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There's No Such Thing as Corporate DNA

Why You Have to Be Prepared to Change Everything to Endure

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At a Glance

In this era of drastic change, it's a mistake for companies to cling to their so-called corporate DNA. Radical change—evolution with a capital *R*—is required if companies are to endure.

Why Some Companies Endure and Others Do Not

There are three strategies that distinguish long-lasting companies: innovation, restructuring, and growth. These work as a virtuous circle. A new idea requires you to restructure your portfolio, your organization, and your team. This process creates a new dynamic, leading to growth, which gives you the opportunity to innovate.

Nothing Is Sacred—Only Your Stakeholder Relationships Matter

The heart and soul of your company is defined by your relationships with employees, customers, suppliers, investors, and communities.

BCG

The Boston Consulting Group

The phrase "corporate DNA" trips off the tongue of many CEOs these days. In unsettled times, staying true to a company's defining essence is seen as important. But this view, although widely held, is mistaken. Over the last six decades—pretty much since Watson and Crick discovered the structure of DNA—turbulence in the business world has increased in intensity. The volatility of revenue growth, revenue rankings, and operating margins has more than doubled.

In our globalizing world, market shares are shifting fast. Companies that were hardly known ten years ago—often, but not always, from emerging markets—have become not only global challengers but also market leaders in their own right. And once-great companies have slumped, disappearing either into bankruptcy or into the hands of successful rivals. Why? Because for too long, old stalwarts have clung to their company's so-called DNA when radical change—evolution with a capital "R"—was called for. They tried to protect their heritage when new approaches were required. They emphasized continuity when discontinuity was necessary.

The New Era of Drastic Change

Paradoxically, perpetuity comes from change—constant change. It is important to understand this, because as the world pulls out of the Great Recession (which has clouded economic prospects for so long), we are about to embark on yet more unsettled times. The world is becoming more complex, change is happening faster, and the future will be even more volatile.

Globalization is one of the key drivers of change. For much of the past 100 years, the U.S. was the dominant economic force in the world. In 2014, however, China became the largest economy, at least in terms of purchasing power. Its companies are making their mark on many industries around the world. For example, Lenovo Group—formed in 1984 as a start-up with $25,000 in a guardhouse—is now the world's largest maker of personal computers. It has more than 54,000 employees (including joint ventures) in 60 countries and generated sales of $39 billion in its 2014 fiscal year.

As we look ahead to 2020, it is easy to foresee further change in the balance of economic power, with the continuing rise of Asia, the maturing of the European Union, and the changing fortunes of the emerging markets. The once "rapidly" developing economies are no longer all developing so rapidly. Brazil's GDP growth—an enviable 7.5 percent in 2010—slowed to 0.1 percent in 2014. Similarly, Russia's GDP growth was an unimpressive 0.6 percent in 2014, down from 4.5 percent in 2010. Russia's softening growth has been hastened by the dip in oil prices, with the ruble falling 46 percent against the U.S. dollar in 2014 as crude oil fell to its lowest level since 2009.

Another key driver of change is the rising tide of technology. The Internet of Things—the computers and other inanimate objects that communicate with each other and with people through mobile technologies, sensors, and software—challenges every business model in every industry everywhere. In the manufacturing industry, machines are able to schedule their own maintenance automatically; in retail, supply chains and inventory systems are becoming self-regulating; in health care, medical devices can collect and pre-analyze patients' data for practitioners.

We have experienced technological change before—but perhaps not on this scale, and not at this rate. Over the last 15 years, the number of new devices (mobile phones, PCs, and tablets) sold each year around the world has grown almost tenfold to 2.5 billion. The number of people connected to the Internet has grown to 3 billion, generating more than 30 terabytes of IP traffic per second. Technological change has been dramatic—and no company is immune from its impact. New technologies will force you to reconfigure your strategy, your operations, and your whole approach to business.

Three strategies rank among the most important: innovation, restructuring, and growth.

Besides globalization and technology, companies must deal with increasing regulation, protectionism, and nationalism, along with rising social inequality and social strife, and even terrorism, civil wars, and international conflict—all of which require continuous change.

Why Do Some Companies Endure and Others Do Not?

Time and again, business executives, consultants, and academics have searched for drivers of sustainable success. Clearly, there are many contributory factors. But what are the core factors? On the basis of our work with many clients and our discussions with many business leaders, we think that three strategies rank among the most important: innovation, restructuring, and growth.

To any CEO, these are deeply familiar strategies. But they are hard to implement on a continuing basis. To be successful, you need to think about them jointly. They reinforce each other, creating a virtuous circle. In the beginning, there is innovation, a new idea of what to do and how to do it. The new idea requires you to restructure your portfolio, your organization, and your team. The process of restructuring creates an additional dynamic, leading to growth. Growth gives you more scope, scale, and attraction—and the opportunity to invest more, which in turn can lead to new ideas and innovation.

Let's look more closely at each element of the virtuous circle, starting with innovation.

Innovation. What is innovation? The answer is obvious, isn't it? Actually, no. Too often, innovation is translated as "breakthrough inventions." But this kind of innovation is rare and, as often as not, the inventors are not the real winners. Think of Apple. It did not invent the MP3 player. What it did do, however, was to devise a whole new ecosystem with the iPod. Likewise, Apple did not invent the smartphone. Instead, it designed the iPhone, a smartphone of beautiful simplicity, and created a whole new business.

In other words, simply being first with new products does not guarantee success. You need to be innovative in the way you run your business. You need to be prepared to fundamentally change your mode of operation. In so doing, you can hope to create new competitive advantages. Ultimately, it's about being better and different, not just first.

In the automotive industry, for example, the attention-grabbing innovations are usually product-related: sleek new designs, higher-performance engines, and better fuel efficiency. But the big, albeit less glamorous, innovations have occurred in the production process—starting with Henry Ford, who introduced mass production with the first assembly lines. Toyota later moved efficiency and quality to a new level with just-in-time production. More recently, Volkswagen has been producing a huge variety of seemingly different cars with a multipurpose manufacturing-platform strategy, which offers plug-and-play modularity and commonality of vehicle parts. As a result, engines and clutches are interchangeable across the company's seven brands—from the entry-level Skoda to the Lamborghini sports car.

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This culture of innovation is now leading automotive and technology companies toward very new concepts—such as driverless cars, which are currently being tested on the streets of San Francisco. The jury is still out on these cars, and profitable outcomes are uncertain. But innovation will go on. It has to. That's one of the ways enduring companies manage to endure.

Restructuring. What is restructuring? Usually, the term is associated with struggling companies that have to cut costs. It often has a negative connotation—which is unfortunate, because restructuring is an essential weapon in the arsenal of enduring companies. You should focus on the positive aspects of restructuring: a restructuring of the business portfolio, the organizational setup, the processes, the leadership team, and ultimately the culture should be seen as normal and necessary for any company.

If you run a multibusiness enterprise, look at your portfolio of businesses. The lessons of Bruce Henderson, BCG's founder, are no less relevant today than they were nearly 50 years ago: some of your businesses create

To restructure is a strength and an essential part of an ongoing effort to meet opportunities and challenges.

significant value, others hold their own, and some destroy value. Be decisive. Hanging on to value-destroying business can ultimately threaten the whole company.

Similarly, look at all the parts of your business—every link in the chain, from suppliers to customers. And don't forget your leadership team. It, too, will need to be restructured to deal with new challenges. You may find that some managers are better when the company is growing than when it is in trouble and needs reshaping, or vice versa. Again, be decisive. If you don't make the necessary changes, you are risking the future of your business.

Ten years or so ago, low-cost carriers were rapidly eating into the market shares of the traditional airlines. Qantas Group responded by restructuring its services to offer two complementary airline brands: Qantas, a full-service carrier, and Jetstar Airways, a new, low-cost carrier. Jetstar has an entirely new cost structure and operating model, with predominantly a single type of plane in its domestic operation, as well as point-to-point flights, separate commercial systems, and a heavy reliance on online-generated sales. Jetstar has been a success, expanding to long-haul international business flights and establishing a number of franchise businesses in Asia (Singapore, Japan, and Vietnam), with higher margins than Qantas.

Among other companies that have restructured to stay in business are General Electric and Siemens. Both companies discarded key businesses—in white goods and telecom equipment, respectively—when they felt that they could no longer compete with focused companies in those sectors. Similarly, the chemical giants, such as BASF, Bayer, Dow, and DuPont, have continuously restructured their activities, shedding and adding businesses. Today, they look very different from the way they looked 30 years ago, but they continue to stand out in the chemical industry.

These companies demonstrate that what is sometimes regarded as a weakness—to restructure, to change direction—is actually a strength and an essential part of an ongoing effort to meet opportunities and challenges.

Growth. What is growth? Is it an outcome, a performance indicator, or a lever for change? Clearly, it is all three. But it is also something else: a vital energizer for individuals and institutions.

Long-term value creation depends largely on top-line growth. You can't cut your way to growth. Over a five-to-ten-year horizon, and in essentially all industries, about 70 percent of value creation comes from growth, according to BCG's analysis. But the emotional reasons for growth are arguably even more important than the economic reasons.

Only growing companies attract and retain top talent, because only these companies can create the positive, can-do environment that enables their people to achieve personal growth. If ambitious, talented people have to wait for many years to advance—if they have to wait for their superiors to be "hit by a bus"—stagnation and frustration will prevail and will drive away top talent.

We often say that nothing succeeds like success. And indeed, growth encourages and enables the innovation, experiments, and investments that can lead to business expansion, larger market shares, and higher margins. The confidence of the whole team grows—and so do the profits of the company. The absence of growth can act like a straitjacket that prevents innovation, experiments, and investments and can ultimately suffocate an organization.

The heart—and soul—of any company is, or ought to be, defined by its relationships with its key stakeholders.

There is a growth imperative. If you're not growing, make no mistake: you're dying.

Nothing Is Sacred: Only Your Relationships with Stakeholders Really Matter

In order to succeed, you have to innovate, restructure, and grow. It's an agenda of constant change in a new era of drastic change.

Nothing is sacred.

Your product portfolio is not sacred. White goods once defined General Electric, but they are no longer important to the company's future. Likewise, Siemens was defined by telecom equipment, but again this is no longer the case. Think of other companies and their products: Bayer and dyes, Apple and PCs, Sony and TVs.

Your domestic market is not sacred, either. In today's globalized world, staying loyal to the place where your company was born could be a fatal mistake.

But this raises a question: If everything can be changed, if nothing is sacred, what is it that gives your business meaning?

The heart—and soul—of any company is, or ought to be, defined by its relationships with its key stakeholders. Here's a checklist of the things you should be doing and the stakeholders you should be focusing on. And if you're not doing these things and focusing on these stakeholders, you should start doing so now:

- Providing a sense of mission for your *employees;* offering them ample development opportunities

- Satisfying the needs of your *customers;* providing the right mix of quality, value for money, and attentive service
- Developing an effective and efficient bond with your *suppliers;* focusing on costs and cooperating on everything from R&D to assembly
- Creating value for *investors,* whether as a growth stock or a value stock; attracting continuous investment to finance ambitious strategies
- Being a good citizen in the *communities* where you operate; applying world standards or becoming a multilocal champion

As the CEO or other top executive, you are the trustee of your company's tangible and intangible assets alike—and the steward of your stakeholder relationships. It is your job to develop them and, when necessary, to change them. You must deliver a stronger company to the next generation of employees, customers, suppliers, investors, and communities.

To do so, keep innovating, keep restructuring, and keep growing. Above all, keep changing. You must discard any notion that some things are sacred. In the corporate world, there is no such thing as DNA.

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