Strategy from the inside out: Lessons in creating organic growth


Abstract (Summary)
Over the past decade, many companies acquired their way to growth by developing and managing a portfolio of businesses, treating each as an autonomous unit. For many companies, that strategy no longer works. Such companies must now stimulate organic growth by finding synergies between formerly disparate pieces of their enterprise. That means transforming a loosely-knit collection of businesses into a synergistic enterprise in which each business shows one face to the customer. A case study involving the machinery company Ingersoll-Rand Co. is presented. [PUBLICATION ABSTRACT]

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Over the past decade, many companies acquired their way to growth by developing and managing a portfolio of businesses, treating each as an autonomous unit. For many companies, that strategy no longer works, as economic pressures preclude large capital expenditures. Now, such companies must stimulate organic growth by finding synergies between formerly disparate pieces of their enterprise. Rather than buying new business opportunities and market channels - essentially, bringing the outside in - they must develop the means to foster new opportunities from the inside out. That means transforming a loosely-knit collection of businesses into a synergistic enterprise in which each business shows one face to the customer.

For the past three years, Ingersoll-Rand (IR) has been developing, executing, and institutionalizing just such a capability. Following decades of outside-in portfolio and market-facing moves, IR embarked on a strategy to unite its loose collection of disparate businesses as one company characterized by aggressive cross-selling, innovative "dual citizenship", in which employees give allegiance to more than one business, and a new corporate capability to create business synergies.

Three principles, applicable to any company seeking similar synergies, guided IR's effort:

1. Work at the intersections.
2. Focus on the few.
3. Institutionalize strategy from the inside out.

IR faced a formidable challenge. Although many people regarded IR as primarily serving the construction and mining industries, it had become a global, diversified enterprise with powerful brands in the climate control (Hussmann, Thermo King), industrial solutions (IR Air Solutions, PowerWorks), infrastructure (Bobcat, Club Car), and security and safety (Schlage, Steelcraft) markets. From 1997 to 2001, the company shed five businesses, while aggressively acquiring a total of 13 companies, including billion-dollar-revenue producers Hussmann and Thermo King.

Determined to make the company greater than the sum of its parts, IR Chairman, President and Chief Executive Officer Herb Henkel began to remake the company from the inside. Henkel, who was recruited to lead IR in 1999, began interweaving its businesses, leadership team, and cultures in order to execute an integrated, organic growth strategy in the marketplace - in short, to pursue strategy from the inside out. And despite the prolonged global economic downturn, initial results indicate that the strategy has been effective. IR has maintained or increased market share in all of its major markets and launched new cross-business initiatives to seize growth opportunities that previously existed but were never pursued.
Principle one: work at the intersections

To achieve internal synergies that result in organic growth, employees must recognize the untapped opportunities for collaboration and co-creation. This shift in perspective affects the gamut of business life. It affects where people focus their energies, how a company goes to market, the way work is organized, who "owns" what, how leaders develop, and the "self-evident truths" that form the heart of an organizational culture.

Success pivots around three disciplines: strategy implementation, cultural transformation, and leadership development. Because the three are distinct, companies tend to work them separately. It is at the intersections of strategy, culture, and leadership that integration and synergy must occur, with a clear line-of-sight to quantifiable business outcomes.

In business transformation, notions of the organic or the holistic are not new. They date back to the mid-1990s when they provided a corrective to the mechanistic assumptions of corporate reengineering. In practice, many holistic approaches to change merely produce sequenced initiatives in strategy, operations, technology, and culture.

For example, many companies have attempted enterprise transformation through customer relationship management (CRM). The idea is to implement CRM technology and, in the process, transform strategy, operations, and culture to remake the entire enterprise into a customer-focused organization. First, they choose a CRM package. Then, processes are redesigned and call centers are reorganized using a small team in a "back room" and, finally, as rollout approaches, they bring in the change management people to train employees and get buy-in. Observers differ as to the exact rate of success, but evidence indicates that 35 to 70 percent of companies describe their CRM implementation as a failure.

IR, by contrast, focused internally on concrete points of intersection to produce models of how its different components and businesses could operate together externally. The animating principle is dual citizenship, which encourages individuals to act as employees with loyalty to a business unit as well as to the enterprise, thus enabling successful work at the many intersections of strategy, leadership, and culture.

"Our vision is to drive shareholder value through dramatic growth, operational excellence, and dual citizenship", says Henkel. "Dual citizenship is the key - it is our critical enabler to harness the power of the many. Whether it's our sales force crossing into new business channels by introducing our security and safety sector products to Bobcat customers or our climate control sector engineers seeking innovative design solutions by reaching out to their peers in the industrial solutions sector, we are all engaging in dual citizenship."

"Most importantly", says Henkel, "dual citizenship is being embraced on employee front lines. Around the world, at our more than 100 facilities, we have plant personnel sharing ideas to improve quality and productivity. We also see IR leaders looking to further develop their careers in ways that benefit the individual and the enterprise. That's exciting because it sends the message that dual citizenship is the way we do business at IR - that every employee, at every level, can apply this ideal in his or her everyday responsibilities."

As a result, IR has been able to cross sell, work across business unit boundaries internally, and even create new businesses:

* Bobcat, the company's compact equipment business, now offers a wide array of IR products, including air compressors, compaction equipment, light towers, small generators, and tools, through the Bobcat dealer channel as Bobcat-branded products.

* The Bobcat business, with its partners from Club Car, also recently codeveloped the Toolcat, a utility work machine that combines engineering talents from both businesses.

* The Hussmann business, which provides refrigeration for the commercial food industry, introduced the company's commercial security and safety sector to major supermarket chains, where locks, exit devices, and automatic doors are being offered as part of a total supermarket solution.

* The Air Solutions and Hussmann business units, among others, have been driving IR's expansion of its recurring revenue from installation and maintenance activities, aftermarket parts, and service contracts, creating a single, branded team capable of servicing multiple IR products for a single customer.

* The Air Solutions business built a state-of-the-art manufacturing facility in the Czech Republic that is designed to be expanded quickly to host production by other IR businesses.
A line of microturbine systems to provide on-site commercial/industrial energy was launched based on the combined efforts of engineers, sourcing experts, manufacturing facilities, and sales and service channels from several IR businesses.

In each case, the simple but powerful concept of dual citizenship guided the actions of individuals, departments, and businesses. Further, each provided a platform for developing vital skills in the next generation of IR leaders. The result: an inside-out ethos of cross selling, cross servicing, partnerships, co-branding, co-product development, and more - all of which create organic growth across business units.

Principle two: focus on the few

In any transformation of a large, disparate organization it is essential to demonstrate results in many areas quickly, otherwise, the momentum for change dissipates. Momentum can also dissipate in a welter of too many initiatives that are difficult to prioritize and impossible to support. Because transformation requires bold moves directly backed by the financial and political capital of the CEO, enterprise initiatives should not look like a laundry list of every possible business improvement. Selecting and backing three to five initiatives with the full power of the executive office provides the focus necessary for sustained transformation. It also guarantees that initiative teams will retain the attention of the executive team, ensuring that initiatives do not simply fizzle out.

IR first identified seven potential enterprise initiatives, each estimated to have large financial upsides. Each initiative had to:

* produce dramatic growth or increase operational excellence;
* offer the opportunity for new capabilities to be developed;
* provide a platform for leadership development; and
* generate the kind of collaboration embodied in dual citizenship.

Further analysis determined that two of the initiatives would best be supported within one of the company's business sectors, which led to the launch of five enterprise-wide strategic initiatives:

IR International Ltd (IRI) will provide IR's internal and external customers around the world with "one face to the customer", becoming the primary enterprise vehicle for global export sales and service activities totaling more than $3 billion.

IR Retail Solutions utilizes a cross-business approach to serving grocery and convenience stores, taking IR from selling only refrigeration and merchandising equipment to national grocery store chains to additionally selling energy and security solutions.

IR Supplier Footprint helps IR businesses work together to drive down raw material costs, which were $4.3 billion in 2002. More than a sourcing strategy, this initiative involves all employees who buy, design, build, market, or transport IR's goods and services.

IR Supplier Solutions focuses on cross selling IR products to high priority suppliers. For example, in 2002 the drilling solutions business introduced the supplier solutions team to one of its major suppliers, resulting in a five-year mutual target agreement with the supplier. By 2005, the supplier solutions initiative is expected to generate $200 million in sales annually.

IR Works focuses on all customer areas and distribution channels - new markets, new customers, new products' links with existing markets, existing customers, and existing products - to develop the cross-selling capability of the organization. By April 2003, cross selling had generated more than $45 million in sales, which are expected to quadruple in two more years.

The lesson is clear, by focusing on a small set of highly lucrative initiatives in which the CEO can invest his political and financial capital, companies can create real, demonstrable organic growth from the inside out. And when the initiatives are designed to meet the additional criteria of synergy and organizational development, the initiatives can drive further change throughout the organization.

Principle three: institutionalize strategy from the inside out

Strategic initiatives may initially succeed in their own terms, spurring increased revenues, entry into new markets, and even organizational transformation, but they often fail to equip the organization to generate further strategic change. Recognizing this, many companies attempt to institutionalize their strategic capability either through a top down approach or through processes designed to produce "continuous improvement".

In the top down approach, the company establishes a strategy group that develops business cases for various initiatives and then throws them over the wall to the rest of the organization. In the continuous improvement approach, strategic initiatives are fitted out with rigorous mechanisms for performance monitoring and continual refinement of processes and strategies. Both approaches miss the mark. The top down approach lacks a capability for realistically assessing or executing the implementation of initiatives. The continuous improvement approach can produce significant incremental results, but it only extends and improves existing initiatives; it cannot produce new ones. In effect, the top down approach produces new strategies without implementation while the continuous improvement approach produces implementation without new strategies.

The strategic capability must be embedded in the natural cycle of business, providing an environment and a set of standards that increase the likelihood of success. IR leadership did not want the five enterprise initiatives to be a one-time phenomenon. So, as they implemented the strategic initiatives, they simultaneously worked to build the skills and infrastructure required not only for the success of the initiatives, but also for generating new ones. Four components made up the effort:

Targeted training and coaching: A core of 40 to 50 initiative team members worked from a set of standards to evaluate business
opportunities for each initiative and then fully designed a strategy for implementation. In contrast to the top down approach, the initiative teams were not only trained to develop a full business plan, including the business case, market entry strategy, operating model, and implementation plan, but also were tasked with implementing it.

To create the kind of high performance team required for working across businesses, training went beyond traditional team-building exercises. Specific behaviors were tied to individual objectives, and team leaders and members were coached throughout the process. As members returned to their businesses, they took with them a common language for evaluating and executing strategy, which drove the institutionalization process deeper into the organization. Now, sector teams have begun to train their own staff, further institutionalizing the process.

Investing in a high performance enterprise program management office: IR also built a team of high potential individuals, drawn both from inside the organization and hired from outside, to staff an enterprise program management office (EPMO). They were trained in transformation, team building, leadership development, and strategic analysis and implementation. They possessed standard program and project management skills and mastered capabilities that addressed the intersection of strategy implementation, leadership development, and cultural transformation. Responsible for the ongoing strategy, codification, coordination, tracking, and team training, the EPMO is directly linked to the top leadership team of the enterprise.

Marketing and branding strategic initiatives: Many organizations launch one initiative after another, which come to be seen as the strategic flavor of the month and generate among employees the attitude that “this too shall pass”. Instead, IR branded each initiative, just as the company would brand a signature product, and developed a core set of materials for marketing the initiatives to the organization.

Linking talent development to dual citizenship and strategic initiative management: To transform IR from the inside out, the company directly linked its processes for talent management, leadership development, and employee skill development to both dual citizenship and the program for managing strategic initiatives. An innovative “2 x 2 x 2” program, which requires potential leaders to gain experience in two business units, two geographies, and two disciplines, provides a concrete program for individuals to achieve dual citizenship of the highest order. At the same time, the strategic initiative program has become a highly visible incubator of up-and-coming talent. Three team leaders have already become leaders of new business units as their initiatives developed into full-fledged businesses and another team leader has become a leader in corporate finance. Additionally, IR University has launched a course curriculum that directly supports training in the initiative process and its foundation in dual citizenship.

By connecting the strategy for organic growth with institutionalized processes, practices, and capabilities, the company ensured that the transformation would take root. But the ultimate significance of strategy from the inside out lies even deeper: the implementation of the initiatives engendered an enterprise-wide capability for generating and executing strategy. IR institutionalized strategy capability not by mandating it from the top down or automating it through continuous improvement, but by enacting it throughout the organization.

But it is the first step, not the last, in the implementation of inside-out strategy that remains the most difficult: achieving the initial breakthrough in the way the organization thinks and operates internally. A CEO must find a way to create the mandate for those changes, as Herb Henkel did under the banner of dual citizenship. The creation of a manageable set of initiatives then provides tangible, business-based efforts to identify and overcome the issues that lie at the intersections. The result is a virtuous circle: initial success in the marketplace as “one company” promotes increasing internal synergy to support and expand that success, which leads to further success in the marketplace. Institutionalizing the capability to create strategy from the inside out, by making synergy permanent, makes the circle spin that much faster.

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