A Better Way to Grow

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The consensus amongst most is that bigger is better. With increased pressure on our natural capital (soil, water, oceans, etc.) and an ever increasing gap between rich and poor, it's time for all businesses to re-think what growth is really about. Take for example inequality - the United States has the fourth-highest income inequality among the world's developed countries; only Chile, Mexico and Turkey rank higher with trailing countries represented by Russia, Ukraine and Lebanon.

In their book The Big Enough Company, authors Adelaide Lancaster and Amy Abrams make the argument that owners should be true to themselves and grow a company to a size where they can still enjoy running the company. You should not grow just for growth's sake. A "big enough" company delivers benefits to a broad audience and continues to have a positive impact as the owners originally envisioned.

"The U.S. economy is increasingly run by a 'visible hand' instead of Adam Smith's 'invisible hand.' Large sectors of the economy are guided by a few powerful companies. The question is whether the visible hand runs these sectors with Smith's enlightened self-interest or with just self-interest." – Confronting Capitalism by Philip Kotler

One of the potential fallacies with growth has to do with acquisitions. Public companies are under a lot of pressure to grow by 10% or more. Achieving these growth rates is not possible on an organic basis; i.e. grow internally using your existing resources. So in order to meet the pressure, larger companies acquire smaller companies that are experiencing solid growth. The dilemma is that the drivers behind this strong growth, namely intangible things such as talent, culture, and uniqueness, get destroyed in the process of integrating the combined companies.

A better way to think about growth is in the context of how it impacts not just investors, but all intangible factors including outside stakeholders. For example, what are the benefits and down sides to a merger and acquisition on employment, community, living standards, and the environment. How will growth benefit the many as opposed to just the few? Your purpose should be centered more around making the world a better place, not so much about making money. It is this kind of purpose that attracts the best people and enables execution.

"Growth is about progress, not bigness. The point of growing is to achieve full potential, not maximum size. A business grows whenever it moves beyond the self-imposed limits that define and constrain it." – Bigger Isn't Always Better by Robert M. Tomasko

Another dilemma is the power of the financial sector. Financial institutions and markets now exert enormous influence on what happens across the world, impacting millions. The abundance of cheap money also fuels speculation and large investments in high risk assets. When cheap money disappears, such as when the Federal Reserve ends Quantitative Easing, valuations can drop dramatically; such as the fall of commodity prices (oil in particular). Myopic and contagious thinking often defy underlying fundamentals regarding valuations. Therefore, it is important to be well-grounded in factual data; i.e. don't stray too far from the fundamentals. It's also important to think beyond what returns can I realize from the investment. A better way to think of investing is to ask broader questions, similar to what Google often asks: What investments are we making that will change and improve the world?

"If evolving to meet your market means stripping away the things that drew you to the quest in the first place, you'll end up on track to create something everyone else loves . . . except you. And that will eventually cannibalize your soul. You'll end up hating what you do every day and looking for ways to get out, even if what you've created appears to be outwardly successful." – Uncertainty: Turning Fear into Fuel for Brilliance by Jonathan Fields

One of the main points of this article is to recognize the importance of intangible qualities and how they can impact growth. There are numerous books that cite the connection between these intangibles and business results. Here are four examples:

1. **Character of Leadership** – Based on seven years of research involving over 100 CEO's and over 8,000 employee observations, author Fred Kiel has documented how strong character translates into higher returns on assets. To quote Kiel from his book Return on Character: "I dream of a time when most public businesses, large non-governmental organizations, and large government agencies are rated for the Return on Character their leaders produce, much as the financial health of global businesses today is rated by Moody's and Standard and Poor's."
2. **Caring for Others** – Company results can improve by just caring for your own people. Cheryl Bachelder, CEO of Popeyes Fried Chicken turned the company around by creating a place where people are respected. Bachelder took over in 2007 and by 2014, sales were up 25%, market share was up from 14% to 21% and the stock price was up from $ 13 in 2002 to $ 40 in 2014. This case study is well documented in her book: Dare to Serve: How to Drive Superior Results by Serving Others.
3. **Reputation** – Because we live in a social and global connected world, your reputation can have profound implications on your ability to grow. As Michael Fertik and David C. Thompson explain in their book The Reputation Economy, the digital economy is very hyper-sensitive to reputations which others can aggregate, analyze and disseminate with frightening speed and accuracy in the world of social media.
4. **Happiness** – Be careful about super-imposing higher and higher targets on people. Growth comes from the fact that people feel good about what they are doing and not the fact that they hit their desired performance targets. As noted by author Shawn Achor in his book The Happiness Advantage: "This discovery has been confirmed by thousands of scientific studies and in my own work and research on 1,600 Harvard students and dozens of Fortune 500 companies worldwide."

This article has touched on a few ideas on how you can think in a broader way about growth, mainly rooted in a set of intangibles. When you take this broader view of growth, you will find it easier to grow over the long term. Your purpose binds everyone around a noble cause that all stakeholders can identify with. I would encourage you to seek out and find your own set of intangibles for sustainable growth that benefits all stakeholders.

"The world is waiting for leaders to come forward who can steward an organization's people and resources to superior performance. When you choose to humbly serve others and courageously lead them to daring destinations, the team will give you their best performance. And the spotlight will be found shining on the remarkable results of the organization as a whole." – Dare to Serve: How to Drive Superior Results by Serving Others by Cheryl Bachelder

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