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Leading Ideas

by Timothy Hoying, Ashish Jain, Madhu Mukerji-Miller, Nick Beglinger, Tariq Hussain, Edward Baker, Alex Koster, Michael Szczepanski, and Christoph Lechner

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Reprint

A Better Customer Service Connection

by Timothy Hoying, Ashish Jain, and Madhu Mukerji-Miller

In many service industries, customer experience is emerging as a valuable way for companies to differentiate themselves from the competition and to increase market share. Most companies understand this, but many are unable to improve interactions with customers enough to make a difference. Why?

There are two types of disconnects that get in the way of delivering the useful, pleasurable, and repeatable experience that customers demand. The first is the "needs disconnect": Organizations find it difficult to step into their customers' shoes and understand their real needs, relying instead on tools that do not yield the insight required to service key customer segments effectively.

The second type is the "organizational disconnect": Companies make it too difficult for customers to get the service they want without being shuffled among departments and receiving contradictory messages. Organizational silos, furthermore, often make well-meaning but fragmented decisions about customer service. For an organization to create a successful customer experience, it must understand its customers' perspective and how well it is meeting customer needs across the entire organization; then it must address these needs — but only to the degree that doing so aligns with its strategic intent. In other words, a company's customer experience design should leverage the organization's existing strengths, support growth, manage costs, and boost revenue and profitability.

The needs disconnect became apparent in the results of two surveys conducted by our firm in 2006, one asking customers what they need and the other asking business leaders what they *believe* their customers need. More than 1,200 customers weighed in on the quality of service in four industries — retail banking, brokerage, health insurance, and airlines — as did executives from leading organizations across these sectors. When they were asked to rate the importance of eight customer service elements — speed, professionalism, responsiveness, timeliness, product and service expertise, accuracy, fees and charges, and personalization — the two groups diverged in every category. Personalized service, which companies said was the most important service element, was least important to customers. Customers named speed as the most important service element, whereas companies put it near the bottom. Executives assumed that customers wouldn't pay for personalized service, but more than 25 percent of customers said they would pay for specific services they valued, as long as they couldn't get them elsewhere free.

These disconnects are unlikely to be resolved through a onetime initiative. Rather, it will require an ongoing effort to understand the customer and apply that insight

strategically. A four-step "outside-in, inside-out" technique is effective in helping an organization design and deliver a successful customer experience program.

1. Segment customer needs from the outside in. A holistic understanding of customers requires that companies recognize the various dimensions of customer need. They include the functional (what the customer wants the service offering to do), the behavioral (which delivery channel and what mix of offerings the customer prefers), and the demographic (how the customer's needs vary by life stage, age, gender, and geography). It is vital that the organization distinguish between customers' actual needs and their stated needs. In addition to tracking customer behavior, companies can identify actual needs by observing what customers select among different bundles of offerings and what they choose to keep and give up.

After determining customers' actual needs, the company should figure out which of them it is already addressing and whether those efforts are effective. By knowing what it does well, a company can leverage its strengths and define what customers will associate with that company.

2. Design the customer experience from the inside out. A company should not attempt to address every customer need. Rather, it should focus on those that are of the greatest concern to the customer but also produce the greatest benefit for the company. Finding that connection starts with identifying the potentially high-value customer segments along with those that the company can afford to ignore. The company must then ensure that it maps the right needs and service levels to the different segments, prioritizing customer needs against its own operational strengths in a way that reduces complexity and lowers costs.

One credit card company, for example, found that its one-size-fits-all approach to service was not working and customer churn was climbing. It avoided the temptation to put in operational fixes for ongoing glitches in service delivery and instead designed a new customer experience program. The company took the inside-out approach by giving its clients the ability to select their preferences from a menu, including channel (does the customer want to communicate by phone or online?) and product (does the customer want a regular, gold, or platinum card?). Doing this allowed customers to fine-tune their own experience while allowing the organization to simplify and standardize delivery. The company also realized that high-value customer segments did not automatically demand high-end service. In one of the company's two high-value segments, people wanted to deal with an agent; in the other, they preferred the online channel, which reduced servicing costs.

3. Measure the true customer experience. Measuring the impact of the customer experience on a company's bottom line is both essential and difficult, and it takes careful consideration of both qualitative and quantitative feedback. Customer satisfaction scores, such as those from the American Customer Satisfaction Index or J.D. Power & Associates, do not automatically correlate statistically with key indicators such as revenues or profitability. Measuring customer loyalty yields a stronger tie to return on investment and other key indicators. Customer loyalty benchmarks include changes in customer retention, cross-sell, share of wallet, and conversion of referrals to new customers. In addition, service excellence requires ongoing tracking and management of customer touch points to ensure there is consistency enterprise-wide, for example, in a bank across branches, between call centers and branches, and even among staff at the same branch.

Companies should also seek a comprehensive view of the customer experience by gathering the right sets of qualitative and quantitative feedback across the organization. One retail mortgage organization wanted to know why a large number of referrals were not being converted to new customers. An analysis found that the company did not track the end-to-end referral process. By piecing together the data puzzle across sales, credit, operations, and IT, the company uncovered not only the source of the leak but also such lost opportunities as failures to follow up with cus-

Personalized service, which companies rated as the most important service element, was least important to customers.

tomers who were approved but did not activate accounts.

4. Close the loop. To develop the ability to continuously read and address the changing needs of customers, organizations should establish communication and information loops across their organizational silos. They must also build in the capability to constantly monitor their customers, staff, and competitors. To that end, organizations are starting to build creative capabilities such as simulation, in which a company tests customer reaction to proposed service offerings, alongside performing the more traditional online and phone surveys.

There is no single, perfect approach for organizations to effectively deliver a mutually rewarding customer experience. For some companies, customer service responsibilities may be decentralized; for others, they may be assigned to a dedicated department. The right choice depends on the organization's culture. At the heart of it, customer service excellence is the product of powerful processes that cut across organizational functions and are reinforced by strong and explicit leadership.

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Building the Sustainable City

by Nick Beglinger and Tariq Hussain

In July 2006, London Mayor Ken Livingstone did something that few other public officials have had the foresight to do. Hoping to transform the city from one of Europe's most polluted capitals to an environmentally conscious metropolitan area, Livingstone announced that the London Development Agency would develop a zero-carbon residential community on a three-acre site in the Thames Gateway. The facility would incorporate renewable energy technologies, energy-efficient architecture — for example, a building orientation that maximized solar gain, and enhanced insulation materials — as well as integrated waste management, on-site growing of food, and green transport systems. Construction is expected to begin this year.

European nations are leading the world in so-called sustainable urban planning, but Livingston's radical project is among the most far-reaching efforts to date. The idea grew out of a simple fact of which few people are aware: Buildings account for about 40 percent of the world's total energy consumption and 65 percent of electricity usage in the U.S. As noted by former Vice President Al Gore, improving energy efficiency in buildings represents "low-hanging fruit."

For a number of reasons, however, the building sector has been slow to pick this fruit. Constructing a building is typically a complex, multiyear effort involving multiple organizations and individuals, including government authorities, landowners, developers, architects, engineers, and financial institutions in the early planning phase. And once a project is under way, construction companies join the effort, often managing an armada of suppliers and contractors. What virtually all of these interested parties have in common is a focus on short-term costs and profits. Consequently, in most planning and feasibility calculations, minimizing up-front expenses is paramount — yet these outlays will account for as little as 10 percent of the total cost of a building over its useful life, which is 50 to 100 years in developed nations. It is the operating expenses that constitute as much as 85 percent of life-cycle costs, with space heating and cooling, lighting, water heating, equipment, and appliances typically accounting for more than 60 percent of those outlays.

One true "sustainable urban community" is currently under development in the United Arab Emirates (UAE); made up of two towers projected to combine residential, commercial, and retail

space, it is expected to break ground this year. Its sustainability "premium" on up-front construction costs — that is, the extra expense of including environmentally friendly features — is about 15 percent. However, the project's Swiss and British planners and engineers estimate that the project will reap as much as 80 percent energy savings over its lifetime, thanks to an optimized mix of facilities; improved insulation approaches; radiant cooling, which uses chilled water as opposed to forced air for air conditioning; and photovoltaic as well as other solar power systems. Overall, this combination of approaches translates into an attractive internal rate of return of about 20 percent.

If Denmark's rules were applied throughout the E.U., energy consumption could be reduced by up to two-thirds.

Nowhere is the opportunity for sustainable urban planning and development more pronounced than in the developing world, especially in Asia. The Asia-Pacific region is home to 55 percent of the world's population and has more than doubled its consumption of ecological resources since 1961, according to the World Wildlife Fund (WWF) and environmental watchdog Global Footprint Network. The World Bank estimates that by 2015, more than half of China's urban residential and commercial building stock will have been erected during the previous 15 years. And in India, the largest developer plans to build 750 million square feet of retail, commercial, and office space in the near future, three times the amount it constructed in the previous six decades. But in the midst of this building boom, Asia has the chance to improve its heretofore less-than-exemplary environmental record. In their report titled *Asia-Pacific 2005: The Ecological Footprint and Natural Wealth,* the WWF and Global Footprint asserted that these building trends present an opportunity for the region to "shape the world's path towards sustainable development in the coming decades."

Some officials in Asia have begun to recognize that they must act differently than the West has or they will pay a huge price in environmental catastrophes and rising energy costs. In a December 2006 speech, Indian Prime Minister Manmohan Singh wondered rhetorically whether growth is "sustainable if development in the developing world merely mirrors the experience of the developed" world. The Chinese Communist Party–controlled newspaper *China Daily* proclaimed in February 2008 a "farewell to the GDP growth cult," noting that "GDP must be based on environmental sustainability."

A number of initiatives in China focused on promoting sustainable development have come to the fore in recent years. For example, Huangbaiyu, a poor village in Liaoning province, was chosen in 2003 as the site of China's first model "eco-village," and the massive eco-town of Dongtan near Shanghai is set to open in 2010 at the start of the Shanghai World Expo. Other towns have taken more mundane approaches. Rizhao, a city of 3 million in Shandong province, is focusing on maximizing the use of solar power. Today, 99 percent of households in Rizhao's city center and 30 percent in the suburbs are reported to have solar panels for lighting and water heating. Although some environmental experts have been skeptical of these statistics as well as of China's overall commitment to sustainability, these projects appear to be a step in the right direction.

For all its long-term benefits, sustainable urban planning will not become commonplace without significant support from many of the more powerful elements involved in major building projects. For example, governments can set tougher environmental standards for construction efforts, provide incentives for building in a sustainable way, and educate the development community about sustainable techniques. Among the financial benefits that governments can offer to subsidize environmentally friendly projects are tax breaks, fast-track permits, or lower prices on land that is under their control. (See "The Critical Enabler," by Gary M. Rahl, *s+b*, Summer 2008.)

More farsighted governments should be encouraged to take these steps because of the potential positive spillover from sustainable, healthy buildings: lower health-care costs; increased employment in advanced engineering, construction, and facility management; additional investment from global companies; and improved public relations for cities, regions, or countries. Such

bragging rights, as well as bottom-line economic gains, were a prime motivator behind Abu Dhabi's Masdar City, another UAE project, touted by its developers as the "world's first zero-carbon, zero-waste, car-free" urban community. Initiated by a government-owned development company, which invested US$4 billion in Masdar City out of a total yearly budget of $22 billion, the 1,500-acre site is likely to begin construction this year. It will include a special economic zone housing companies involved in alternative energies and sustainability research, and it is forecasted to attract more than 1,500 businesses and generate billions in macroeconomic benefits for Abu Dhabi.

Governments in Europe have also taken tentative steps to corral some of the benefits of sustainable development. Switzerland and Denmark have adopted stringent construction regulations with strict, specific guidelines for energy consumption, depending on the size and type of building. The European Commission calculated that if Denmark's rules were applied throughout the E.U., projected energy consumption could be reduced by up to two-thirds. Germany, for its part, has offered tax incentives to homeowners who build new homes or retrofit existing homes according to energy-friendly guidelines.

Investors, developers, and property owners must also wake up to the economic opportunities that sustainable buildings present. This means looking at costs from the perspective of the building's total life cycle, including planning, construction, operations, and even demolition. Moreover, innovative developers should look at the revenue side. A variety of studies have quantified the impact of clean air and a pleasant environment and found that they lead to higher productivity and lower tenant turnover in office buildings, longer visits by shoppers and increased purchases in retail environments, and improved sleep and higher levels of concentration in residential properties.

Consumers, too, must become aware of the impact of their choices and behaviors. This was made plain in a somewhat unorthodox way recently in South Korea, where citizens typically keep the thermostat high during chilly winters and the air conditioning working overtime during hot and humid summer months. According to an economist who has studied energy usage in buildings, the nation could reduce its energy consumption by 10 percent if the population simply kept room temperature at 72 degrees during cold weather. To help improve citizens' bad habits, South Korea's largest broadcasting company recently visited the homes of the foreign community living in Seoul to film a documentary meant to educate Koreans on how and why foreigners use significantly less energy.

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Islamic Finance Goes Global

by Edward Baker

Imagine a financial system that permits neither payment or collection of interest, nor transactions based on speculation or risk. It would go completely against the grain of Western commerce, which has evolved its notions of credit since the Renaissance, with the decline of prohibitions against usury and the rise of conventional banking. This financial system, subject to the strictures of religious law, takes virtually every kind of debt financing, including mortgages, bonds, business loans, and leveraged buyouts, off the table. Such an approach might seem unsustainable in the complex world of modern finance. But in fact, Islamic finance — the approach described — is thriving.

Although the precise size of the Islamic banking market is difficult to quantify, the *Banker,* a U.K.-based trade publication, estimates that worldwide Islamic finance assets increased 30 percent in 2007, to US$500 billion. Others believe it has already reached $1 trillion in value. Admittedly, that's small change compared with the size of the worldwide market for conventional finance. Wachovia Corporation alone boasts more than $700 billion in assets, and it is only the fourth-largest bank in the U.S. But that $500 billion takes on some

heft when you consider that assets held by Islamic financial instruments were greater than the $414 billion invested in U.S. companies last year by individuals and institutions throughout the world, and it far exceeded the $50 billion invested in U.S. companies by the four most financially active Muslim states: the United Arab Emirates (UAE), Saudi Arabia, Singapore, and Kuwait. In addition, Islamic finance accounted for just a few billion dollars as recently as 2000, and most experts expect it to grow 20 percent annually for at least the next few years.

But the numbers alone don't explain why Western financiers should pay attention to this parallel financial universe. Its rise is a symptom of a new sense of power on the part of Muslim investors as they attempt to fully engage in the global financial economy on their own terms. Islamic finance is a potentially significant source of money for Western companies, a major opportunity for banks and other institutions to create investment products that comply with Islamic law, and, perhaps, a more general spur to financial innovation.

The American reaction to the terrorist attacks of September 11, 2001 (9/11), played a significant part in the growth of Islamic finance. Many Middle East investors and financial institutions felt that the U.S. responded by attempting to stigmatize the Middle East. For example, the George W. Bush administration designated numerous Middle East financial institutions and financiers as abettors of terrorism — and thus to be avoided. In 2006, Congress beat back the effort by DP World, the Dubai-based operator of port facilities, to purchase the management of shipping terminals in the U.S. after a public outcry against Arab investments. Activities such as these created a religious backlash among Middle East financiers. "Following 9/11, the U.S. began to treat money from the Middle East as 'Islamic money,'" notes Luma Saqqaf, head of Islamic finance in the Dubai office of London-based law firm Linklaters LLP. "A lot of Middle East banks came under scrutiny, and some accounts were frozen. That became part of a religious wake-up call, a rise in the number of people turning to Islam. Those investors are now saying, 'We want to invest our money on our terms — terms in line with our religious beliefs.'"

Islamic finance is a potentially significant source of money for Western companies and a major opportunity for banks.

Islamic commerce adheres to sharia — Islamic law based on the Koran — which prohibits charging or paying interest; speculation in any form; and investing in companies engaged in any of a variety of censured activities, such as consuming alcohol, gambling, and manufacturing weapons. That would seem to prevent Islamic financiers and investors from participating in most of the transactions that make up the contemporary world of finance. But enabling the growth of Islamic finance is a range of deal structures, each of which must be approved by a committee of sharia scholars, designed to work around these prohibitions. In a standard retail mortgage, for instance, a bank lends a set amount of money to the buyer at a certain interest rate for a predetermined amount of time. In a sharia-compliant mortgage, however, the bank might purchase the house outright and then sell it to the buyer for a fixed price that would include a premium above the amount the bank paid, payable by the buyer in installments over 15 or 30 years. Because the transaction does not technically involve the payment of interest — instead, it is driven by a built-in profit margin — the religion would permit it.

Now extend that principle to more complex transactions, and you have the basis for commercial Islamic finance. Corporate or sovereign bonds get around the prohibition of interest by being structured as ownership interests in the underlying asset, entitled to a proportionate share of the returns generated by the asset. (A secondary market in these bonds, called *sukuk,* has already come into being in the Middle East.) Even private equity can operate in an Islamic context. Under the terms of a typical deal, a company being invested in could be viewed as a series of assets leased to the private equity fund, which would eventually control the entire business. The return to the fund would be based primarily on the company's growth.

Such strategies are evidence of the increasing demand on the part

of Islamic investors for innovative sharia-backed products, attributable in part to the huge supply of petrodollars flowing into the coffers of the Middle East and Southeast Asia thanks to record-high oil prices. Some of that money has been absorbed by mammoth construction sprees in such fast-growing cities as Dubai, in the UAE, and Doha, in Qatar. But a great deal of the cash still needs to be put to work, diversifying portfolios and, to the degree that Muslims can, hedging against risk. So Middle East investors are seeking investments outside the region, in places such as the U.S., Europe, China, and India, increasingly through sharia-compliant deals. That explains the emergence of firms such as Arcapita Bank. Founded in 1997 by a group of Middle East financiers, the bank, based both in Bahrain and in Atlanta, Ga., makes sharia-compliant investments in private equity, ventures, real estate, and other vehicles, primarily in the United States. Since its inception, Arcapita has made a total of $21 billion in investments.

Arcapita wasn't the only early innovator in this market; numerous multinational banks have set up sharia-based investment groups in Muslim countries. For instance, Citigroup Inc. was one of the first Western banks to enter the Islamic finance arena, incorporating its Citi Islamic Investment Bank in Bahrain in 1996 to conduct a variety of banking operations, including trade finance, fund management, and Islamic securities. The bank also runs an equity fund that invests only in sharia-compliant companies. And in October 2005, Citigroup joined with Dow Jones & Company to launch the Dow Jones Citigroup Sukuk Index.

Citigroup, however, is one of the very few U.S.-based banks committed to this business; most of the Islamic finance activity by non-Muslim banks is taking place in Europe, where such giants as Deutsche Bank AG, ABN Amro Holding NV, Société Générale, and HSBC are heavily committed. The next step in answering the call for sharia-compliant investment vehicles involves offering even more exotic instruments than mortgages, capital loans, and bonds. Already a variety of banks based in Muslim countries have introduced sharia-compliant hedge funds, and several Western banks, including Barclays PLC and Deutsche Bank, are on the verge of doing so.

Given the intensifying demand among Islamic investors for sharia-compliant finance in all forms, more U.S. financial institutions must accept the growing importance of Islamic finance. In the process, they may discover that some of the innovations that make banking palatable in the Middle East can also be of dramatic benefit for their non-Muslim customers.

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A Tailored Approach for Successful Growth

by Alex Koster, Michael Szczepanski, and Christoph Lechner

Why do corporate growth initiatives so often founder? Why does one company succeed at opening up new markets and revenues while another company in the same industry fails? At too many companies, top decision makers don't look beyond the "what" of a growth strategy. But these executives also need to understand the "how" — the mechanics of the growth strategy and how to put them into practice. And they need to align both "what" and "how" with their own organizational culture.

To better understand the factors underlying successful growth strategies, our research team — composed of academics and consultants — recently studied a variety of approaches to managing expansion. We conducted more than 50 in-depth interviews with managers from leading global companies, and compared our findings against the results of an extensive quantitative study of the strategic-growth practices of more than 200 firms around the world. We found four corporate growth management modes prevalent among these companies. These four growth modes are distinguished by the form of control that senior executives exert.

1. Self-organizing (low control of content and process): Companies with a laissez-faire approach give employees considerable freedom to devise and then implement new ideas. This is puzzling to many traditional managers, but it can often be very successful. Growth initia-

tives arise creatively from all parts of the organization; investment decisions follow a semi-democratic pattern. One example of a self-organizing growth company is the U.S. biotech firm Promega, which allows its researchers and managers to launch initiatives they deem appropriate, drawing on a substantial amount of corporate funding without board approval.

2. Agenda-setting (high control of content, low control of process): Top management establishes a clear, inspirational vision for the company's new offerings, but stands back from the nitty-gritty of implementation. At Samsung, the Korean conglomerate, senior management challenged the staff to create "next-generation devices," but restricted its own activities to (a) making sure that key experts within the organization connected with one another and (b) helping teams overcome organizational obstacles.

3. Context-setting (low control of content, high control of process): Top executives create a framework that nurtures the emergence of new ideas. The senior management of Allianz Global Risk, an international corporate insurance firm, invited 100 high-level managers to propose growth initiatives fulfilling certain financial targets. The most promising ideas received funding and were carefully monitored by the core through to fruition.

4. Directing (high control of content and process): Top management acts as the primary generator of growth. The corporate strategy team at Liberty Global, an international cable broadband company, determines all corporate development initiatives, reviews initiatives proposed by subsidiaries, and closely oversees execution.

According to our findings, no single growth mode consistently outperforms all others. Focus and consistency in all four modes are vital to performance. Companies that oscillate between modes or that cherry-pick elements from different modes perform less well than firms with a disciplined approach. Moreover, different growth modes fit better with certain companies, depending on their culture, their capabilities, and the needs of their industry.

A company that recognizes and develops its own preferred mode can significantly improve the likelihood of realizing its growth potential. If the growth mode is a natural fit, then specific processes — the "how" of shaping, staffing, funding, embedding, and governing an initiative — should deliberately reflect that particular growth mode. Examples of such growth-conscious best practices include:

- **Shaping.** Directing companies maintain a tight grip on initiative creation and development. This works well, as long as they avoid senior-management groupthink and pay sustained attention to outside perspectives. In self-organizing and agenda-setting modes, executives benefit from the energy of many minds, but need to keep ideas rigorously market-focused and coherent. In the context-setting mode — in which the corporate center retains control over idea generation while encouraging the wider organization to implement growth — best practices involve careful attention to financial guidance and measurement. SES, a worldwide television satellite services provider, granted significant leeway to its regional operating companies to pursue strategic initiatives, including mergers and acquisitions. But each initiative was measured against a defined internal rate of return overseen by the core.

- **Staffing.** Self-organizing firms require intrinsically motivated employees, who are not always easy to find. These companies must therefore pay careful attention to the recruiting process; at Google, for example, most new employees are approved by the founders and each of their potential colleagues. At context-setting companies, where business units often link incentives to their own financial performance, measures must be put in place to help managers recognize the benefits of supporting riskier long-term initiatives directed by the corporate center. The study revealed one guiding principle applicable to all four modes: Fostering high-quality talent for a growth initiative is more relevant to success than setting ambitious targets or maintaining tight control over progress.

- **Funding.** In agenda-setting environments, a visionary CEO must adjust the business units' financial targets to match the vision.

Firms that cherry-pick elements from different modes perform less well than firms with a disciplined approach.

In directing companies, corporate investment in a particular project sometimes continues for such a long time that it engenders complacency; business units need to assume financial responsibility earlier than one might expect, even well before market launch. In context-setting companies, the principal challenge is how to secure funding — and enthusiasm — for company-wide initiatives when each business unit has its own ambitions. Thus, at ABB, a Zurich-based technology conglomerate, business units can opt in to support proposed corporate strategic initiatives — recently including alternative energy and railways — with a share of their own budget or staff time.

• **Embedding.** In directing companies, the tight control of initiatives coming from headquarters may discourage local commitment during implementation; such companies need explicit processes that encourage business unit managers' buy-in and help a growth initiative succeed. Conversely, self-organizing and context-setting companies must watch out for silo mentality: Initiatives that cross business units tend to fragment into various "sub-initiatives" that can stray from the original intention. Because of this likelihood, SAP, a German software company, has introduced methods to embed cooperation and guarantee consistency. An internal group named Inspire helps manage innovations for up to 18 months at the outset of a new project.

• **Governing.** Once a strategic initiative is up and running, firms in an agenda-setting mode sustain momentum by fostering the entrepreneurial freedom of business unit managers. Samsung, for instance, has no groupwide steering committees, and it tracks targets only by business unit. Directing companies, by contrast, need formalized reporting systems and frequent communication. Otherwise, top management might find it easy to move on to a new initiative, even as local managers still struggle to implement the first one.

Fostering talent for a growth initiative is more relevant than setting ambitious targets or maintaining tight control.

As these examples show, the best practices for one growth mode may not be relevant to another. But what if the current growth mode does not naturally fit the corporate culture? Then a company can change modes. Thus, E.ON, a major European conglomerate, gradually spun off noncore activities to become a focused energy company. This portfolio transformation also triggered an effective transition from a context-setting to a directing mode. The board now has the mandate to get involved in specific business issues and can effectively control the strategic direction of the company.

The current pressure on companies to innovate and grow is unprecedented. The pursuit of growth initiatives presents a significant number of intricate managerial challenges. By identifying and adopting the growth mode that best fits their company, senior management can acknowledge the specific complexities of growth for their firm and find a better way of meeting them. By contrast, haphazardly continuing to favor a mode without conscious consideration, just because "that's the way we do things here," is a much less desirable strategic option. +

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