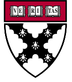
Harvard Business Review 
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Successful companies lose momentum for four main reasons. All are within management's control if spotted in time.

When Growth Stalls

by Matthew S. Olson, Derek van Bever, and Seth Verry

Included with this full-text *Harvard Business Review* article:

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The Idea in Practice—*putting the idea to work*

2 When Growth Stalls

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A list of related materials, with annotations to guide further exploration of the article's ideas and applications

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When Growth Stalls

The Idea in Brief

It happens even to exemplary companies: after years of neck-snapping acceleration in revenue, growth suddenly stalls. And no one saw it coming.

Worse, if executives don't diagnose the cause of a stall and turn things around fast, a company stands little chance of ever returning to healthy top-line growth.

It's tempting to blame stalls on external forces (economic meltdowns, government rulings) and conclude that management is helpless. But according to Olson, Van Bever, and Verry, the most common causes of growth stalls are knowable *and* preventable:

- A premium market position backfires
- Innovation management breaks down
- A core business is abandoned prematurely
- The company lacks a strong talent bench

Understand these causes—along with their telltale clues—and you'll be better equipped to stop your firm from heading into a fatal nosedive.

The Idea in Practice

THE FOUR CAUSES OF GROWTH STALLS

Cause	Explanation	Example	Key Symptoms
Premium position backfires	A company with long-successful premium brands ignores new, low-cost rivals or major shifts in customer preferences.	Levi Strauss ignored the rise of house brands and super-premium designer jeans while its revenues were surging. Its share of the U.S. jeans market dropped by half over the 1990s.	• Market share plummets in narrow customer segments. • Customer acquisition costs jump. • Key customers increasingly resist service enhancements.
Innovation management breaks down	A company mismanages the processes for creating new offerings.	After 3M pushed its R&D budget out to its units, the product-centric divisions focused on incremental extensions, not major new offerings. 3M's annual growth rate fell from 17% to 1% between 1979 and1982.	• Senior executives can't monitor funding decisions at the business-unit level to check the balance between incremental and next-generation investments.
Core business is abandoned prematurely	Believing its core markets are saturated, a company doesn't fully exploit growth opportunities in its existing business.	In the late 1960s, RCA decided the age of breakthroughs in consumer electronics had passed. It invested in mainframe computers and acquired consumer-products firms. Meanwhile, Steve Jobs and Bill Gates were on the verge of starting companies that would revolutionize RCA's former core business.	• The company invests in acquisitions or growth initiatives in areas distant from existing customers, products, and channels. • Executives refer to a product line, business unit, or division as "mature."
Company lacks a strong talent bench	The firm has few executives and staff with strategy- execution capabilities.	At Hitachi, executives consistently came up from the company's energy and industrial side, but Hitachi's growth prospects lay elsewhere. No top executives held an MBA or other business degree. In 1994, Hitachi experienced a devastating downward slide in earnings.	• The executive team comprises company lifers with a narrow experience base. • Management development programs focus on replicating current leadership's skills.

PREVENTING A STALL

Ossified assumptions about customers, competitors, and technologies are the underlying causes of growth stalls. To prevent a stall, surface these assumptions and test their accuracy. Here's how:

- Commission a squad of younger, newer employees to ask questions such as "What industry are we in?" "Who are our customers?"
- Have teams develop visions of your company's future five years hence. Look for issues the scenarios have in common; they reveal core beliefs you should monitor.
- Ask a venture capitalist to sit in on strategy reviews and probe for weaknesses.

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When Growth Stalls

by Matthew S. Olson, Derek van Bever, and Seth Verry

Senior management at Levi Strauss & Company could be forgiven for not seeing it coming. The year was 1996. The company had just achieved a personal best, with sales cresting $7 billion for the first time in its history. This performance extended a run of growth in which overall revenue had more than doubled within a decade. Since taking the company private in 1985, management had relaunched the flagship 501 brand, introduced the Dockers line of khaki pants, and increased international sales from 23% to 38% of revenue and more than 50% of profits. Growth in 1995 was the strongest it had been in recent years.

And then came the stall. From that high-water mark of 1996, company sales went into free fall. Year-end revenue results for 2000 were $4.6 billion—a 35% decline from four years prior. Market value declined even more precipitously: Analysts estimate that it went from $14 billion to $8 billion in those four years. The company's share of its core U.S. jeans market dropped by half over the 1990s, falling from 31% in 1990 to 14% by decade's end. Today, with a new management team in place, Levi Strauss has undergone a company-wide transformation. It may be regaining its footing, but it has yet to return to growth.

While more dramatic than many, this is the story of a revenue growth stall—a crisis that can hit even the most exemplary organizations. It shares many elements with other stalls, at companies as varied as 3M, Apple, Banc One, Caterpillar, Daimler-Benz, Toys "R" Us, and Volvo. What these companies would surely recognize in the story is the stall's suddenness. Like Levi Strauss, most organizations actually accelerate into a stall, experiencing unprecedented progress along key measures just before growth rates tumble. When the momentum is lost, it's as if the props have been knocked out from under their corporate strategy. (See the exhibit "No Soft Landings.") Typically, few on the senior team see the stall coming; core performance metrics often fail to register trouble on the horizon.

As part of our ongoing research into growth, the Corporate Executive Board re-

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cently completed a comprehensive analysis of the growth experiences of some 500 leading corporations in the past half century, focusing particularly on "stall points"—our term for the start of secular reversals in company growth fortunes, as opposed to quarterly stumbles or temporary corrections. The companies in our study included more than 400 that have appeared on the *Fortune* 100 since that index was created, some 50 years ago, along with about 90 non-U.S. companies of a similar size. The study revealed patterns in the incidence, costs, and root causes of growth stalls. (Our research approach is described briefly in the sidebar "The Search for Stall Points.")

On the quantitative record alone, we can attest that Levi Strauss is in good company: 87% of the companies in this group have suffered one or more stall points. We can also appreciate the consequences of such events. On average, companies lose 74% of their market capitalization, as measured against the S&P 500 index, in the decade surrounding a growth stall. More often than not, the CEO and senior team are replaced in its aftermath. And unless management is able to diagnose the causes of a stall and get the company back on track quickly—turning it around in a matter of several years—the odds are against its ever returning to healthy top-line growth.

Deeper analysis sheds light on the most common causes of growth stalls, which turn out to be preventable for the most part. There is a common assumption that when the fortunes of great companies plunge, it must be owing to big, external forces—economic meltdowns, acts of God, or government rulings—for which management cannot be held accountable. In fact most stalls occur for reasons that are both knowable and addressable at the time. The exhibit "The Root Causes of Revenue Stalls" reveals the factors that lay behind the stalls of 50 companies we went on to study in depth; clearly, a company can falter in many ways. One might almost think that sustaining growth in a very large company depends on doing absolutely everything right. But the root causes of stalls are not so varied or complex that we can't see patterns.

What the exhibit demonstrates is that the vast majority of stall factors result from a choice about strategy or organizational design. They are, in other words, controllable by management. Further, even within this broad realm, nearly half of all root causes fall into one of four categories: premium-position captivity, innovation management breakdown, premature core abandonment, and talent bench shortfall.

In this article we'll offer advice for avoiding these hazards, drawing from practices currently in use at large, high-growth companies to foresee possible stalls and head them off. More generally we will explore why management is so often blindsided by these events. As we will show, a large number of global companies may at this moment be perilously close to their own stall points. Knowing how to avoid growth stalls begins with understanding their causes. Let's look at each of the four categories.

When a Premium Position Backfires

By far the largest category of factors responsible for serious revenue stalls is what we have labeled premium-position captivity: the inability of a firm to respond effectively to new, low-cost competitive challenges or to a significant shift in customer valuation of product features.

We use the term "captivity" because it suggests how management teams can be hemmed in by a long history of success. A company that solidly occupies a premium market position remains insulated longer than its competitors against evolution in the external environment. It has less reason to doubt its business model, which has historically provided a competitive advantage, and once it perceives the crisis, it changes too little too late. When the towering strengths of a firm are transformed into towering weaknesses, it's a cruel reversal.

Readers will recognize the intellectual kinship between our notion of premium-position captivity and the patterns of technology disruption described by Clayton M. Christensen in his landmark book *The Innovator's Dilemma* (Harvard Business School Press, 1997). As we scan the broad data set of the *Fortune* 100 over the past half century, we are struck by Christensen's acumen. In documenting premium-position captivity in leading enterprises, we saw a cycle of disdain, denial, and rationalization that kept many management teams from responding meaningfully to market changes.

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Price and quality leaders such as Eastman Kodak and Caterpillar, for example, have found themselves unable (or unwilling) to formulate a timely, effective response to the threat posed by foreign entrants. The owners of iconic brands, such as American Express, Heinz, and Procter & Gamble, may assume that the decades-long investments they have made in their brands will protect their premium prices against lower-cost entrants. Both Compaq and Philip Morris (now part of Altria) failed to respond to signs of trouble in the early 1990s because they relied on performance metrics designed around generous margins.

We saw premium-position captivity at work in the Levi Strauss stall when the company failed to spot a strategic inflection in customer demand. In cases like this one, organizations and their multiple sophisticated market-sensing activities simply don't recognize the importance of an emerging behavior or customer preference in their core markets. They continue to place their bets on product or service attributes that are in decline, while disruptive entrants emphasizing different, underrecognized features gain ground.

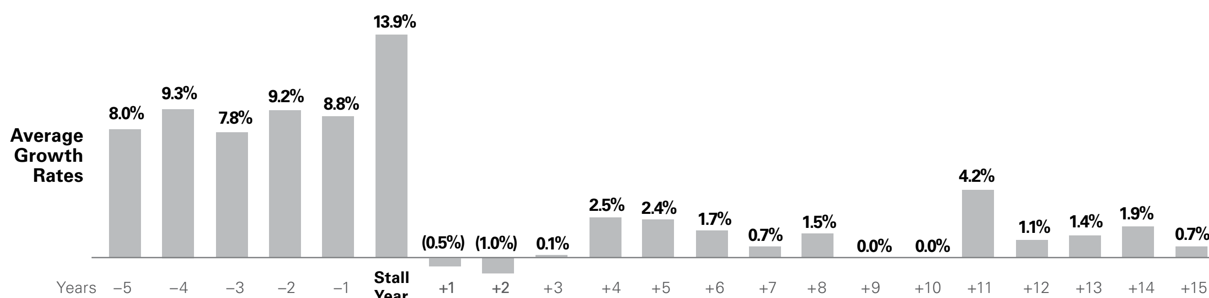
In the early 1990s Levi Strauss enjoyed surging revenues even as its relationships with the Gap and other distributors faltered and as designers and retailers introduced jeans products at the high and low ends of the market. The rise of house brands and superpremium designer jeans looked manageable—or ignorable—as long as healthy revenue growth continued. By the time the growth stall had become evident, the company found itself with an expensive retailing strategy and a product line that was out of step with both ends of the denim jeans market.

The market data relating to this growth stall were not hidden from Levi Strauss executives; the challenge was to separate the signal from the noise. The company's years of success warped its interpretation of what it was seeing. Its story illustrates how difficult it is to respond to a threat in the absence of a burning platform: If your sales are continuing to rise, how do you focus concern? In 1999 Gordon Shank, then the company's chief marketing officer, admitted ruefully, "We didn't read the signs that all was not well. Or we were in denial."

Although the onset of premium-position captivity is gradual, there are often clues that trouble is afoot, both in the external market and in executive attitudes and behaviors. (See the sidebar "When Does a Premium Position Become a Trap?") Easiest to spot in marketing data are pockets of rapid market share loss, particularly in narrow customer segments, and increasing resistance among key customers to solutions wrappers and other bundling of services. It can also be revealing to focus on metrics different from those you ordinarily emphasize. If you normally track profit per customer, for example, you are content when it rises. But would you notice if customer acquisition costs increased even more rapidly? When it comes to management attitudes, your ears may pick up the strongest clues: Listen closely to the tone in the executive suite when conversation turns to upstart competitors or to successful rivals that are

No Soft Landings

An analysis of the growth histories of *Fortune* 100 and Global 100 companies that experienced stalls between 1955 and 2006 reveals this composite pattern. After a burst of energy, growth does not descend gradually; it drops like a stone.



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The Search for Stall Points

To understand the prevalence of serious growth crises in large companies, as well as their costs and causes, we analyzed the experiences of more than 400 companies that have been listed on the *Fortune* 100 since its inception, in 1955, and of about 90 comparable non-U.S. companies. Some 500 companies over 50 years gave us 25,000 years' worth of historical data and information to mine for insights. A pattern that emerged from these histories yielded the useful construct of the stall point—that moment when a company's growth rate slips into what proves to be a prolonged decline.

We began by analyzing the revenue growth records of every company in our study to identify which companies had experienced stall points and when. Specifically, we calculated the compound annual growth rate (CAGR) of each company's revenue for 10 years before and 10 years after every year in the past half-century for which data were available. To qualify as having stalled in a given year, a company must have enjoyed compound annual growth of at least 2% in real dollars for the 10-year period prior to the potential stall point; the difference in CAGR for the 10 years preceding and the 10 years following must have been at least four percentage points; and the CAGR of the subsequent 10 years must have fallen below 6% in real dollars. One stall point identified in this manner is shown below.

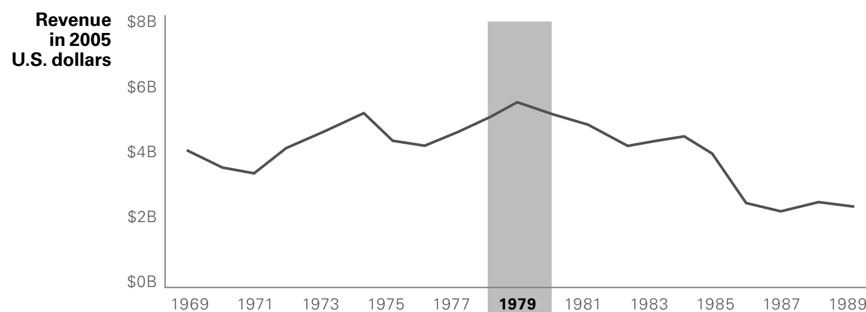
We then turned our attention to *why* companies stall. Out of the 500 companies, we selected for in-depth case research 50 that were representative of the whole in terms of industry mix and age. We assembled comprehensive dossiers on all of them, drawing on the public record of financial reports and published materials, on case studies, and on personal interviews. This enabled us to identify the top three factors contributing to each company's growth stall. After all these analyses we were able to identify the root causes of stalls and the major categories they fell into. We arrived at our framework purely inductively, from the bottom up. (See "The Root Causes of Revenue Stalls.")

Readers may be wondering why we chose revenue rather than profit, value, or some other measure on which to focus our analysis. That is a fair question, and we considered our choice at length. It rests on two premises. The first is that revenue growth, more than any other metric, is the primary driver of long-term company performance. This is not to say that revenue growth without profits is desirable, but high growth through margin management alone is unsustainable. The second premise is more mundane: It's hard to manipulate the top line over time, and market value and profit measures are much more variable. Revenue growth guided us to the most meaningful turning points in corporate growth history.

We would be pleased to discuss any aspect of this methodology or detail of our findings with analysts wishing to learn more or to replicate our approach. We maintain an updated list of FAQs about this initiative on our website, at www.stallpoints.executiveboard.com.

One Company's Stall Point

Tracking the growth of the BF Goodrich Corporation over a 20-year period, we can clearly see its stall point. Annual growth rates are shown for a decade before and a decade after what proved to be the stall year. The turning point in Goodrich's fortunes came in 1979, after which the company's growth fell into secular decline.



Year	1974	1975	1976	1977	1978	**1979**	1980	1981	1982	1983	1984
CAGR 10 Years Prior	3.7%	1.4%	1.0%	2.1%	2.2%	**2.5%**	2.7%	2.3%	(0.4%)	(0.6%)	(1.1%)
CAGR 10 Years After	(1.1%)	(0.9%)	(3.2%)	(5.5%)	(5.6%)	**(6.5%)**	(6.2%)	(5.9%)	(4.8%)	(8.3%)	(7.1%)
Difference	4.8%	2.3%	4.2%	7.6%	7.8%	**9.0%**	8.9%	8.2%	4.4%	7.7%	6.0%

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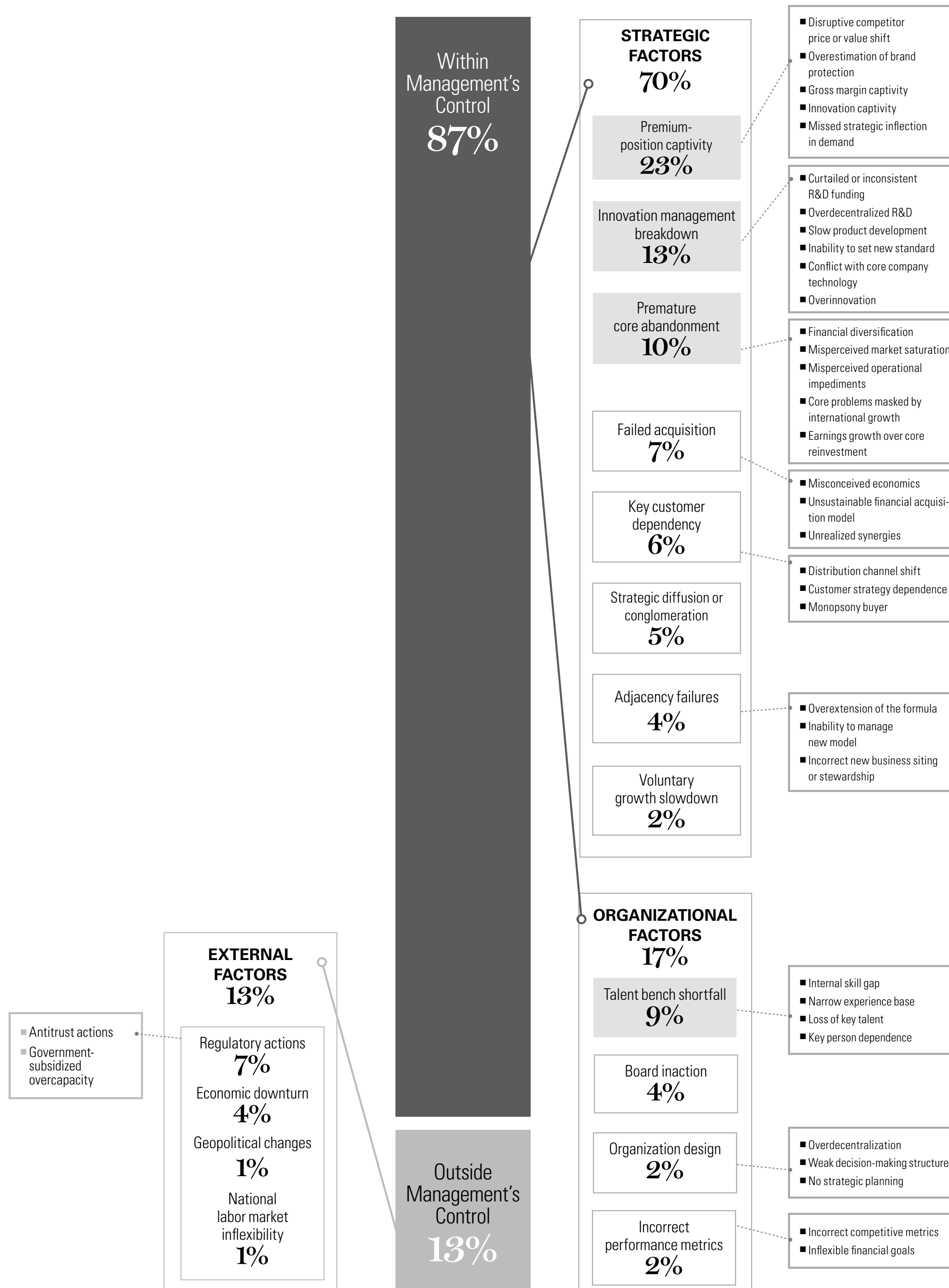
The Root Causes of Revenue Stalls

A careful analysis of 50 representative companies that experienced growth stalls revealed nearly as many root causes for them: 42 external, strategic, and organizational factors, which can be grouped into categories as shown here. We identified the top three factors contributing to each company's stall and considered those results as a whole in determining how large a role (indicated by percentage) each category played. The clustering that is at the heart of our findings is clear: Four categories account for more than half the occurrences of root causes we cataloged—premium-position captivity, innovation management breakdown, premature core abandonment, and talent bench shortfall.



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viewed as less capable. Is it acceptable, or routine, to dismiss them as unworthy? Do your processes for gathering intelligence about your competitors ignore some of these market participants because of their size or perceived lack of quality? Indulging in such behavior is common, but it's a luxury that no market leader can afford.

When Innovation Management Breaks Down

The second most frequent cause of growth stalls is what we call innovation management breakdown: some chronic problem in managing the internal business processes for updating existing products and services and creating new ones. We saw manifestations of this at every major stage along the activity chain of product innovation, from basic research and development to product commercialization.

Where revenue growth stalls could be attributed to innovation breakdown, the problems emphatically did not center on individual product launch failures; a New Coke may occasionally belly flop, but the result is typically a temporary growth stumble rather than a fateful turning point in a company's growth history. By contrast, the secular growth stalls we identified were attributable to systemic inefficiencies or dysfunctions. Given that most large corporations rely on business models that have evolved to generate sequential product innovations, when things go wrong here—at the heart of these organizations' most important business process—extremely serious, multiyear problems result.

For firms shifting the bulk of their R&D activities out to their business units, our case studies provide a strong cautionary tale. The logic behind such shifts is clear: The closer R&D is to markets and individual unit strategies, the higher its return on investment should be. But problems seem to arise when decentralization is combined with an explicit (or implicit) metric that demands a high share of revenue growth from new-product introductions. The result can be an overallocation of resources to ever smaller incremental product opportunities, at the expense of sustained R&D investment in larger, future product platforms.

A stark example of this occurred at 3M in the 1970s, when the company experienced a revenue stall after decades of robust top-line

When Does a Premium Position Become a Trap?

At the top of every industry are companies that have built premium positions for themselves, dominating the market among the most demanding customer segments and providing products or services that lead the field in performance, thus commanding higher prices. The organizational strengths in product development, brand management, and marketing that created these top positions are sources of great pride to the firms that cultivated them.

But attack from new competitors with significantly lower cost structures, or changes in customer preferences that start slowly and then reach tipping points, can actually transform these dependable sources of competitive advantage into weaknesses. Product innovation loses its ability to protect pricing premiums, and presumed brand and marketing strengths no longer dependably protect market share. All the firm's business processes and activities, developed and honed for the top end of the market, become impediments to refreshing strategy.

It is possible to spot the onset of premium-position captivity. The six yes-or-no questions below probe awareness of threatening market dynamics, an executive team's blind spots regarding competitive threats, and intelligence capabilities for recognizing an impending encroachment on premium turf.

Clues in Market Dynamics

- Are we losing market share to nonpremium rivals in subsegments of our markets?
- Are key customers increasingly resistant to paying price premiums for product enhancements?

Clues in Executive Team Attitudes

- Does the senior executive team resist the proposition that nonpremium players operate in the same business or product category that we do?
- Do we commonly dismiss the possibility that nonpremium rivals and low-end entrants will penetrate the upper ends of our markets?

Clues in Market and Competitor Research

- Do we fail to track shifts in secondary and tertiary customer-group behavior with the same rigor we use for our higher-end segments?
- Do we exclude nonpremium players and low-end entrants from our tracking of competitive threats?

A "yes" to two or more of these questions suggests the need to refocus research into markets and competitors. The goal should be to map premium features and low-end competitor performance. A "yes" to four or more suggests an immediate need for contingency planning: How might the firm modify its current business model (including its margin requirements and cost basis) to respond to a low-cost entrant within 18 months?

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growth. Since its founding, in 1902, 3M had followed a clear formula for success, developing innovative products with industrial applications that supported a premium position and then leapfrogging to the next opportunity as the market matured. This strategy, which has been characterized as "the corporate millipede" ("Make a little, sell a little, make a little more"), had by the early 1970s produced a portfolio of more than 60,000 products (the majority of them with sales under $100 million), while more than 25% of total corporate sales came from products less than five years old.

The growth potential inherent in this niche-jumping strategy began to dwindle in the late 1970s, as the firm approached $5 billion in revenue. With the recession of the early 1980s looming, 3M management decided to hold R&D expenditures below historical averages of just over 6% of annual sales and to push most of the R&D budget down to the company's 42 divisions (usually organized around individual product lines).

Total growth slowed as divisions focused on ever narrower niche-segment opportunities. From 1979 to 1982 the company saw its annual growth rate fall from 17% to just over 1%, with sales per employee creeping downward simultaneously. Because the bulk of R&D was controlled by product-centric business units, major new-product development activity was replaced by incremental product line extensions. The former CEO Allen F. Jacobson observed of that era, "Historically, our drive for profit and our preference for developing premium-priced products aimed at market niches meant that we were not comfortable competing only on price. As a result, we never fully developed our manufacturing competencies. And when competitors followed us, we would refuse to confront them—it was always easier to innovate our way into a new niche."

As we looked at the variety of ways in which problems in the innovation management process can eventually produce major revenue stalls, we were struck by the fragility of this chain of activities, and by how vulnerable the whole process is to management decisions made to achieve perfectly valid corporate goals. There are some powerful clues, however, when a company is at serious risk. Most significant is probably not the overall level of R&D spending but how those dollars are being spent. Is the senior team able to look into funding decisions at the business unit level to monitor the balance between incremental and next-generation investments? Are R&D and other innovation resources at the corporate level budgeted separately from incremental innovation? Is some portion of innovation funding allocated to creating lower-cost versions of existing products and services? Given the long lead times characteristic of the innovation process, flaws are slow to surface—and time-consuming to remedy.

When a Core Business Is Abandoned

The third major cause of revenue stalls is premature core abandonment: the failure to fully exploit growth opportunities in the existing core business. Its telltale markers are acquisitions or growth initiatives in areas relatively distant from existing customers, products, and channels.

This category has received significant attention in the recent business literature. Perhaps as a result, stalls attributed to premature core abandonment cluster in the period before 1990. We are tempted to credit the management consulting industry for having hammered home the need for attention to core businesses. In particular, Chris Zook, of Bain & Company, has stayed on this issue with ferocity.

That is not to say that *Fortune* 100–size firms have mastered the art of generating continuous growth in their core businesses. Quite the contrary: The recent wave of private equity takeovers suggests that many public companies still struggle in their efforts to grow established businesses. Almost without exception, these take-overs are based on strategies for growing the core—strategies that public-company executive teams are either unable or unwilling to pursue.

The two most common mistakes we saw in this category were believing that one's core markets are saturated and viewing operational impediments in the core business model as a signal to move on to new, presumably easier competitive terrain. Either situation invariably ended badly, with some competitor moving in to displace the incumbent.

In the late 1960s Robert Sarnoff, the CEO of RCA and son of David Sarnoff, the legendary force behind the company, came to the

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What stops growth dead in its tracks is not merely a shortage of talent but the absence of required capabilities, most visibly at the executive level.

mistaken belief that "the age of the big breakthroughs in consumer electronics—the age in which [his father] had built RCA—had passed." James Hillier, the head of the company's labs, asserted, "The physicists have discovered about all they are going to for consumer application in the near future."

One can hardly blame Sarnoff when even the physicists were advocating moving on—and move on he did. He pursued initiatives in three new, presumably higher-growth directions. First, mainframe computers seemed a logical choice, given that technology-driven big bets had powered RCA's growth since the 1920s. Second, he decided that marketing was the future and deployed huge resources to acquire companies in the consumer products sector. Third, the company redirected internal resources from consumer electronics research into marketing and brand management projects. Meanwhile, Steve Jobs and Bill Gates were on the road to starting companies that would launch a revolution in RCA's former core markets.

Just as interesting as getting it wrong on core business growth prospects is the tendency of executive teams to simply give up on apparently intractable problems in their core businesses. The most intriguing example of this occurred at Kmart. A highly successful challenger to Sears as a general-merchandise big-box retailer, Kmart relentlessly stole its formerly indomitable competitor's market share through the 1960s and 1970s.

In 1976 Kmart reached a peak in new store openings, adding 271 facilities to its countrywide network. That would prove to be its limit. Over the next decade the company reined in expansion in its core business, convinced that the U.S. market was saturated. Its chairman, Robert Dewar, created a special strategy group whose purpose was to study new growth avenues and, in the parlance of the time, far-out ideas. He also established a performance goal for the company: 25% of sales should come from new ventures by 1990.

What's most disturbing about Kmart's choices is not that management was tempted to diversify in search of growth—however misguided this appears in hindsight, given Wal-Mart's concurrent gathering of strength. Rather, it is that the executive team failed to monitor and match the distribution and inventory management capabilities that its rival was pioneering in Bentonville, Arkansas. In the early 1980s, while Wal-Mart was installing its first point-of-service system with a satellite link for automatic reorders, Kmart was acquiring Furr's Cafeterias of Texas, the Bishop's Buffet chain, and pizza-video parlors as outlets for its retained earnings. Throughout the next decade Wal-Mart continued to invest in its cross-docking distribution system, while Kmart pursued a range of disparate businesses, including PayLess Drug Stores, the Sports Authority, and OfficeMax. By the end of the 1980s Kmart was at least 10 years behind Wal-Mart in its logistical capabilities, handing Wal-Mart a "gimme" advantage of more than 1% of sales in inbound logistics costs. As Kmart lagged ever further behind, its imagined need for outside-the-core growth platforms became real.

Of all the red flags signaling stall risk, one of the most obvious is management's use of the term "mature" to refer to any of its product lines, business units, or divisions. (The disinvestment in the core implied by the "cash cow" cell of the growth-share matrix does modern managers no favor.) Established businesses should be managed against significant revenue and earnings goals, and business leaders should actively explore the potential of new business models to rejuvenate even the most "mature" businesses.

When Talent Comes Up Short

Our fourth major category is talent bench shortfall: a lack of leaders and staff with the skills and capabilities required for strategy execution.

Talent bench shortfall merits careful definition, because it has become a fact of daily life in many industries and functions. Indeed, at this writing, shortages of critical talent are the primary concern of human resources departments globally, not just in high-growth markets but in a range of specialty skill categories, and they are expected to get worse. What stops growth dead in its tracks, however, is not merely a shortage of talent but the absence of required capabilities—such as solutions-selling skills or consumer-marketing expertise—in key areas of a company, most visibly at the executive level.

Internal skill gaps are often self-inflicted wounds, the unintended consequence of promote-from-within policies that have been

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too strictly applied. Such policies, often most fervent in organizations with strong cultures, can accelerate growth in the heady early days of executing a successful business model. But when the external environment presents novel challenges, or competition intensifies, these policies may be a severe drag on progress.

One important element in this category is a narrow experience base at the senior executive level that prevents a timely response to emerging strategic issues. The most common marker of this lack of experience is managers' tendency to follow a well-worn internal path from a dominant business, market, or function to the executive suite. Hitachi, which went into a growth stall in 1994, illustrates this problem. At the time, Hitachi accounted for 2% of Japan's GNP and 6% of its corporate R&D spending. The downward slide in the company's revenue was devastating. Executive management has consistently come up from the energy and industrial side of the company, but Hitachi's growth prospects lie elsewhere. This narrowness extends to functional pedigree: The firm has historically had an engineering culture, with none of its top executives holding an MBA or other business degree. As Hitachi looks toward its centennial in 2010, however, change may be in the offing: Kazuo Furukawa, who was named president and chief operating officer in 2006, came up through the telecom and information systems sectors. He is the company's first president with no exposure to its heavy electrical machinery business.

Few companies formally monitor the balance in the executive team between company lifers and newer hires who offer fresh perspectives and approaches. Furthermore, large companies have a fairly poor track record on incorporating new voices into senior management. Most studies agree that 35% to 40% of senior hires wash out within their first 18 months—a statistic that is improving glacially as we adopt new practices in talent management. And management development programs all too often focus on replicating the skill sets of the current leadership, rather than on developing the novel skills and perspectives that tomorrow's leaders will need to overcome evolving challenges.

We have identified a simple way to ensure balance in the senior executive ranks—what we call mix management. Our analysis of company growth rates and senior leaders' backgrounds suggests that the sweet spot for external talent is somewhere between 10% and 30% of senior management. That is a good target for the CEO and the board to use with the firm's executive committee and for human resources to use with the top 5% of the workforce.

When What You Know Is No Longer So

As noted, the four categories we have outlined account for nearly half of all the root causes we cataloged. A host of other, less common causes that came up in our analysis crossed a broad terrain, including failed acquisitions, key customer dependency, strategic diffusion, adjacency failures, and voluntary growth slowdowns. A powerful observation can be distilled from this array: One culprit in all our case studies was management's failure to bring the underlying assumptions that drive company strategy into line with changes in the external environment—whether because of a lack of awareness that the gap existed or was widening, or because of faulty prioritization.

The lack of awareness is particularly vexing, because it is so insidious. Strategic assumptions begin life as observations about customers, competitors, or technologies that arise from direct experience. They are then enshrined in the strategic plan and translated into operational guidance. Eventually they harden into orthodoxy. This explains why, when we examine individual case studies, we so often find that those assumptions the team has held the longest or the most deeply are the likeliest to be its undoing. Some beliefs have come to appear so obvious that it is no longer politic to debate them.

Part of the reason that few top teams question assumptions is that doing so goes against the nature of the senior executive mandate: The CEO and his or her executive team are paid to develop a vision and execute it—with resolve. Another part is human nature: Introspection and self-doubt don't often appear in the personality profiles of top executives at large enterprises. A third part is process: CEOs have very few opportunities to safely express their midnight anxieties. And the one opportunity for stock taking that is built into the annual calendar of most firms—the review of the strategic plan for the coming year—all

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too often fails to stimulate deep, searching conversation. Indeed, the "assumptions and risks" section of virtually all strategic plan templates is generally treated as a pro forma exercise rather than an occasion to go deep.

Articulating and Testing Strategic Assumptions

To assist executives in spotting signs of vulnerability to growth stalls in their own organizations, we offer two kinds of tools. The first is a diagnostic self-test we developed at the conclusion of our research. Hoping to determine how companies might foresee a stall, our team spent considerable time looking at various financial metrics, from margin erosion to patterns in R&D spending. This effort was fruitless: Financial metrics—at least those available to the public—are as likely to lag behind as lead an organization's change in strategic vitality.

What we did find helpful was asking, What could the company's senior managers have seen in their markets, in their competitors' behavior, in their own internal practices, that might have alerted them to an impending stall? We looked at our detailed case histories for warning signs before the stall point that perhaps hadn't received the scrutiny they deserved, and uncovered 50 red flags, all rooted in the real experience of the companies we studied. Our 20/20 hindsight may enable you to spot signs faster in your own organization. (See "Red Flags for Growth Stalls.")

Also included in our tool kit are four practices drawn from those we've seen management teams use. The first two are effective in making strategic assumptions explicit, and the latter two are designed to test those assumptions for ongoing relevance and accuracy. A hallmark of these practices is that they are embedded in the work flow of the firm—the job of some individual or team—or otherwise built into core operating systems.

Commission a core-belief identification squad. This practice is simple to execute and involves calling on a diverse, cross-functional working group to go hunting for the firm's most deeply held assumptions about itself and the industry in which it operates. (Gary Hamel and his colleagues at Strategos have led the way on this practice.) The best-functioning squads include a significant share of younger, newer employees, who are less likely to be invested in current orthodoxies. Their efforts are most fruitful when the team is prepared to raise thorny issues and challenge entrenched beliefs, using methods ranging from reality checks—What industry are we in? Who are our customers?—to more provocative explorations: What 10 things would you never hear customers say about our business? Which firms have succeeded by breaking the established "rules" of the industry? What conventions did they overturn?

One leading consumer-goods company told us that it had used this practice to kick off an inquiry into long-term growth pathways and to challenge conventions that had taken hold through the years. We like the practice for two reasons. First, it seems to strike the right balance between traditional, closed-door strategy discussions and all-company "jams," which tend to lose credibility and edge in direct proportion to the number of participants involved. Second, it manages to simultaneously address areas of universal agreement and issues that are in play.

Conduct a premortem strategic analysis. Many leaders have found it useful to charge teams with developing competing visions of the future success—or failure—of the company as it would be reported in a business periodical five years hence. (See Gary Klein,

Red Flags for Growth Stalls

Are you about to hit a stall point? A diagnostic survey of 50 red flags can help signal the danger in time. Below is a sampling of red flags relating to premium-position captivity; other parts of the survey highlight other hazards. To the extent that your senior team and high-potential managers see these as areas for concern, you may be headed for a free fall.

- Our core assumptions about the marketplace and about the capabilities that are critical to support our strategy are not written down.
- We haven't revisited our market definition boundaries, and therefore our list of current and emerging competitors, in several years.
- We haven't refreshed our working definition of our core market, and therefore our understanding of our market share, in several years.
- We test only infrequently for shifts in key customer groups' valuation of our product/service attributes.
- We are less effective than our competitors at translating customer insights into new product and service categories.
- Core customers are increasingly unwilling to pay a premium for our brand reputation or superior performance.

To watch the authors discuss their complete list of red flags and how to use them to diagnose impending growth stalls, go to stallpoints.multimedia.hbr.org. There you can link to the full diagnostic survey, at www.stallpoints.executiveboard.com.

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"Performing a Project *Pre*mortem," Forethought, HBR September 2007.) The process typically takes place over one or two days at regularly scheduled offsite management gatherings, and teams senior executives with high-potential staffers from around the world. By seeing which issues the scenarios have in common, leadership teams can identify the subset of core beliefs that should be most closely examined and monitored.

Appoint a shadow cabinet. Pioneered by a *Fortune* 250 manufacturing company, the shadow cabinet is a standing group of high-potential employees who tend to be in midcareer and are often in line for promotion to the director level. They usually meet the day before an executive committee meeting, and their agenda matches as closely as possible the agenda for the following day, with presenters delivering dry runs of their material to the group and then providing whatever follow-up is needed to support the group's deliberations and decision making. The members of the shadow cabinet are invited to executive committee meetings on a rotating basis.

The benefits of this practice are manifold. Because it provides such powerful seasoning for the employees who participate, it becomes a mainstay of the leadership development curriculum. And because senior executives are usually most attached to the assumptions underlying current strategy (it is *their* strategy, after all), they find the fresh perspectives offered by this creditable, well-informed constituency extremely valuable. That said, most executives to whom we've presented this idea respond that it would never work in their organizations. "The executive agenda is too confidential," they say, or "Our executive team is too impatient," or "It looks like too much work." We agree that this practice is not for everyone; in fact, we have visited boardrooms where speaking candidly about shortcomings in company strategy would be a truly career-limiting move. Organizations where this is the case should pass on the idea. Not only will it fail to achieve the desired effect but it may cause more harm than good to the morale of staff members involved in the initiative.

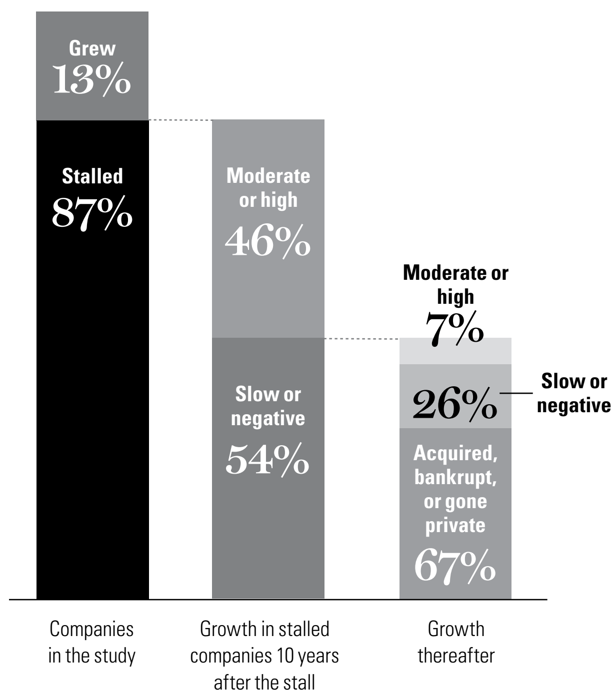
Invite a venture capitalist to your strategy review. An effective way to bring an external perspective to bear on strategy assumptions is to ask a qualified venture capitalist to sit in on business unit strategy and investment reviews and probe for potential weaknesses. The benefits for business unit managers come primarily from specific challenges but more generally from the practical, payback-focused lens that the VC brings to the review. What's more, the impact of the venture capitalist approach can live on well after the exercise. (Recording all the questions and methods the VC uses to gather information will preserve the essentials of the approach for later reuse.)

The obvious difficulty in implementing this practice is identifying an external party who is knowledgeable enough to add value to the conversation but "safe" enough to be allowed in the room. (In the current climate, representatives from the private equity community might easily meet the first requirement but miserably fail the second.) The organization that brought this idea to our attention was coventuring with a VC and so had begun to build some operating trust.

The Long-Term Effects of Stalls

***Fortune* 100 and Global 100 Companies, 1955–2006**

The overwhelming majority (87%) of companies in our study had experienced a stall. Fewer than half of those (46%) were able to return to moderate or high growth within the decade. When slow growth was allowed to persist for more than 10 years, the delay was most often fatal: Only 7% of the companies in that category ever returned to moderate or high growth.



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After a stall sets in, the odds against recovery rise dramatically with the passage of time.

Unlike corporate investors, VCs are accustomed to serving on the boards of portfolio companies; acting in a similar capacity for a corporate partner isn't much of a stretch. For the corporate partner, however, the experience can be nothing short of eye-opening. The VC's perspective provides an in-the-moment test of assumptions about markets, customers, and competitors and brings an urgency to corporate processes that often feel routine. Deliberation around investment proposals takes on a very different tone. For a venture capitalist, each decision to fund is optional; the usual approach is to release additional funding only when meaningful milestones have been achieved. Freedom to operate for a quarter—not a year—is the norm.

Renewing Competence in Strategy

The practices we recommend in this article compete for space on an already overcrowded executive agenda. What gives force to our advocacy is that growth stalls can have dire consequences: They bring down even the most admired companies; they exact a sizable financial and human toll; and their impact may be permanent. After a stall sets in, the odds against recovery rise dramatically with the passage of time. (See the exhibit "The Long-Term Effects of Stalls.")

Compounding this urgency, all signs point to an increasing risk of stalls in the near future. Of particular concern today is the shrinking half-life of established business models. The importance of spotting change early enough to react in time is rising exponentially. The practices we outline here create that early-warning capability. As critical, they make the strategy conversation ongoing, rather than once a quarter or once a year, and charge line managers at all levels of the firm with leading that conversation. Clay Christensen argued in these pages a decade ago that competent strategic thinking was atrophying in the executive suite because it occurred so infrequently relative to other regular activities. (See "Making Strategy: Learning by Doing," HBR November–December 1997.) As students of strategy-making in large corporations since then, we have found that the problem has only worsened.

Whatever other concerns are on the strategy agenda, guarding against growth stalls should be at the top. The tools we offer will enable the executive team to continually test the accuracy of its worldview and to flag any flawed assumptions that might trigger a stall if they go uncorrected. We know of no more powerful investment for managing controllable risk.

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Further Reading

ARTICLE

The Four Principles of Enduring Success
by Christian Stadler
Harvard Business Review
July 2007
Product no. R0707D

Stadler provides additional advice for sustaining increases in revenue growth: 1) **Exploit before you explore.** Great companies don't innovate their way to growth—they grow by efficiently exploiting the fullest potential of their existing innovations. 2) **Diversify your business portfolio.** Good companies, conscious of the dangers of irrational conglomeration, tend to stick to their knitting. But great companies know when to diversify, and they remain resilient by maintaining a wide range of suppliers and a broad base of customers. 3) **Remember your mistakes.** Good companies tell stories of success, but great companies also tell stories of past failures to avoid repeating them. 4) **Be conservative about change.** Great companies very seldom make radical changes—and they take great care in their planning and implementation.

COLLECTION

Why Bad Decisions Happen to Good Managers
by Giovanni Gavetti, Jan W. Rivkin, Ralph L. Keeney, Howard Raiffa, Dan Lovallo, Daniel Kahneman, and John S. Hammond III
HBR Article Collection
April 2005
Product no. 9653

To spot looming growth stalls, you need to challenge assumptions and avoid the cognitive biases that can cause you to stick to a dangerous status quo. This collection provides suggestions. "How Strategists Think: Tapping the Power of Analogy" shows how to draw lessons from one business setting and apply them to another to spark breakthrough strategies. "The Hidden Traps in Decision Making" reveals the cognitive traps that can mar strategic decision making and suggests tactics for sidestepping the traps. "Delusions of Success: How Optimism Undermines Executives' Decisions" presents a four-step process for balancing overly optimistic forecasts of future business performance with more realistic assessments.

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