

Robust Companies

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The challenge for any company is to ensure that it continuously renews and reinvents itself. Companies generally start with a single product line, which eventually, if nothing is done, becomes mature (often what it becomes mature or scarce are good ideas for turning around operations!). Since growth and survival are two of the core objectives of any company, mature and declining companies or businesses must be transformed and/or replaced with new ones.

The leadership challenge of any good company is to approach with sound knowledge the following questions:

1. How does the company manage its existing businesses efficiently?
2. How does the company ensure growth with these businesses?
3. How does the company develop new businesses?

All must be done at the same time, meaning that this work is very tough and time consuming. The pressure for leaders and managers is to create the organizational design, arrangement or architecture, and intelligent process to encourage constant innovation. This is the task of developing new business units that are critical for the prosperity, progress and survival of the company.

Such innovation has to occur during the business as usual paradigm and expand the boundaries of the company in response to the change from within and outside the company. In the longer term strategic management recognizes that everything is variable: an organization can change any attribute (technology, culture, and product, market scope) to develop fundamentally different and new lines of business (products and services).

Some companies are very active in managing their business portfolio overtime, acquiring and divesting business units to ensure that their business proposition is appropriate to their resources and economic junctures.

The need to manage the present and the future at the same time is a very complex job. Recently, this undertaking has been researched by M. Baghai, S. Coley and D. White in **The Alchemy of Growth**. The researchers recommend that a company have a portfolio of business with different growth horizons, with the individual businesses classified in terms of their maturity. Pharmaceutical and technology companies do so in recent times.

The empirical management claim is that the company needs to maintain a continuous pipeline of business building initiatives, since an existing business can eventually evaporate. The logic is that businesses grow, mature and decline. As they mature, they need a stream of other products and services to complement or takeover.

The horizon 1 businesses are products and services which constitute the core business of the company, which are generally mature. These businesses generate the cash and skills that provide the resources for growth. These are the cash cows products and services of the organization. The continuous capacity of these products and services to generate cash is essential for the sustained growth of the organization. A very practical and fundamental question is, if these businesses are generating earnings to invest in the growth of the future. Leaders have to be alert to changes that can affect their cost structure, and constantly assess if they are losing market share, especially to global competitors. Regarding this point, it is important to establish if substitute's products and services are likely to be a mayor threat, and if the rules of competition are changing.

The horizon 2 businesses are emergent products and services or new ventures in which growth is accelerating. They can transform the organization, but they will require considerable investment. Leaders will have to ponder if they have the new products and services capable of creating as much economic value as the current ones, and if they are going to be able to make the necessary investment. A key, and sometimes overlooked, dimension here is, if the company has the true talent to manage these ventures.

The horizon 3 businesses are products and services in the embryonic stage of the life-cycle. They are the real investment activities. They are the products and services that will secure the company's longer term future. In reality, these will be non-existent unless leaders spend strategic time

reflecting and playing with future growth opportunities. The pressure of short-term results and the seductiveness of the status quo-business as usual mentality is such that even well-educated and experienced leaders often neglect the longer term. This third context requires creativity as well as commitment.

Creating the future requires profound foresight as well as resources!

The Alchemy of Growth model commands the company to commit to a series of innovation and to build the new competences to identify and exploit such opportunities. Leaders need to manage horizon 3 businesses with very different structure, incentives, planning and work systems, including the interplay between types of innovation.

By considering the dynamic aspects of business development, the company and its leaders will gain more insight into the necessary capabilities to support growth alternatives.

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