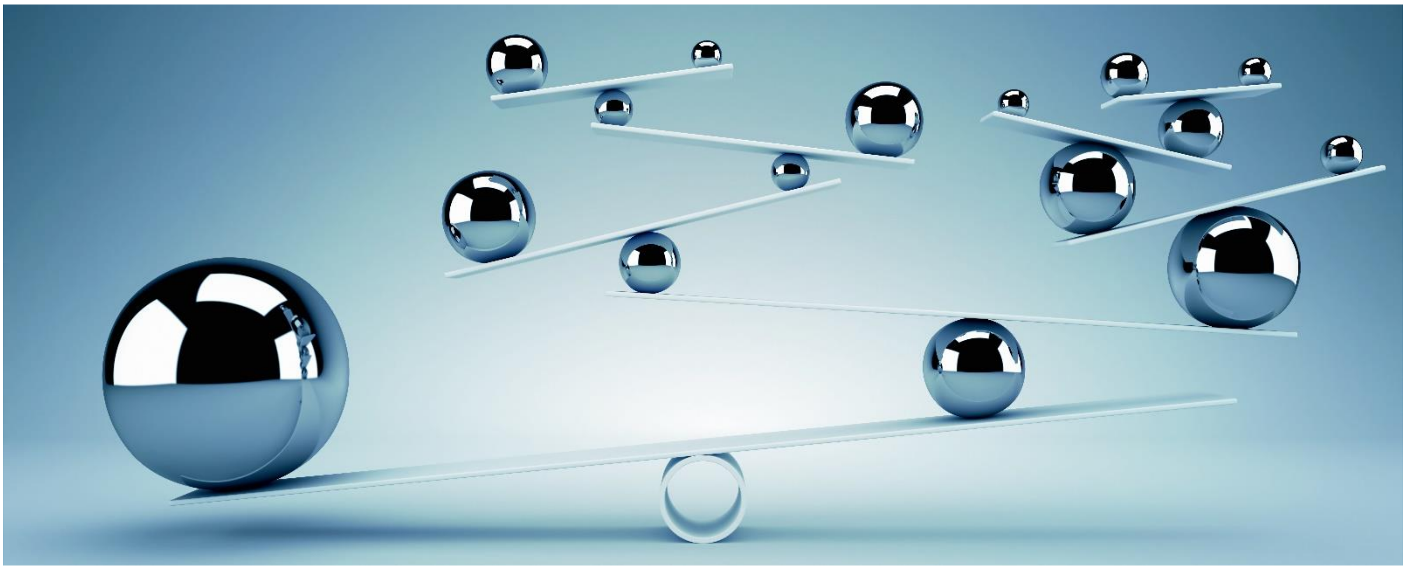
Maïna K. M'Poyo

STRATEGIC THINKER, LEADER, AND ADVISOR

On Growth

THE BUSINESS MODEL COMPLEXITY OF GROWTH

THE RISE OF THE CHIEF EQUILIBRIUM OFFICER



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Throughout modern corporate history, there has always been an overwhelming consensus across all streams of management thinkers and business practitioners on the integrative and complex nature of general management.

In this respect, growth strategy makes no exception; be it to orchestrate companies' evolution towards new realms or to revitalize firms' positions in their respective competitive landscapes.

On the one hand, complexity leaves corporate leadership with a two-fold challenge. First, complexity has a cost even though one must distinguish between value-creating and value-destroying elements of complexity. Second, the cost of complexity may be unseen at first sight and can take various forms that can adversely impact the overall performance of the firm.

On the other hand, growth strategy might further increase complexity by expanding the dimensions of firms' business model. Indeed, growth paths such as innovation, diversification, internationalization, market creation, or vertical integration strategies not only stretch the value proposition, client, and infrastructure dimensions of a firm's business model, but they also make them more complex.

In this context, how can CEOs and leadership teams overcome the strategic complexity of growth to successfully advance their profitable growth agenda while maintaining the overall alchemy of the firm?

We will address this strategic question by depicting the elements of growth complexity and presenting our vision of the key success factors to tackle complexity and grow successfully.

THE STRATEGIC COMPLEXITY OF ORGANIC GROWTH

Mastering the growth process – ahead of the complex expansion of the firm's business model– implies to address the growth strategy paradox which lays down the context in which the firm's growth strategy will inscribe itself.

The Complexity of the Growth Strategy Paradox

The first complexity executives face lies in the **growth strategy paradox** i.e. managing the strategic tension between the further exploitation of a firm's current sources of strategic advantage and the exploration of new market opportunities.

The complexity of this tension is two-fold. Firstly, exploitation and exploration –respectively associated with optimization and innovation– have different strategic, operational, organizational, and skills and capabilities requirements. Secondly, beyond the nature of this tension, exploitation and exploration need to be kept in a *"dynamic perfect imbalance"* that both fits current market conditions and anticipates new market evolutions. Indeed, there is virtually no industry that splits its opportunities between "the old/current and the future" as a perfect 50/50 balance. According to the industry dynamics, the *Exploitation/Exploration Balance* a firm will need to succeed might be 70/30, 40/60, or 90/10. Moreover, this imbalance cannot be static as no industry stands still whereas the notion of perfection is firm-specific as it relates to the best imbalance in the context of the firm. Hence the notion of *"dynamic perfect imbalance"*.

Finally, in its most extreme form, this tension might lead the firm to the ultimate form of complexity i.e. deconstructing —and reconstructing differently— the dimensions of its own business model in the face of competitive advantage obsolescence or fierce fight for strategic relevance.

The Complexity of Growing the Firm's Business Model

Growth strategy translates into either new or expanded dimensions of a firm's business model. Either way, it increases *"corporate entropy"*, which we define as a –more or less– structured and temporary organizational disorder caused by a change in the dimensions of a firm's business model. As a result, growth also increases complexity both within and across the firm's business model dimensions.

- **Value Proposition Complexity.** Poorly directed innovation-driven strategies may lead to confusing value propositions especially if the innovations are merely incremental and lead to the coexistence of marginally differentiated products.

  Likewise, diversification strategies, if not handled properly, might result in confusing the customers' mind if they translate into an overmultiplication of products.

  Internally, growth strategies might increase the complexity of value proposition delivery according to the variety and relatedness of the skills and capabilities required to produce and deliver the products and services. Obviously, the more unrelated the skills, the greater the complexity to deliver.

- **Client Complexity.** Diversification strategies targeting new markets segments, internationalization strategies, or the exploration of new distribution channels need to be carefully designed. Indeed, by design, they lead to a multiplication of the business "centers of gravity" of the firm, which inevitably leads to higher complexity.

- **Infrastructure Complexity.** This might be two-fold. First, it might result from a vertical integration strategy invariably resulting in higher value chain complexity. Second, it might also be an operational reflection of the value proposition and the client complexity caused by a firm's growth strategy. This may, for instance, translate into a multiplication of the number of partnerships.

Needless to say, value proposition, client, and infrastructure complexity do combine. Therefore, they generate a multiplier effect of complexity that will vary according to the firm.

Consequently, this raises the question of the consistency, alignment, mutual reinforcement, and overall equilibrium needed throughout the organization to manage complexity effectively and efficiently. In other words, this raises the issue of managing complexity while ensuring the overall alchemy of the firm.

Overcoming Growth Strategy Complexity

We see the establishment of a ***"Growth & Strategic Complexity"* governance structure** as a key success factor to strategically manage growth complexity —beyond the growth strategy paradox— while managing the alchemy of the firm.

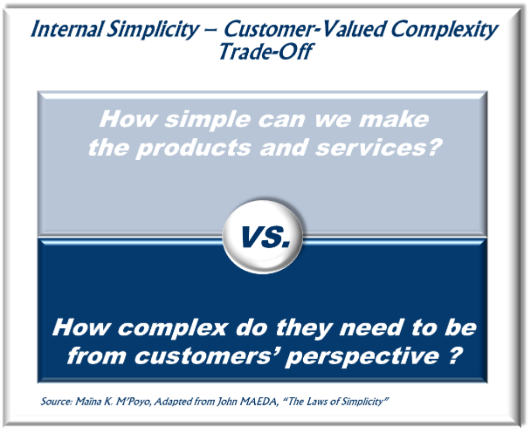
Its mandate would be articulated around the following activities:

- Determine the right Exploitation/ Exploration imbalance and review it whenever necessary by keeping sight of the industry dynamics.

- Assess and anticipate growth complexity by screening the firm's intended growth opportunities and assessing their strategic relatedness with the current business model. The stronger the relatedness, the greater the opportunity to manage and control complexity.

- Track and manage the cost of complexity. The team is responsible for the identification of the value-creating and value-destroying elements of complexity. Subsequently, the team should be held accountable for strategically managing the former and ruthlessly eliminating the latter.

  In particular, when addressing value proposition complexity, it is critical not to forget who the ultimate beneficiary of the value proposition is the customer. In this respect, we believe the *"Internal Simplicity–Customer-Valued Complexity"* trade-off will effectively support decision-making on the matter and ensure value-creating complexity from the customer's perspective prevails.



- On top of these critical activities, this governance structure should also be leading cross-functional initiatives aimed at enhancing the organizational alignment, mutual reinforcement, and the overall equilibrium of the dimensions of the newly stretched business model.

  These initiatives might take the form of business transformation programs, process redesigns as well as complexity-reduction or strategic cost management of complexity initiatives.

THE GROWTH-MINDED CEO: ALCHEMIST, LEADER OF COMPLEXITY & CHIEF EQUILIBRIUM OFFICER

From the initial dynamic perfect imbalance between optimization and innovation to the newly mastered equilibrium of the firm's growth-derived business model, the role of the CEO seems to be that of a *Leader of Complexity*, a *Growth Alchemist*, and a *Chief Equilibrium Officer*.

The key is to give sense of the complexity implied by growth strategies as some things can never be made simple and some forms of complexity may have a compelling rationale. In this context, the CEOs' responsibility is to remind —through storytelling— how the growth strategic initiatives inscribe themselves in the strategic purpose of the firm. By reestablishing clarity of purpose, the CEO, as *Leader of Complexity*, provides useful guidance for thoughtful reduction of complexity wherever it may help advance the profitable growth agenda of the firm more effectively and efficiently.

As *Growth Alchemist* and *Chief Equilibrium Officer*, the CEO is not only accountable for the growth results, he is also responsible for the establishment of the growth-minded organization that will deliver them.

Indeed, the CEO —and his leadership team— must ensure that the growth process the firm goes through eventually translates into performance improvement that significantly outweighs its cost of complexity.

More than a process, growth is a journey. Inscribed in the firm's strategic purpose, it will see the firm navigate from the equilibrium state of the initial dimensions of its business model to the new equilibrium state defined by the growth strategy. Throughout this journey, the firm may go through different equilibrium states as it deals with the value proposition, client, and infrastructure complexity associated with the growth initiatives. Moving from one equilibrium to another one may be considered a transformation which may be further associated with increased "corporate entropy".

Consequently, the CEO and the leadership team need to set up an organization that is *"fit for the complexity of growth"* and that combines the following characteristics:

- self-discipline allowing strategic focus on optimization when exploitation prevails,
- innovation capability allowing effective exploration,
- adaptability allowing not only to go through successive transformations during the growth process but also to achieve a new level of self-discipline when the firm will reach its new post-growth equilibrium.

In essence, CEOs' mandate as *Leader of Complexity, Growth Alchemist,* and *Chief Equilibrium Officer* must lead to enhanced guidance on complexity, better management of the growth process and the establishment of an organization able to deliver the growth ambitions of the firm.

As such, it provides the *"Growth & Strategic Complexity"* Governance Structure with a clear roadmap not only for the strategic management of complexity of growth initiatives but also for the institutionalization of growth as a strategic capability for the long term. Executed in repeat mode over time according to the successive growth ambitions of the firm, this roadmap has the potential to give birth to a new breed of organization that is skillful at growing, at managing complexity, and at learning throughout the growth process: the learning growth-minded organization.

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contact@mpoyostrategy.com