BUSINESS digest

How can companies balance multiple growth strategies?

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In brief

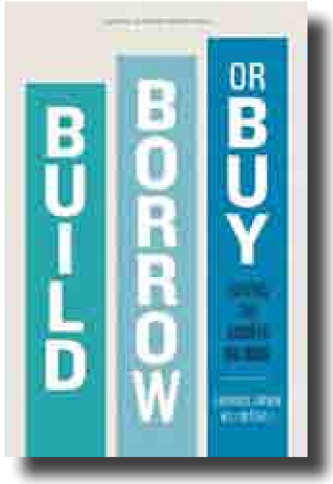
Should you build, borrow, or buy? According to Laurence Capron and Will Mitchell, success depends less on the ability to perfect the right growth strategy and more on the capacity to juggle multiple different approaches. So why are a full 40% of executives content to stick with the one strategy that is most familiar to them?

Reliable growth requires a balanced array of build-borrow-buy projects. What risks do you expose your company to by favoring one growth strategy over the others? To stay agile, continually reassess how the company acquires new resources, realigning when necessary, and clearly explain your choices to employees in order to create a common strategic vision.

According to Yann Le Bihan, CEO of the software development company Sciforma, staying afloat in his volatile industry is a matter of balancing three fundamental growth strategies: 1) partnerships to support geographically diverse activities; 2) internal development of core technologies; 3) technology acquisition via licensing agreements for non-core activities.

Build, borrow, or buy:

Solving the growth dilemma



Based on *Build, Borrow, or Buy: Solving the Growth Dilemma* by **Laurence CAPRON** and **Will MITCHELL** (Harvard Business Review Press, August 2012)

Companies with well-rounded build-borrow-buy growth strategies are 46% more likely to survive the next five years than those that do not diversify, according to a two-decade long study of hundreds of companies from around the world by authors Laurence Capron and Will Mitchell. So why do a full 40% of those surveyed insist on relying primarily on just one growth strategy rather than broadening their horizons?

Today's complex markets demand varied, balanced growth strategies selected on an ongoing basis using context-based criteria. However, 40% of leaders are content to stick with the one strategy they know best, blaming poor implementation when efforts to create new value fail rather than the real culprit: the wrong growth strategy. Urging company leaders to switch from trying to perfect one growth strategy to instead juggling multiple different approaches, Capron and Mitchell lay out a clear framework for selecting the right growth strategy for each new opportunity. In the midst of multiplying economic disruptions, the authors explain that expanding organizational strategic capabilities will keep companies running more efficiently over the next five years.

THE LIMITS OF INTERNAL DEVELOPMENT

Offering the possibility for more comprehensive control, protection, and integration of new resources than either short-term contracts and alliances or M&A, internal development is often the first choice of leaders. 75% of those surveyed by the authors cite internal development as their preferred means of obtaining new resources, with only 30% reporting ever having even tried another method.

The danger of strategic blind spots

Blind preference for internal development over other methods ultimately leads to failure, with 65% of CEOs reporting insurmountable obstacles to their attempts to build new resources internally. Leaders often mistakenly choose to build when either borrowing or buying would be wiser due to the following blind spots:

1. Hubris about internal capabilities: It is all too easy to fall victim to the idea that the company can (or should) be the

MEMO

- **Build** when the company's existing knowledge and organizational structures match well with the targeted resources.
- **Borrow** via short-term contracts when resources are highly tradable. If they aren't tradable and the long-term goals of both parties are compatible, borrow via alliances.
- **Buy** only when it offers significant competitive advantages to do so, when it's possible to map the integration process, and when you can keep the key talent from both firms motivated.

> It is not so much the perfect implementation of any given growth strategy that leads to success but rather the ability to juggle and decide wisely between multiple different approaches.

The authors

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strongest on the market in every area, but this is never possible for any company!
2. Problematic incentive systems: Company leaders may reject the idea of looking outside the company due to fears that external resource providers will undermine their power and influence.
3. Limited awareness of external developments: "Without meaning to, businesses sometimes become too inwardly focused," note the authors. "The world shrinks around them." Meanwhile, companies that hitherto have relied solely on internal development are likely to lack knowledge about how to seek out external resources.

When should you develop internally?

Is internal development the right strategy for your latest growth opportunity or, conversely, will it fail to create any real value? The key consideration here is resource relevance: are the company's existing knowledge and organizational structures a good match with the targeted resources?
• **Knowledge fit:** "Is the company the strongest on the market in the targeted resource domain, or do external parties exist that could develop the needed resources faster, more cheaply, and at higher quality?" ask the authors. Without leading expertise, internal development is likely a poor choice. The early efforts of Coca-Cola FEMSA, a Latin American soft drinks company, to expand into the coffee vending machine market in 2010 saw disappointingly low sales. The problem was that internal teams initially developed the new coffee product the same way they do soft drinks: using syrup. However, customer complaints about taste took them back to the drawing board, where they had to eliminate the syrup to improve the flavor. They also had to figure out how to prevent the milk powder from going bad in the machine — a second problem affecting the taste that internal teams had never encountered before.
• **Organizational fit:** Coca-Cola FEMSA's internal development efforts also suffered from what the authors call "organizational misfit." Obstacles included resistance from company truck drivers — paid per box of goods delivered — who were reluctant to take up truck space with the new coffee products. Not only did the new product place time-consuming demands on the drivers such as having to restock machines with extra condiments (milk and sugar), drivers were also required to sell the new concept to retail store managers—a role for which they had no former training or experience. To increase sales, Coca-Cola FEMSA had to reorganize the company's entire delivery system. In other words, even when a company has the relevant technical expertise, internal development may call for dramatic, potentially unfeasible structural changes.

THE UNTAPPED POTENTIAL OF PARTNERS

Contracts and alliances with external resource partners offer the compelling advantages of speed and flexibility. "For focused, clearly defined resources and objectives," say the authors, "alliances are your best bet."

An overlooked strategy

Many business leaders have an overly negative view of resource borrowing. "Fully 80% of the surveyed executives shared concerns of exclusivity, control, and resource protection in alliances," report the authors. "One leader called them a flawed approach that would lead to 'shopping core competences rather than sharing knowledge.'" While it is true that short-term contracts and alliances can be complex and difficult to manage (some analysts suggest that the success rate of alliances is less than half), when implemented correctly, they also represent a potentially cheaper, more flexible, and less traumatic growth strategy than the riskier alternative of M&A. An alliance between the South African telecommunications company MTN Cellular and Standard Bank, for example, led to their highly successful joint venture MTN Money service, which enables customers to transfer money by mobile phone. To identify borrowing opportunities more effectively, leaders need to question whether exclusive control of a given resource is really necessary. •••

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Short-term contracts or strategic alliances?

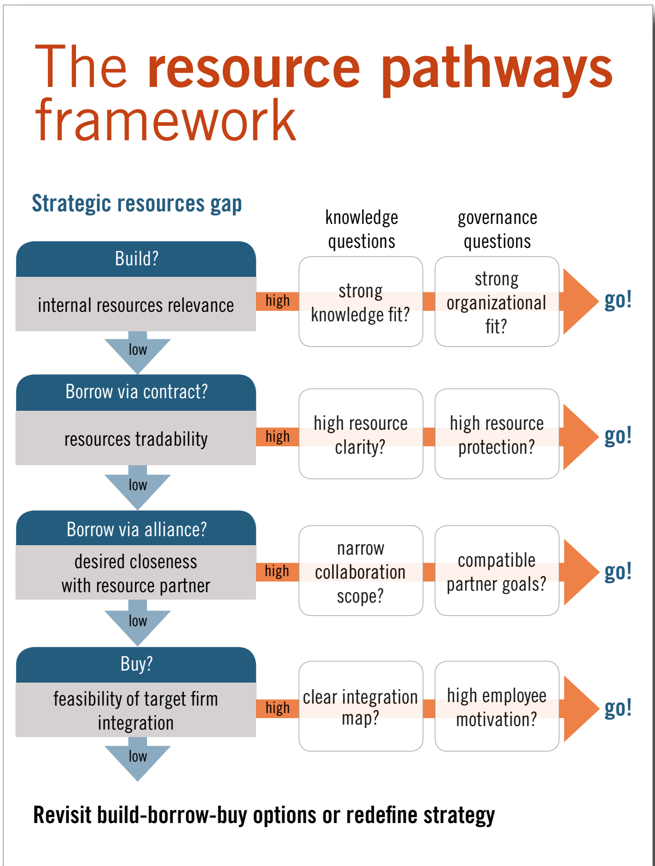
Whether or not a short-term contract is feasible depends on the tradability of the targeted resources. “Tradability means that you can clearly define what you need and determine that a contract will protect the value of each partner’s resources,” explain the authors, who suggest that if most of your answers are yes to the following questions, then the targeted resources can be successfully acquired with a short-term contract:

- Is it possible to define the targeted resources clearly?
- Does the company need only limited input from the resource partner?
- Will you be able to use legal means to protect yourself in case of conflict with your resource partner?

On the other hand, if your answers to those questions were no, then an alliance may be a better choice. In contrast to contracts, which typically transfer resources in one direction from one partner to another, alliances involve collaborative development. The key question to ask when considering an alliance is: are your long-term goals in regards to the targeted resource compatible with your partner’s?

BUYING IS A HIGH-RISK STRATEGY

M&A is the most costly and risky of all three strategies and should thus only be considered when it offers absolutely critical competitive advantages that cannot be achieved through building or borrowing.



Mapping the integration process

To figure out if M&A is a wise choice, the main question to ask is: will the company be able to integrate the targeted firm successfully? “However you structure the integration analysis,” explain the authors, “you need to achieve clarity in (the following) three areas:”

- **Resource combination:** Which of the targeted firm’s resources will fill your resource gap(s)? Especially when crossing market, culture, and geographic divisions, it can be difficult to evaluate this accurately, but beware of shortcuts. Not only is due diligence important in terms of the current value of resources, it is also important to map out how they will blend with your internal resources to create new value.
- **Resource divestiture:** Which of either firm’s resources will become unnecessary after the deal is closed? “In planning for and integrating the target,” say the authors, “you will inevitably find that some resources that formerly created high value are now unnecessary.”
- **Timeline:** Identify the major goals of the deal, such as for example how long the targeted firm will operate independently before being integrated into the existing core business.

Motivating key people from both firms

M&A runs the risk of alienating staff from both firms, representing a strong threat to successful integration. How can you keep the key talent from both firms motivated throughout the integration process?

- **Culture:** conduct a cultural diagnostic of both companies to discover the similarities and differences between the two, taking particular care to identify the barriers that may lead to misunderstanding and conflict.
- **Communication:** Present a clear, compelling case for the acquisition to everyone, internally diffusing the new strategic vision.
- **Talent management:** Can you identify the key people from the targeted firm (especially important when other staff will be let go) and the incentives (money, career advancement, new challenges) that will motivate them to stay? Similarly, it is important to identify those at the acquiring firm whose work will be directly affected. Will the change cause them to leave? Should they be encouraged to stay and, if so, will that be possible?
- **Middle management:** mobilize and bring together teams of direct managers for change, integration, and new team management.

The main lesson from Capron and Mitchell’s two decades of research into growth strategy is that company leaders need to weigh all their options carefully rather than simply repeating what they have done in the past. “Otherwise,” warns Capron, “they may not be around in five years.” ■

Maintaining a balanced array of build-borrow-buy projects leads to more consistent and reliable growth — exactly what is both most needed and most at threat in the current global economy. How can leaders balance resource management activities over the long term?

How to maintain a balanced resource portfolio

Based on *Build, Borrow, or Buy: Solving the Growth Dilemma,* by **Laurence CAPRON** and **Will MITCHELL** (Harvard Business Review Press, August 2012).

1 / ENSURE BALANCED GROWTH

First, define the goal: a balanced resource portfolio. Then, conduct an assessment of the company's current growth and available sourcing options.

Assess the whole of your resource portfolio

Is the company growing in a balanced way? What risks are you exposed to?

• What share of the company's resource portfolio is internal development? Over-reliance on building resources internally leads to insularity and inertia.

• What share of the company's resource projects are being developed via contracts and alliances with external parties? Too much borrowing leads to overdependence on external parties, reducing the organization's strategic autonomy.

• Has the company recently acquired new resources via M&A? If so, then beware of taking on more; too many acquisitions drain resources, demotivate and burn out internal teams, and cause fragmentation.

Manage the resource pipeline

Regular scans of both internal and external resource domains can help leaders to keep informed about the company's sourcing options. It is important to stay in touch with a diverse array of insiders from both environments.

• **Conduct regular internal scans:** "Surprisingly, many executives are ill informed about activities in their own firms' R&D enclaves," report the authors. Obstacles to keeping informed include hierarchical cultures as well as competition between business units, teams, and individuals. Tactics for overcoming these obstacles include company knowledge centers, research databases, skill inventories, and knowledge maps, as well as providing incentives to employees for identifying and sharing knowledge.

• **Conduct regular external scans:** In the age of big data, staying informed on external sourcing options can seem like an overwhelming task. It may be worth it to create an entire team dedicated solely to monitoring external resource pathways — tracking market trends, emerging resources, and external innovators. In smaller firms where it is not possible to have a dedicated team for this function, the responsibility usually falls to senior leaders.

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2 / FREQUENTLY REEVALUATE GROWTH STRATEGIES

"What is core today may become noncore tomorrow; likewise, what is now on the periphery might eventually migrate to the core," report Mitchell and Capron. Consequently, company leaders need to continually reevaluate how the company obtains its resources.

Realign internal resources

At different points in a resource life cycle (whether acquired via internal development or M&A), the level of control that is needed will vary, with certain circumstances calling for divestiture.

- **Will more control bring needed benefits?** If so, then leaders can integrate the resource deeper into the core of the company by forging links between it and other core teams (perhaps by swapping team members).
- **Is it time to lessen control over a particular resource?** When the company cannot keep up with the technical and market trajectory of a given resource, rather than trying to play catch up, it may be time to lessen control, opening up the possibility for a different resource strategy altogether.
- **At the extreme end of less control, does it make sense to divest the resource?** Here are three good reasons to divest a given resource: 1) resources have become obsolete; 2) resources have become redundant; 3) resources are stifling the company's ability to explore other, potentially more valuable resources.

Realign borrowed resources

Companies also inevitably need to adjust their level of control over the resources they borrow through contracts or alliances.

- **Should you increase control over a borrowed resource?** If you need to adapt borrowed resources, or if concerns over proprietary rights arise, it is likely time to increase control. Control can be increased by switching from a contract to an alliance or, for even more control, from an alliance to internalization. If it is not possible to alter the nature of the company's relationship with its current resource partner, it may be time to consider looking for a new resource partner.
- **Is it time to reduce control of a borrowed resource?** "The more you can push your organization to reduce unnecessary control, the more time and resources you free up for control to be applied where it will have more impact and value," council the authors. To reduce the complexity of your resource partnership, you can switch from an alliance to a temporary contract.
- Is it time to divest a borrowed resource? "When a partnership no longer provides value, you should end it." Ending relationships are often a delicate matter: wise leaders seek peaceful, amiable conclusions whenever possible. It may be possible to sell resource rights to partners if they value the joint resources more than you do.

3 / CLEARLY EXPLAIN YOUR CHOICES TO YOUR TEAMS

According to the authors, a primary step on the way to achieving a balanced resource portfolio is "to create a shared understanding." This requires three steps on the part of company leaders: discuss, act, and diffuse.

Discuss the company's build-borrow-buy strategies

In your discussion of the need for a balanced resource portfolio, be pragmatic:

- Target key company decision-makers.
- Identify those who already recognize the need for balanced growth.
- Frame talks as a call to action.

Quickly move from discussion into action

When the company is first experimenting with unfamiliar strategic modes, pick projects that have a high chance of success and then use early wins to build commitment throughout the rest of the company. "Success will build commitment," write the authors. "Identify opportunities that will visibly contribute to the firm's strategic goals."

Actively diffuse the new strategic approach

Diffusion doesn't happen on its own — it requires calculated, careful effort. Leverage supporters to build networks and thereby create a cascade effect. "Well-placed expeditionary networks can build momentum quickly, even within a large organization — and especially if the grapevine fills with talk of the early wins." ■

Sciforma

Diversifying growth strategies to increase flexibility

Interview with **Yann Le BIHAN,** CEO of Sciforma, November 2012.

Quick, continuous change is the norm in the IT sector, leaving little room for chance when it comes to business growth strategies. For Sciforma's CEO, Yann Le Bihan, there are three fundamental sources of growth on which his company's success relies: 1) partnerships to support geographically diverse activity; 2) internal development of core technologies; 3) technology acquisition via licensing agreements for non-core activities.

BIOGRAPHY

Yann LE BIHAN is the owner of Sciforma (Silicon Valley, California), a global leader in project management software, and has been Sciforma's CEO since 2008. Previously, he created Le Bihan Consulting in 1986 to distribute PSN project management software developed by Sciforma (formerly Scitor). Le Bihan is a graduate of the Ecole Centrale de Nantes and holds an MBA from HEC Paris.

When Yann Le Bihan was working in Indonesia for COMEX (Compagnie Maritime d'Expertise) in the 1980s, he had to deal with the blatant absence of project management software, even in international business organizations. Upon his return to France in 1985, he discovered PSN, project management software development by Scitor, an American company based in Silicon Valley. Le Bihan convinced Scitor to grant him a distribution license for France, and with this end in mind, he created Le Bihan Consulting in 1986. Within three years, Le Bihan Consulting was Scitor's top customer worldwide. Le Bihan purchased Scitor in the mid-2000s, merged his two businesses, and moved to the United States in 2008 to become CEO of the new organization, renamed Sciforma. "During those years, I did not really think about balancing growth strategies, but rather about pulling the right levers for growth at the right time. As is often the case, when it came to choosing a growth strategy for Sciforma, I relied primarily on intuition and common sense, and we experienced the ups and downs that that implies. The greatest contribution of Laurence Capron and Will Mitchell's book is to lay the important issues out for business leaders for them to take into account in the creation of sound growth strategies."

Geographical development: limiting risks and costs

"When it comes to geographical development, Sciforma has a three-person team (which is a lot for a 135-person software company), which focuses solely on establishing partnerships with local distributors. We target high growth markets and look for the right local partner." This is the least costly growth strategy in terms of capital investment as well as the least risky. "Even if it takes a while to find the right partner, working with locals is always a safe bet," says Le Bihan. "We are currently trying to develop business on the Brazilian market, and it has taken three trips over the past two years to find a partner that is right for us." ...

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Limiting internal growth to favor geographical expansion

Wouldn't an internal growth initiative, such as opening a local subsidiary, generate faster geographic development than building local partnerships? "In the early 1990s, I wanted to open a subsidiary in Germany. I felt confident about the idea, because the French and German markets were similar, and competition (large multinational corporations) was the same in both places. However, it ended up taking five years for the subsidiary to earn a very small profit!" The explanation lies in the fact that Le Bihan and his team were used to selling to French customers, not German. Le Bihan recalls, "In France, all we had to do was to show project managers how easy our software was to use, and they would happily dip into their budgets to buy it, with or without management approval. The software would gradually be integrated throughout the company, and management would concede its usefulness. However, in Germany, nothing is done without executive approval, so your first step must be to win over management. As a result, we had to revise and adapt our sales approach. If we had understood the cultural component of the German market when we started out, we would have saved both time and money."

COMPANY PROFILE
SCIFORMA

Headquarters: Paris (France).
Creation: 1982 as Scitor. Purchased and name changed to Sciforma by Le Bihan Consulting in 2008.
Business: Project management software solutions and services.
Workforce: 135 employees.

Choosing between internal and external growth strategies for asset development

"Buying software technologies and components is extremely common in the IT sector; however, our strategy is never to buy anything directly related to our core business. On the other hand, we will do so for just about anything else. This makes financial sense, because purchasing a license to use a technology (for a few thousand dollars) instead of the company that developed it (for a few million dollars) means we share technology costs with other market players. What's more, there is little-to-no strategic risk involved, and we do not waste any time on non-core business development." For example, Sciforma does not develop widely available graphic components like histograms, pie charts, line graphs, and so on, opting instead to pay usage fees to the companies that design them.

> "Our strategy is never to buy anything directly related to our core business."

Mergers and acquisitions: only when absolutely necessary

"When one high tech company buys another high tech company, it is not merely to acquire specific software. What really matters is the people who designed it and who are in a position to develop it further. That's why post-merger transition must be handled very carefully. If not, you are likely to lose everything. In Silicon Valley, it would take our software developers about five minutes to find another job." When Le Bihan made the decision to buy Sciforma, he focused on building consensus around this strategy. "In 2008, I moved to the United States to be close to the newest members of my organization. It was extremely important to establish good communication with the local teams." This does not call for any sophisticated tools, even in a high tech firm. Le Bihan spent a year engaging in more or less formal discussions with company members on a daily basis, including at the coffee machine. This contributed to a smooth merger, and Sciforma ultimately lost just one key member of the firm.

"Nonetheless, I believe that it is extremely risky to base growth strategy on buying out other companies if your goal is to acquire human capital. As Capron and Mitchell point out, a merger should only be a last resort. I had been working with Sciforma for 25 years when I bought it, so I knew that we shared the same values and company culture." ■

The **risks** of external growth

When asked about the chances of a business partner copying Sciforma's ideas and then releasing its own project management software on the market, Yann Le Bihan acknowledges that this is sometimes a problem. But he remains optimistic. "When software contains a million lines of coded information, the risk of being copied is minimal. Not to mention that, generally speaking, we are now protected by copyright laws. Still, the issue is worthy of attention. For the time being, we have decided not to enter the Chinese market precisely because of the difficulty of having intellectual property rights enforced."

READ IT AGAIN IN *BUSINESS DIGEST*

SUSTAINABLE GROWTH: IMPLEMENTING A SUCCESSFUL RENEWAL STRATEGY

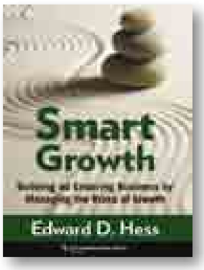
To deal with a slowing growth, research has shown that the most accurate move is to stick to your core whilst renewing your strategy. Based on the book by Chris Zook, *Unstoppable* (Harvard Business School Press, 2007), and the case study about Harman International (USA), and Novozymes (Denmark).

Business Digest no 177, September 2007.

CHANGE YOUR BUSINESS MODEL: LEAD A STRATEGIC SHIFT INTELLIGENTLY

What are the best conditions for a strategic change to suceed? Based on the book by Paul Strebel et Anne-valérie Ohlsson, *Smart Big Moves* (FT Press, June 2008) and the interviews of Didier Cossin, UBS professor of banking and finance at IMD business school (Switzerland and Thorsten J. Franke, director, UBS AG (Switzerland), February 2009.

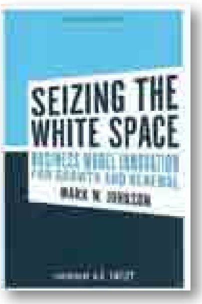
Business Digest no 193, February 2009.



SMART GROWTH: BUILDING AN ENDURING BUSINESS BY MANAGING THE RISKS OF GROWTH

By Edward D. Hess (Columbia University Press, March 2010).

Prolific author and Darden School of Business professor Edward Hess sets out to debunk several myths about growth that are undermining business; namely, that growth is always good and that growth success can be measured by narrow metrics such as short-term earnings. "In reality," writes Hess, "for both public and private companies, growth can be good or growth can be bad." Using numerous case studies, Hess explains how growth, when achieved for the wrong reasons, in fact weakens companies. Next, Hess explains how to achieve the good kind of growth — the kind that increases a company's chances for survival — by managing the risks of growth responsibly.



SEIZING THE WHITE SPACE: BUSINESS MODEL INNOVATION FOR TRANSFORMATIVE GROWTH AND RENEWAL

By Mark W. Johnson (Harvard Business Review Press, February 2010).

Seizing the White Space is associated with a few of the management strategy world's top names. A.G. Lafley of P&G wrote the book's forward for author, Mark Johnson, who is cofounder alongside Clay Christensen of the celebrated consulting firm, Innosight *(see @On the Web)*. Fortunately for the reader, this practical treatise on growth and innovation doesn't disappoint. Highlighting the importance of business model innovation to successful growth strategy, the book's central premise is that companies must innovate away from what they have done before, venturing beyond their core capabilities and into the unknown — what Johnson calls "white space" — to exploit new growth opportunities.

@ ON THE WEB

Innosight

This website from Innosight offers articles, books, and videos to help senior business leaders identify and pursue innovation-driven growth opportunities. Don't miss the videos of coauthors Scott Anthony and David Duncan separately discussing key concepts from their eBook *Building a Growth Factory* (Harvard Business Review Press, November 2012). In his video, Duncan outlines a "systematic, repeatable, and disciplined process" for growth and innovation, or what he calls the "growth blueprint." Meanwhile, Anthony illustrates how it is possible to achieve reliable growth in the midst of rapid change and uncertainty with a description of P&G and its methodical approach to innovation-driven growth.

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