THE PURSUIT OF GROWTH IN UNCERTAIN TIMES
INSIGHTS PAPER

Are you ready to break through the mid-size growth barrier? Visit companydirectors.com.au/directinggrowth
Six years on from the Lehman Brothers collapse, there is a growing belief that the period of stability from the early 1990s after deregulation until the firm’s downfall will prove to have been an anomaly in the long run.

The challenge for boards now is to move from conformance to performance. The financial crisis led boards to develop a welcome rigour around governance but also significantly reduced risk appetite. This has been exacerbated by an increasingly volatile geopolitical landscape. But boards looking for growth need to ask—if not now, when?

As one director says: “If we are waiting for a return to certainty before we recalibrate from a defensive position to an offensive position, we will be waiting a long time.”

Shifting to a growth position requires boards to change their mindset. This paper, developed from presentations and conversations at the Company Directors Conference Directorship:14, Igniting the Growth Agenda, develops a framework for a re-positioning.

There are five objectives to consider:
- Putting growth on the agenda
- Pursuing the right type of growth
- Analysing where opportunities are in the market
- Understanding the Asian market
- Educating investors around patient capital

**Growth on the agenda**

Traditionally, growth and strategy would be on a board’s agenda once a year. Reports and historical numbers often dominate most monthly meetings.

In this new framework, growth and strategy need to occupy more time and space in board meetings. It may be a case of measuring how time is spent and adjusting accordingly. “If I look at the companies where I am on the board, we spend less time on growth opportunities than we do on efficiencies of existing operations,” one director says.

One key to growth is capability—of the board, the executive and the company. As we emerge from a period of defensiveness, organisations may need to recalibrate. This does not necessarily require a complete shake-up of the board; rather, it takes an honest assessment of the skills required and what’s lacking. The solution may be making sure the board has access to particular skills just as it needs them. “We have a number of advisers and the way that advice comes to the board may flow in a different way,” one director says.

**The right growth**

While organisations need to pursue growth, boards also need to be aware that not all growth is worthwhile.

At its best, growth attracts great talent, creates new opportunities and provides a return to shareholders. At its worst, it is hollow and can ultimately destroy shareholder value.

A BCG study of the performance of ASX 200 companies during a 29-year period to 2009 demonstrated a correlation between revenue growth and total shareholder return for only one third of the group. This demonstrates that managing the opportunity is as important as managing the risk.

BCG states there are several errors commonly made in the pursuit of growth. These include:
- Sacrificing price points
- Mistaking revenue pools for profit pools

**UNCERTAINTY AND VOLATILITY ARE NOW THE NEW NORM.**
**IT IS AGAINST THIS BACKGROUND THAT BOARDS MUST PURSUE GROWTH.**
• Unsuccessful M&A because of poor integration
• Focusing on areas that are not aligned with organisational capabilities or culture

**Analysing for opportunities**

For both mature and developing companies, knowing where to look for growth requires a model to identify opportunities. Developing mid-tier companies naturally have more room to expand, while larger entities—often working in an oligopolistic environment—may need to re-invent their model to be more efficient.

Deloitte has developed a model based on the philosophy that chances for growth occur where Australian advantage meets global opportunity.**

If we take CSIRO’s description of current global megatrends—Asian growth, sustainability, data and changing demographics—and cross that against what Austrade considers Australia’s advantages—part of the Asian region, strong economy, English language, physical and regulatory infrastructure, skilled workforce—we could end up with the below model.

In areas where these areas intersect there are some great success stories in the local market.

**Understanding Asia**

Asia cannot be ignored, as its middle class burgeons and Australia sits in its time zone.

**There are three key questions a board should ask about this market:**

• How aggressively are you pursuing Asian options? Australia recently signed free trade agreements with Korea and Japan and will probably sign a third one with China. Have you had a presentation from management about opportunities arising from these? If not, why not?

• How connected are you on the ground in Asia? Consider whether you need an Asian advisory board. It doesn’t need to be formal; it could just be a close relationship with one or two people on the ground. If you have made connections in Asia, go back regularly to nurture them. “The Chinese will do business only with people that they know,” one director notes.

• Where in Asia do you want to do business? An Asian business must be built country by country, relationship by relationship. Do not look at it as one big country. “When I look at companies that have been unsuccessful in Asia, it is often because they did not appreciate the micro-issues in each country,” one director says.

**Patient capital**

One of the biggest frustrations for boards of listed companies is the short-term focus of investors and analysts. Boards despair of taking risks that could pay off in the long term and the market does not allow the space for them to grow. “Without patient capital, it is often the second or third owner that makes the money,” one seasoned director remarked.

Another director noted that boards were trapped by the earnings guidance they put out. “You get very nervous about making decisions that might push you outside of guidance,” he says.

The answer is patient education of analysts and investors. At previous Company Directors lunches, experienced directors have suggested that boards and management need to be more open with analysts to give them more insight into company plans—while naturally still abiding by disclosure rules.

This is an area where private boards operate in a different environment and they should play this to their advantage. “In a private company, the conversation is so different,” one director says. “We have a five-to seven-year plan and can be patient about capital.”
Conclusion

There is broad agreement that a more volatile environment is here to stay and that boards need to shift onto the front foot to pursue growth.

The political landscape is also challenging. Board members say policy volatility in areas such as financial services (with Future of Financial Advice reforms, for example) is making it difficult to plan. This new framework may require a new type of board to meet different challenges, or at least a board that looks to access contrasting types of skills.

Boards accept that the political landscape and the investor mindset are challenging; however, it is a challenge that most directors are up for. As one director at the conference noted: “It’s a confusing world and it’s not going to get any easier but at least it’s a lot of fun.”

Growing your business

Owners and directors of mid-size organisations have a particular set of challenges when trying to take their businesses to the next level. With tighter resources and a tough competitive environment there is pressure to find smarter ways to harness and manage the levers of growth and constantly refresh the business agenda.

To address these challenges Company Directors, in conjunction with KPMG, has created the new Directing Growth Program designed for business owners and directors of mid-sized businesses. This year-long program, brings together the latest thinking, an expert business owner panel and a community of owners and directors to explore the spectrum from governance to growth strategies.

Are you ready to break through the mid-size growth barrier?

Join our Directing Growth Program

To find out more
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e: directinggrowth@companydirectors.com.au

Sources
* Boston Consulting Group analysis of S&P Capital IQ data
** Positioning for Prosperity? Catching the Next Wave, Deloitte

In May 2014, over 400 directors gathered in Hamilton Island at the Company Directors Conference. With ‘igniting the growth agenda’ as the theme, the directors discussed both organisational and economic growth. This paper ‘Decision-making for growth’ is the third of five papers created from these discussions.

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