enablers:

Table 1. Growth enablers.

Actively listening to others	Teaching not punishing	Finding meaning in your work
Being curious	Encouraging diversity of opinion	Seeking out different views
Asking questions	Being paranoid about complacency	Supporting experimentation
Engaging in constructive debate	Being emotionally engaged in one's job	Trusting your managers and leaders
Seeking out different views	Measuring and rewarding people fairly	Contributing to an energizing positive work environment
Collaborating	Challenging existing ways	Removing obstacles to growth
Sharing information	Trying new ways	Having a positive attitude
Learning from mistakes		
Not placing blame		

If you want consistent growth, then you must embed critical inquiry, constructive debate, collaboration, diversity of views, listening, trying new ideas, tolerance for mistakes and failures, and learning into your business. And you must enable, measure, and reward behaviors that create that result. Just as important, leaders and managers must personally role model the desired behaviors and remove obstacles to those behaviors for others.

As described by one of the leaders who built such a System: “You celebrate success, console failure, and get rid of people who are afraid to try new things.”

If you want growth, you want the opposite of what is described by the terms “groupthink,” “command and control,” “keep your head down,” and “we know everything” (arrogance), and to avoid an environment of fear. You want to encourage learning, constructive debate, and an environment of constant improvement that applies to every one—including senior leadership.

In working with leaders designing Systems, we have learned that it is very difficult in the beginning of this defining process for many to think at a granular level about behaviors. It is much easier to think about strategy and to define financial results. We have found one technique helpful in facilitating the defining of growth behaviors. Start with defining the behaviors that inhibit or limit growth. The desired behaviors obviously are the opposite of those bad behaviors.

The following four questions have been helpful in facilitating the process of defining growth behaviors. Think about growth behaviors from both a positive and negative view:

1. What behaviors encourage or evidence a growth mindset?
2. What behaviors evidence a nongrowth mindset—the opposite of a growth mindset?
3. What behaviors promote or evidence utilization of growth-creating processes: identifying opportunities, experimenting, and building growth portfolios?
4. What behaviors inhibit the effective utilization of growth-creating processes?

The following list compares good and bad growth behaviors (**Table 2**):

Table 2. Comparison of good and bad growth behaviors.

Good Growth Behaviors	Bad Growth Behaviors
Active open-minded listening	Being close-minded and not listening
Asking "why" and being curious	Accepting the status quo- rarely questioning
Engaging in critical inquiry	Avoiding critical inquiry
Challenging underlying assumptions	Rarely examining underlying assumptions
Embracing new experiences and learning	Avoiding new experiences and learning
Participating in critical debate	Avoiding debates
Thinking about ways to improve	Being comfortable with status quo
Exploring customer needs	Thinking you know what customers need
Looking for ways to improve	Waiting to be told what to do
Being comfortable with uncertainty	Disliking uncertainty
Acting humbly	Acting arrogantly
Having an action bias	Having a procrastination bias
Participating in experiments	Avoiding experiments
Participating in idea generation	Infrequently participating in new idea generation
Sharing knowledge	Hoarding knowledge
Seeking different opinions	Being comfortable doing it my way
Treating mistakes as learning opportunities	Hiding mistakes or fearing mistakes
Having a proactive mindset	Having a reactive mindset
Forming cross-functional teams	Avoiding collaboration
Encouraging different opinions	Stifling different opinions
Engendering trust	Acting inconsistently
Having difficult conversations	Avoiding difficult conversations

After you define the growth behaviors you want to encourage, then you are ready to align your System to promote and enable the good behaviors and to inhibit and penalize the bad behaviors. The starting place is culture.

Culture

In starting with culture, we are not talking about the formal culture statement a company may have published on its website or annual report. We are talking about the beliefs and unwritten rules of how companies actually behave—not what they say, but what they do. We have never read a company culture statement that said, “The only thing we care about is financial results. Our employees are fungible commodities used to produce those results; and our customers are our dumb sheep to be shorn.” Yet some companies act that way and treat both their employees and customers that way.

Cultures vary, and there is no single formula for a Growth System culture. Some companies, such as Sysco and Best Buy, have cultures based on customer centricity. Others, like Tiffany, have a culture based on protecting and enhancing the brand. Starbucks built a culture based on customer experience. Room & Board built a culture of meaningful relationships with its suppliers, employees, and customers. Still others, such as Southwest Airlines, Outback Steakhouses, TSYS, and Levy Restaurants, have employee-centric cultures unlike those companies with product-centric cultures.

It is important to note that none of the consistent high-growth companies studied had a culture based solely on creating shareholder value. While all believed in creating shareholder value, all focused, at a minimum, on one other stakeholder: customers, employees, and/or society. These companies had a multiple stakeholder model. When you get inside these companies, the daily mantra was not “Grow, grow, grow to make quarterly earnings,” the mantra was “Be better, better, better to better serve our stakeholders.” The common theme across all of these companies was constant improvement. Growth was not the major message. Being better to serve stakeholders was.

Constant Improvement

Our thinking has evolved as we have researched, taught, and consulted with more companies to the point that we think that constant improvement is likely the core building block that can create a company-wide learning and growth exploration mindset. Why? Because constant improvement requires consistently challenging the way you currently do things (no matter how successful you are), engaging in constructive dialogue, encouraging diversity of opinion, engaging employees in doing their jobs better, faster, and cheaper, routinely trying new approaches, and having a willingness to change on a daily basis. Constant improvement requires learning and experimentation. Constant improvement can become the foundation from which growth exploration occurs.

Think back to the tension between execution and exploration. Almost all of the consistent high-growth companies we studied excelled at both. Constant improvement was the common bridge between the growth explorers in the company and the employees who were focused on execution exploitation.

For constant improvement to occur, you need a paranoid view of success and complacency, and you also need to encourage critical inquiry, constructive debate, realistic assessments, and collaborations. You need to have an action bias, view mistakes and failures as learning opportunities, communicate clear guidelines where and under what conditions people can try new things, and encourage employees and customers to be engaged in creating and experimenting with new growth ideas.

Experimentation and learning are less likely to occur in cultures of conformity, cultures of fear, cultures of "go along, get along," cultures of "my way or the highway," cultures of "that is how we have done it for years," "top-down command and control" cultures, and in cultures that devalue employees and/or customers.

One final point that cannot be overemphasized: The behaviors of leaders and managers either reinforce or destroy the environment needed for sustained growth. If you want consistent growth, we advise that you start with an examination of yourself: Do you really have a growth mindset and behave in a manner that enables growth behaviors in your employees and colleagues? If not, how and when are you going to change?

An example of a constant improvement culture that enables both execution excellence and growth exploration can be found at UPS.

The UPS Culture[4]

UPS was founded in 1907 by 19-year-old Jim Casey, who borrowed $100 to start a home delivery service for Seattle department stores. Today UPS has revenue of over $50 billion, employs 400,000 people, and operates in more than 200 countries. UPS has been a consistent high-performance company for years. UPS is operationally a large airline and trucking company with one of the world's largest data processing and radio network centers. It delivers over 15 million packages a day to more than 8 million customers, 99% defect-free and on time. In the United States, its largest package-processing facility (Worldport) comprises over 5 million square feet (90 football fields) with a perimeter of more than seven miles. UPS is big.

UPS's 85,000 drivers hold esteemed positions. The average tenure of a driver is more than 16 years, and driver turnover is less than 2% a year. Union drivers can earn up to $70,000 a year, and senior divers receive nine weeks of paid leave a year with 100% of their health insurance paid by the company. More than 25% of its U.S. managers are members of minority groups, and women represent approximately 27% of its U.S. management team. Historically, more than 70% of its full-time managers are promoted from within. UPS employee turnover is less than 6% annually. Even though UPS's labor costs are higher than its main competitor because its work force is 46% unionized and its full-time workers are employees entitled to benefits and not independent contractors, year-in and year-out, UPS is a market leader. How can this occur?

[4] "United Parcel Service of America, Inc." (UVA-S-0143).

To understand UPS, you have to understand its culture and how that culture brings together the key beliefs that drive employee and leadership behavior. UPS's culture is based on its founding values of integrity, quality, dignity, respect, stewardship, partnership, equality, and humility. These values are operationalized by an integrated three-prong culture:

1. A performance culture with partnereurial accountability (measurements) regardless of position
2. A constant challenge of be critical be better culture known as "constructive dissatisfaction"
3. An employee-centric ownership culture with executives being stewards of the business

Mutual accountability means that every employee is accountable to every other employee. Accountability means doing what is right and doing it well. This mutual accountability applies to every employee including the CEO, who symbolizes his mutual accountability to all employees by having a special phone in his office on which any employee can call him directly at any time to talk about any issue.

UPS employees are viewed as partners, and this mutual accountability leads to a more egalitarian culture that devalues status, position, and elitist perks. All UPS top management has offices of the same size, share administrative support, and eat in the company cafeteria. These executives drive themselves to work and fly on commercial airlines following the same travel policies as employees. Self-marketing is frowned on. At UPS, it's not about you, it's about the team.

Constructive dissatisfaction leads to relentless improvement. The words constructive and relentless at UPS are purposeful and descriptive. This "be better" culture goes back to 1921 when Jim Casey began building an internal industrial engineering capability to focus on internal productivity and efficiency. Over the years, UPS espoused the view that "in God we trust, everything else we measure." This measurement mentality promotes an environment of never being satisfied with the way things are because they can be improved. Dissent, inquiry, questioning, and challenging current ways are valued and encouraged because they are the behaviors that make UPS better.

UPS is also an employee-centric company with its leaders having the duty of stewardship. Casey believed that good leaders built up others and took a sincere interest in the welfare of the people who they work with by making every employee feel as if they are the company. Employee centricity is made real through promotion from within policies, employee stock ownership plans (it is commonly stated that UPS has more millionaire truck drivers than all other transportation companies combined), diversity programs, employee education programs, and employee internal, free agency programs, which give employees opportunities to grow and advance.

The UPS System is designed to engage every employee emotionally in being part of the UPS way of being better today than they were yesterday and sharing in a meaningful way in the results through better pay, benefits, career advancement, and "owning" the company. UPS's three-prong culture is mutually reinforcing and sends a consistent message: We are all in this together, and we will all do well if we all do our part, and if we do, we all will be treated fairly. This message is intended to encourage growth-producing behaviors and discourage complacency, arrogance, and hubris.

UPS's three-prong culture fits together nicely and consistently to drive the behaviors that are important to it. UPS understands that culture, leadership model, measurements, rewards, and HR policies have to consistently work together to create the environment and reinforce desired behaviors. Creating this fit is part art and part science. Success comes when you get all the parts working together in a seamless manner to send consistent reinforcing messages. Success is fleeting unless you are paranoid about systemic inconsistency and hypocrisy.

Thinking about UPS's behavioral objectives may help you think about yours. What are UPS's objectives? Is it to create a team of members that hold each other mutually accountable for execution excellence—being better every day—while treating each other as equals with respect and dignity? Is it to provide team members with opportunities to grow and share in the financial results of their work through promotions and ownership? What are your behavioral objectives? We hope they are more than meeting next quarter's earnings target. While we have focused here on culture, the point needs to be emphasized that UPS created a System—a UPS recipe that combines the right ingredients (culture, leadership behaviors, measurements, rewards, HR policies and processes) in the right amounts to produce a consistent high-performance growth organization.

IBM's Turnaround

Another example of the importance of culture is IBM's turnaround under Lou Gerstner that began in 1993 on his joining IBM. During the preceding two years, IBM lost more than $16 billion dollars—yes, $16 billion dollars—and downsized 40,000 employees. IBM had a history of being a very successful company, but its success led to complacency, rigidity, and fixed mindsets unwilling to consider anything that differed from the IBM way. IBM had a consensus-driven culture that was lethargic and immune to change. Gerstner arrived and saw that the problem was IBM itself, and he quickly introduced a new culture that was both customer- and employee-centric, not IBM-centric. Gerstner turned around IBM in two years, but what is interesting for us to know is what he learned in the process: "I came to see, in my time at IBM that culture isn't just one aspect of the game—it is the game," he said.[5]

To change IBM Gerstner not only had to change its culture, but to get the desired behaviors, he had to change its organizational structure, its measurements, and how it compensated its people, including executives. Gerstner had to get all the parts aligned to enable and motivate the new behaviors IBM needed in order to rebound. After changing IBM's culture,

[5] Louis V. Gerstner Jr., *Who Says Elephants Can't Dance?* (New York: HarperCollins, 2002), 182.

Gerstner made changes to the other component parts of IBM's System to send consistent messages that enabled, promoted, and rewarded the new, desired IBM behaviors.

As Gerstner learned, cultures can encourage and reward or discourage and punish certain behaviors. You have to get the culture right in order to create your System. A culture of constant improvement that promotes diversity of opinion, critical debate, and dissent can mitigate complacency, groupthink, and arrogance, so the result is an exploratory, curious, try-it environment. Corning Incorporated, the world leader in specialty glass and ceramics, described this type of curious critical inquiry environment as always looking for the Big Lie—that firmly held belief that goes unchallenged but that may be dangerously erroneous.

Culture Lessons

What do UPS and IBM have in common? UPS created and has maintained a culture that has propelled its growth and consistent performance for years. Gerstner at IBM had to create a completely new culture to return IBM to a position of industry leadership that continues today. While the circumstances differ in their two stories, what is consistent is that it was necessary to create an internal System that aligned strategy, culture, structure, leadership behaviors, HR policies and processes, and measurements and rewards to drive the desired behaviors.

Let's move on to structure and what have we learned about structure as a growth and innovation enabler.

Structure to Grow

Structure comes into play in two ways in creating a Growth System. First, an organizational structure has to promote and enable the positive behaviors discussed above. Secondly, structure has to promote the utilization of growth development and experimental processes that can create new ways of doing business and new customer offerings.

Structure is the answer to the questions of how and what to decentralize to give more autonomy and permission to encourage people to explore and do growth experiments. Structure is the result of managing the tensions between centralization and decentralization and between entrepreneurial experimentation and low-variance execution. Structure either facilitates change, experimentation, and innovation, or it makes them so cumbersome and bureaucratic that it stifles them. We know that growth results when managers are allowed to act more like entrepreneurs than bureaucrats; and we know that successful growth companies act more like a small company soul in a big company body.

There is no single structure that fits every business. The best structural design will depend on the industry, the business model, and the capabilities of the organization. There are three common structural approaches to facilitating growth: (1) engraining innovative exploration inside execution businesses; (2) segregating exploration in separate research centers that serve operating business units; and (3) a hybrid model where exploration activities are separated from the business units during their development and commercialization stages and then are either spun-off into new business units or re-integrated into existing business units.

Exploration Inside

The first common structural approach to growth is to engrain growth exploration inside exploitative execution businesses. This is what we find at Best Buy, UPS, and Sysco, who expect their business units to be great at both execution and at growth. To implement its new Customer Centricity business model, Best Buy made every store a separate business unit. This structure enabled the necessary behaviors of store management and employees to execute the business model of customer centricity and solutions selling. This structure also made each store manager an entrepreneur with responsibility and autonomy to manage that store's activities to drive desired ROA numbers, while taking into account its customer demographics and needs. This entrepreneurial "act like an owner of your store" mentality puts the responsibility for generating new local market ideas at the level closest to the customer. It also allows local managers and employees the freedom to experiment and try new ideas.

Sysco operates its business through more than 140 business units.[6] It frequently splits a business unit into two units when it "folds-out" part of a business to free it to be more entrepreneurial. Sysco gives all its business units substantial leeway (autonomy) in areas it calls the "front of the house" that are customer-facing, but gives business units little if any freedom regarding "back of the house" areas: accounting, capital, food quality, brand reputation, and legal. Sysco wants to promote entrepreneurial fast action to meet customer needs and to remedy customer issues. To do this, operating units have lots of rope. The company's former president calls this "NIHBIDIA (Not Invented Here But I Did It Anyway)."

Another company that used structure to drive entrepreneurial behavior is Stryker Corporation (Stryker), a medical device and equipment company.[7] In its high-growth phase, Stryker experienced over twenty consecutive years of more than 20% annual compounded growth. This growth was enabled by the adoption of a holding company structure that made each business unit a separate entrepreneurial company with its own decentralized support functions. As Stryker grew and these business units prospered, it would split a successful business unit into two smaller units to reenergize entrepreneurial behaviors and create more leadership positions and employee growth opportunities. Stryker placed responsibility for growth inside each business unit that was charged with understanding and meeting customer needs daily.

Levy Restaurants (Levy), the leading player in the sports and entertainment arena food-catering business, similarly makes each sports venue a separate business unit and gives entrepreneurial freedom to the chefs and managers to meet the needs of that location's

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[6] "Sysco Corporation" (UVA-S-0140).
[7] "Stryker Corporation" (UVA-S-0174).

customers.[8] Like Sysco, Levy kept control of quality and food sourcing at the corporate level. Again, like Best Buy, Sysco, and Stryker, Levy believes that people closest to the customer will know better how to improve and innovate quicker to meet customer needs. As CEO Andy Lansing remarked, "I constantly remind our leaders that very few customers ever walk into our corporate offices."[9]

Exploration Outside

The second common structural approach to promoting growth exploration is to segregate it in a separate research center that serves operating business units. This is common in the pharmaceutical, biotech, and engineering, or science-based industries. Corning and United Technologies are two examples with this structure that allows them to use dedicated staff, processes, and investment dollars to do exploration. In these companies, developing new offerings can take years of experimentation and requires dedicated protected resources. For these companies, growth happens best when it is segregated from core operating execution businesses.

Exploration Greenhouses

IBM illustrates the third model. As part of the Gerstner transformation to generate growth faster, IBM created a separate unit called Emerging Business Opportunities (EBOs) responsible for the development and commercialization of new growth initiatives. EBOs were intended to free entrepreneurial exploration from dominating execution process mindsets and processes and dedicate resources to exploration. After going through the iterative development process and commercialization experiments with customers, if the EBO growth initiative proved viable, it would be adopted by an existing business unit for further development and scaling, or the EBO could become a new business unit. Separating growth experiments is seen in some companies as being necessary to prevent the dominant execution mindsets, processes, and low tolerances for variance in the operating business from stifling or killing growth experimentation and exploration. Unlike the example of research centers, these EBOs can become separate operating business units. Another company that has adopted this EBO model is the Harris Corporation.

Some companies create a hybrid model by keeping some growth exploration in existing business units while removing some growth initiatives from business units utilizing a process similar to the EBO process. This approach to the structure question has evolved over the past two years in one of our consulting clients. This company has four separate business units. Each business unit ranks growth ideas by risk and the degree of unknowns into one of three groups. Growth ideas ranked low risk with few unknowns are owned by a business unit product team, which has the autonomy to experiment. Growth ideas deemed medium risks with more unknowns require business unit approval for experimentation. Cross-functional diverse teams are created to do the experiments with those teams reporting to a business unit committee. Lastly, if

[8] "Levy Restaurants" (UVA-S-0155).
[9] "Levy Restaurants" (UVA-S-0155).

a growth experiment involves high risks and many unknowns or is outside the boundaries of existing capabilities but is deemed worthy of exploration, it is transferred to the corporate growth group for exploration management drawing on corporate resources across business units. Broadly, the more novel a growth idea is, the more protection, patience, and development are needed. In some companies, especially those with an unhealthy obsession with making quarterly earnings, growth exploration has to be removed from business unit management's responsibility.

Removing Structural Impediments to Growth

Structure sometimes can inhibit growth experimentation when multilayered approvals are required to do a growth experiment, when operating units are not allocated capital for experimentation, and when business units do not have the autonomy to create multifunctional teams to do an experiment. To address potential structural impediments to growth, rather than asking "what is the *best* structure to enable more growth experimentation," some companies have approached it by asking, "How does our structure inhibit growth?" with the objective of removing those growth inhibitors.

Most companies operate structures with several different business units supported or controlled in varying degrees by a central headquarters group. Many times these business units become impermeable silos that inhibit cross-business-unit knowledge sharing, collaboration, and teaming. When companies move from product centricity to customer-centric selling as a solution to differentiate themselves from competitors and ward off product commoditization, silo busting becomes necessary. Often matrix structures are created to encourage the desired behaviors. Unfortunately, shifting to a matrix structure alone generally does not produce the desired behavioral change. It is also necessary to align culture, leadership behaviors, and measurements and rewards to drive the collaboration, teaming, and knowledge sharing.

Business structure is important macro-organizationally because it can either facilitate or inhibit growth exploration behaviors. Structure is important micro-organizationally in determining where and under what protective structure your businesses conduct growth experiments. The purpose of creating a protective structure, whether inside or outside a business unit, is to remove growth experiments from the dominance of execution mindsets and low tolerance for failure by placing growth experimentation in a protective and nurturing learning environment.

Let us end this discussion with one approach to the structure question that a consulting client has iterated over the past two years. This company has four separate business units. Each business unit ranks growth ideas by risk and the degree of unknowns into one of three groups. Growth ideas ranked low risk with few unknowns are owned by a business unit product team, which has the autonomy to experiment. Growth ideas deemed to be medium risks with more unknowns require business unit approval for experimentation. Cross-functional diverse teams are created to do the experiments with those teams reporting to a business-unit committee. Any growth experiment with high risks and many unknown factors or that pushes the limits of existing capabilities but appears appropriate for exploration is given to the corporate growth group for exploration management using all corporate resources of the business units. A growth idea that is original needs more protection, patience, and development, and those companies obsessed with mostly making quarterly earnings should remove growth exploration from the responsibility of the management of the business unit.

Measurements and Rewards

The next critical step in fostering growth in a business is to align measurements and rewards to promote the desired growth-producing behaviors. There are two fundamental rules of management. First, if you want certain results, measure those results. Secondly, if you want results done well, measure and reward those results. Measurements and rewards, just like all parts of the System, are interconnected and linked. This is particularly important when your goal is to create a System, and significant changes are required. In this part, the focus will be on measurements. Rewards will be discussed in the HR section.

Measuring Behaviors

As mentioned earlier, thinking about growth resulting from granular behaviors is not how some executives usually think about growth, nor is figuring out how to measure those behaviors. Before continuing it might be helpful to review examples of the good and bad growth behaviors already discussed (**Table 2**).

Some of those behaviors can be measured by numbers: number of growth ideas generated; financial impact of improvements, number of experiments conducted, time spent with customers exploring needs, populating knowledge management content, utilization of knowledge management content, proficiency in growth processes (Black Belts), and speed, for example. Other behaviors, however, are harder to measure numerically, but they can be assessed through 360-degree evaluations.

All managers in a growth company should be evaluated 360 degrees on their growth mindset and whether they encourage or discourage critical inquiry, exploration of new ideas, constructive debate, voicing of different opinions, and trying something new and different, or whether they punish growth failures, engage employees in growth ideation processes, seek employees' input, or are arrogant or domineering.

It is important to stress that designing measurements is not a one-time event. Sysco, for one, has been engaged in measuring employee and manager growth behaviors for over twenty years. As former Sysco Systems (Sysco) Chairman and CEO Rick Schnieders stated a few years ago, "We still are working at getting it right."[10] Creating growth behavioral measurements is an

[10] "Sysco Corporation" (UVA-S-0140).

iterative process just like the other growth processes we discuss in this note. The key is to start, as shown in the following section.

Yes And or Yes But

We are constantly amazed at the power of the phrase "Yes, And" as compared to the phrase "Yes, But." Yes, But shuts down discussions by rejecting without examination and exploration what is being offered. Yes, And keeps a conversation going and can lead to critical inquiry and learning and maybe even a growth experiment. Company teams have experimented with measuring the use of Yes, But within teams and its effects compared to Yes, And. While these experiments did not rise to the level of scientific experiments, consistently reported results from more than 450 managers are that increasing the use of Yes, And while decreasing the use of Yes, But had significant impact. Teams had better discussions that resulted in more critical inquiry and debate, and more employees were willing to voluntarily and proactively participate in the processes.

Behaviors lead to outcomes, so the measures you design must reflect the outcomes you are seeking. If you want more growth ideas, then measure ideation. If you want more experimentation, then measure frequency of experiments. If you want more constant improvement, then measure it at the employee level.

In working with companies to put in place measurements to measure desired growth behaviors, we have learned that 360-degree reviews are necessary to measure many of the desired behaviors. They can be a good starting point from which to iterate numerical measurements. They should be required of every employee, including every senior leader and manager.

So far, we have explored the System components of culture, structure, and measurements. Now it's time to move to HR policies, processes, and programs.

HR Policies, Processes, and Programs

HR policies, processes, and programs are integral to creating a seamless, consistent self-reinforcing System. HR has to enable, hire for, train for, design and implement measurements as discussed above, and reward the desired behaviors. Aligning hiring, training, and evaluation processes with growth behaviors is critical but often overlooked. These HR practices, if thoughtfully designed, can influence how fully employees emotionally engage with their work and their overall level of satisfaction.

In our study of consistent high-growth companies, we found that high employee engagement and satisfaction was a common denominator of these companies. A senior leader at Best Buy allowed that its most important financial measurement is employee satisfaction because moving that measurement up even one-tenth of a percent has significant, positive financial impact.

Why is high employee engagement and satisfaction so important in such companies as UPS, Sysco, Levy Restaurants, and Best Buy? If daily execution excellence and daily constant improvement are the foundation of exploitation and growth exploration, those activities must occur throughout the organization. Who must perform those activities? All employees must. So is it likely that employees who feel that they are respected, listened to, treated fairly, and given opportunities to personally grow will perform those tasks better than if they feel the opposite? This seems to be the case. Emotionally engaged and satisfied employees seem to take execution and improvement to a consistently higher level. High employee engagement and satisfaction also leads to lower turnover and higher productivity, both of which impact net profits positively.

High employee engagement in these companies was enhanced by promotion from-within policies; stability of HR policies; perceived fairness of compensation, review, and promotion actions; frequent constructive feedback; egalitarian (except for pay) team cultures; devaluation of manager and leader elitism; stock ownership; and humble steward leaders.

Stability of HR compensation and promotion policies is important. If you are asking employees to constantly learn, change, and improve, then keeping the "rules of the game" (as to how people are rewarded for playing the game) stable and consistent builds trust in your System. One company that has proven the value of high employee engagement is Sysco.

Sysco

Sysco has been the market-leading wholesale food distribution company in the United States for years.[11] It delivers over 4 million cases of food daily to more than 390,000 customers, 99% of which is on-time and defect-free. It employs over 45,000 employees, more than 50% of them hourly warehouse and delivery personnel. Sysco's market share and profit margins are significantly higher than its competition, yet it basically sells commodity products. How does it consistently achieve such stellar results?

It's the Sysco System that enables, promotes, and rewards execution excellence, and entrepreneurial behavior in customer-facing positions: truck drivers, sales people, and restaurant business review consultants.

Sysco's measurements show the financial impact of high employee engagement. **Table 3** compares certain measurements across two different groups. The first group includes all the employees working in Sysco business units that achieved top quartile employee satisfaction as

[11] "Sysco Systems" (UVA-S-0140).

compared to all Sysco business units. The second group includes all employees working in business units that achieved bottom quartile employee satisfaction as compared to all Sysco business units.

Table 3. Business units work climate impact.

	Work Climate Average	**Operating Pretax %**	**Operating Expense as % of Sales**	**Workers' Comp. % of Sales**	**MA Retention**	**Delivery Retention**	**Associates per 100 Thousand Cases**
Top 25% work climate	4.01	7.5%	13.3	.07	85	88	4.13
Bottom 25% work climate	3.61	5.3%	14.9	.20	72	78	4.33
Variance	.40	2.2%	1.6%	.13	13	10	.20

These numbers demonstrate the difference in employee performance in high employee engagement (Top 25%) and low employee engagement business units (Bottom 25%). Top quartile employee satisfaction business units earn significantly higher operating pretax profits, have lower operating expenses, and achieve higher employee retention and productivity. These are meaningful differences and show that at Sysco high employee engagement has positive financial implications.

What are the HR policies that contribute to these results? Sysco credits more than 65% of its employees owning stock in the company and promoting people from within to fill open positions 95% of the time. Many of Sysco's hourly workers are paid weekly incentive bonuses to reward them frequently and in close proximity to good behaviors. The power of rewarding good behavior was expressed by Rick Schnieders:

> This culture was self-replicating. Our people feel good because many own stock, and they see results when everyone works hard and performs. Many, including our truck drivers, are on incentive bonus programs and see compensation results directly and weekly. All of this makes people work harder—they feel good about the results in which they share, and they feel good about working hard tomorrow.[12]

Another market leader that created a System that resulted in high employee engagement is the Outback chain.

[12] "Sysco Systems" (UVA-S-0140).

Outback

Outback has an employee centric culture that is "tough on results but kind on people." It has a philosophy of teaching, not punishing and "no rules—just right." Outback's goal is "to be a company of goodness—to our guests, to our employees, and to our communities."[13] Outback's System was designed to drive entrepreneurial behavior and ownership at the local level. Hiring and training is a local responsibility. Much like Sysco, Outback gives restaurants significant autonomy for customer-facing activities while centralizing and standardizing food quality and food preparation activities.

At each Outback restaurant, the manager and the chef own an equity share of the restaurant, and the rest of the employees participate in bonus programs driven by the restaurant's performance. Outback thinks it has created more restaurant manager millionaires than any other restaurant chain in the United States. One of the founders of Outback stated: "We believe that when you get to the top (are successful), you have to remember to send the elevator down to bring other people up."[14] This was his way of saying that his success was dependent on lots of employees and that it should be shared. You will recall UPS's belief that it has more millionaire truck drivers than any other distribution or transportation company in the United States. Ownership of a share of your results, directly or indirectly, is important to many employees.

In the study of consistent high-growth companies, ownership played an important role in driving high employee engagement. Ownership means more than actual stock ownership. Not every company studied had broad employee stock ownership. But what they did have were HR policies and behaviors that generated employee feelings that they had some control over their own destiny as exemplified in such employees' statements as: "I feel like if I take care of the company, it will take care of me." When questioned, these employees answered that they knew that if they performed well, the company would treat them fairly. They trusted the System. They thought that they had some control over their own destiny through their performance.

Other Examples

These are some other companies that have created high employee engagement environments and have achieved consistent high performances: Southwest Airlines, Starbucks, AFLAC, Chick-fil-A, TSYS, Whole Foods, Wegmans Food Markets, Ritz Carlton Hotels, Levy Restaurants, SAS, Zappos, Patagonia, and Yum! Brands. While high employee engagement does not guarantee high performance, it appears that they occur together frequently.

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[13] Hess (2007), 94–95.
[14] Hess (2007).

Leadership Behavior

All of the work done to create a seamless linked, aligned, and self-reinforcing System (culture, structure, HR policies and processes, and measurements and rewards) that enables, promotes, and drives defined growth behaviors will be for naught unless leadership (from the CEO down to managerial levels) role models the desired behaviors. As in the Best Buy example discussed earlier, leadership must "walk the talk."

Not only must leadership role model the desired behaviors, but leaders also must manage their own habits to eliminate bad behavior. Leadership behavior inconsistent with the desired behaviors has negative impacts far greater than just the impact in the particular interaction. Bad behavior creates hypocrisy that destroys trust, and bad behavior deemed acceptable by others will cascade down an organization.

The CEOs of the consistent high-growth companies we have studied were humble, passionate operators who believed in stewardship and serving their stakeholders. They managed themselves and understood the major impact their behavior could have on the organization. They understood the influence their daily behaviors had on either reinforcing or destroying an environment needed for growth. They believed and behaved as if employees are far more important than they are. They fought executive elitism and devalued executive perks other than compensation. Even with respect to compensation, you rarely see any of them on the lists of the highest-paid CEOs.

In many cases, the biggest growth inhibitors in a company are some of its leaders and managers who are not able to role model the desired growth behaviors. Unfortunately, in some cases, creating the holistic type of System we are talking about requires a major firing or retirement in order to send the message that certain behaviors will not be tolerated.

It's the System

As we conclude our exploration of the power of an internal seamless, consistent, self-reinforcing, and aligned System of strategy, culture, structure, HR policies and processes, measurements and rewards, and leadership behaviors to drive desired growth behaviors, we need to emphasize a few points.

Building a System takes hard work and time. Maintaining one requires constant vigilance and a heightened sensitivity to inconsistency among any of the components and in messages. These Systems are fragile in that bad behaviors, hypocrisy, or inconsistency in any of the parts can have a large negative impact. Successful Systems (evidenced by consistent high performance) can also be challenged by major changes in leadership. This is particularly true if a new CEO comes in from another company and makes major people and cultural changes.

System building requires senior executives to focus part of their time on working *on* the company, not solely *for* the company. Think of your System as your unique recipe made up of your "secret" ingredients in the right amounts to generate your unique growth environment. A well-designed and maintained System can become a compelling differentiator that leads not only to consistent high performance but also to a competitive advantage.

Let's look at a successful company that changed its business model in an attempt to gain even more strategic advantage over its competitors. In order to change its business model, Best Buy had to change its System—every component had to be changed and aligned to drive the new desired behaviors. Best Buy like UPS and Sysco is a good example of an aligned Growth System that drives defined growth behaviors.

Best Buy's New System[15]

In 2004, Best Buy was the market leader in consumer retail electronics operating more than 800 big-box retail stores in the United States. Best Buy realized that it needed to further differentiate its customer value proposition from its competition and adopted a new business model called Customer Centricity. Customer Centricity meant that Best Buy would not sell products but rather would consult with customers and help customers meet their needs by creating solutions for customers. However, traditional retail sales techniques of pushing products and traditional retail measurements would not work if employees were to behave more like consultants. What did Best Buy have to do to implement its business model?

First, it defined the behaviors that its employees needed to exhibit to implement the new business model. It then had to create a new System that enabled and reinforced the behaviors for selling consulting solutions. Best Buy wanted its store sales people to listen to customers, to ask questions in order to understand customer needs, to classify customers according to their needs, and to suggest combinations of products and services to meet specific customer needs. These behaviors were very different from the existing behaviors of pushing products especially those products in the distribution center.

To enable and promote these new desired behaviors, Best Buy had to change its culture, its structure, its leadership model, and its measurements and rewards. Best Buy had to change its command and control, top-down culture and structure into an inverted pyramid so that customers became "kings and queens," employees became "royalty," and managers and leaders became "servant leaders." With this cultural change came a structural change: Each store became a separate operating business unit giving operational ownership to store management. With this change in structure came new store measurement and compensation policies that were put in place to drive entrepreneurial store-level behaviors.

Not only did employee behaviors have to change but also mid-level and senior management-level behavior had to change also to servant leader behavior. To promote humble,

[15] "Best Buy Co., Inc." (UVA-S-0142).

serving others behavior at the senior level, Best Buy made 20% of senior management's bonus and stock option compensation dependent on "walking the talk" as a servant leader. Best Buy Vice-Chairman Al Lenzmeier stated:

> Our mission as leaders is to put in place something that will live on—be sustainable. It is a constant battle of paradoxes: entrepreneurial versus bureaucracy; fighting complacency and self-satisfaction, which result from success; and to keep rejuvenating the core business and to look for new geographies or concepts for the future. Managers have to live our values—20% of their annual option grant is dependent upon whether they walk the talk. If you want to work at Best Buy, leave your ego at the doorstep.[16]

Conclusion: Assessing Your System

For our teaching and consulting, we developed the Growth System Assessment Tool to illuminate the presence of growth inhibitors, nonalignment, and bad growth behaviors. **Exhibit 1** provides a mini-assessment model of this tool for you to use to start thinking about how to create your own System for enabling and promoting growth mindsets and behaviors. This tool should help you think about the steps you need to take to improve your organizational growth environment.

[16] "Best Buy Co., Inc." (UVA-S-0142), 7.

Exhibit 1

GROWTH IS MUCH MORE THAN JUST A STRATEGY: IT'S A SYSTEM

Growth System Assessment

Which statement best describes your organization or yourself?	**OR**	Which statement is more true or correct?
1. Culture		
Our culture encourages debate and dissent	vs.	Our culture encourages conformity and "go along-get along"
Our culture encourages experimentation	vs.	Our culture discourages deviating from established ways
Our culture accepts mistakes as a necessary part of learning	vs.	Our culture punishes mistakes
Our culture rewards diversity of opinion	vs.	Our culture rewards conformity
Our culture encourages teamwork across BUs	vs.	Our culture does not encourage cross BU collaboration
Our culture encourages broad knowledge sharing	vs.	Our culture encourages knowledge sharing on a need to know basis
Our culture results in a "one way" mentality	vs.	Our culture encourages challenging current practices
Our culture is product centric	vs.	Our culture is customer centric
Our culture values most its people	vs.	Our culture values most financial results
Our company is risk adverse	vs.	Our company encourages taking measured risks
We are paranoid about any mistakes	vs.	We accept that mistakes are a given when trying new things
Before trying new things, we have to study them and prepare a business plan	vs.	We have a fast way of doing small experiments
Our company is driven primarily by quarterly earnings	vs.	Our company is driven primarily by a long-term view
We are a proactive company	vs.	We are a reactive company
We value speed and action	vs.	We value deliberation and caution
We value learning	vs.	We value not making mistakes
2. Structure		
Our structure enables speedy flexible responses to customer needs	vs.	Our structure inhibits speedy flexible responses to customer needs
Our structure gives authority to customer-facing employees	vs.	Our structure gives little authority to customer-facing employees

Exhibit 1 (continued)

Which statement best describes your organization or yourself?	**OR**	Which statement is more true or correct?
Our structure transfers new ideas from the field to senior management quickly	vs.	Our structure does not quickly transfer new ideas from the field to senior management
Our structure enables quick decisions	vs.	Our structure inhibits quick decisions
Our structure requires many levels of approvals on small matters	vs.	Our structure gives manager's authority to make many types of decisions
3. Leadership Behavior		
My manager encourages different opinions	vs.	My manager discourages opinions different than his or hers
My manager frequently seeks my input on changes	vs.	My manager just informs me of changes
My manager punishes all mistakes	vs.	My manager understands that mistakes will occur in trying new things
My manager rewards compliance and "going along"	vs.	My manager rewards constructive inquiry
My manager likes to learn	vs.	My manager only cares about meeting his performance goals
4. Employee Engagement		
Most people I work with feel that the measurement and reward system is differentiating and fair	vs.	Most people believe the measurement and reward system is political and does not fairly differentiate.
You can advance here and be all you can be	vs.	Advancement is limited to those who play the game the best and who do not make waves
My manager seeks my feedback on how he performs as a manager	vs.	My manager rarely seeks my feedback on those issues
5. Measurements		
I am measured on learning and constant improvement	vs.	I am not measured on whether I constantly improve
I am asked to give 360-degree reviews of my managers	vs.	I am not asked to do these reviews
I am measured as to whether I create cost savings or productivity ideas	vs.	I am not so measured
I am measured as to whether I create new revenue ideas	vs.	I am not so measured
6. Ideation Processes		
I am encouraged to submit ideas for growth and improvement	vs.	It is not important that I submit ideas for growth or improvement

Exhibit 1 (continued)

Which statement best describes your organization or yourself?	**OR**	Which statement is more true or correct?
People who submit ideas for improvement are thanked	vs.	People are only acknowledged if their idea is deemed a good one
7. Experimentation Processes		
We have a company process to test out new innovation or growth ideas	vs.	We do not have such a process
Everyone is expected to think innovatively	vs.	Innovation is the responsibility of a special group
I have received training on innovative thinking	vs.	I have not received such training
I have received training on opportunity recognition	vs.	I have not received training on opportunity recognition
I have received training on how to do a small cheap test on a new idea	vs.	I have not received such training
I am encouraged to spend some of my work time on thinking about new revenue growth initiatives	vs.	I am not encouraged to do so
New ideas must go through a business plan process with financial return hurdles	vs.	New ideas can be tested without a formal business plan
Managers have the authority to run experiments and test new ideas	vs.	Such experiments must be approved by senior management
Managers have authority to conduct experiments and test new ideas	vs.	That is the responsibility of a separate group
8. Alignment		
Our culture, leadership model, what we measure, and what we reward are aligned and consistent	vs.	We do not consistently measure and reward desired cultural and leadership behaviors
We teach, measure, and reward growth producing behaviors not just financial results	vs.	We primarily measure and reward financial and productivity results
Most employees own stock in the company	vs.	Most employees do not own stock in the company
We primarily promote from within	vs.	Many times we hire from the outside

Source: Created by case writer.