

Aligning HR to the CEO Growth Agenda

By Donald Laurie and Richard Lynch

Throughout much of the 1990s and early 2000s, CEOs were rewarded for cost reduction and cost containment. To compete in the global arena, Boards demanded dramatic improvement in efficiencies. Companies such as General Electric, Motorola, and Allied Signal fueled the trend by reporting 10 times or higher ROIs from their Six Sigma programs. With a clear focus on the bottom line and tantalizing ROIs, companies invested heavily to get lean, outsource nonstrategic work, improve quality, and introduce better products.

The new CEO agenda, while not losing sight of the bottom line, has shifted to the top line. Covering the views of 658 CEOs from more than 40 countries, the 2006 Conference Board's Sixth Annual Survey¹ found that:

In the United States, the top future challenges will be how to sustain and generate steady top-line growth. Profitable growth and product innovation were also high up on the list.

- CEOs based in Europe are most concerned with speed, flexibility, and adaptability to change, followed by profit growth and sustained and steady top-line growth.
- Spurring company growth has become a major CEO concern in Mexico and South America.
- CEOs of Asian companies are more concerned with stimulating innovation, acquiring top talent, and other people issues. Half of CEOs in Asia report that inspiring innovation is their greatest concern.

HR demonstrated in the earlier period that it can be a strategic player in efficiency initiatives by sourcing work and talent for better leverage, outsourcing routine work, and moving some talent costs from fixed to variable. For HR to remain a strategic partner in the new, growth-driven future, it must answer the call to support and systemize innovations that achieve the growth goals now topping the corporate agenda.

This next phase requires significant retooling, according to the HRPS/i4cp 2007 survey "HR's Role in the CEO Growth Agenda." This retooling and reinvention must come most dramatically in the areas of leadership development and organization design.² The survey highlighted several issues of concern to most HR leaders, including:

- Helping leaders to frame the growth challenge for the organization.
- Developing new learning programs that lead to clarity of roles and responsibilities in managing growth and new executive team behaviors; and
- Designing and staffing the growth-related organization.

The Growth Gap

Growth, in many ways, is its own reward: Growth attracts talent, creates the capital to grow faster, and can transform the market valuation of a company. Yet many companies have a significant enterprise growth gap: the difference between the sum of the forecasted business units' growth goals and the overall enterprise target. In other words, it is the difference between what the core businesses can deliver and the expectations

¹ The Conference Board's CEO Challenge Survey 2006 (New York, 2006).

² HRPS and Oyster Survey of Role in HR in the CEO Growth Agenda.

of the CEO and top management team. This is generally described as a financial shortfall, but the root cause is a gap in the enterprise's capabilities and processes to identify and exploit new opportunities beyond the reach of the core businesses. For example, in a \$10B multi-business chemical company, its core businesses were able to generate 5 percent growth through current know-how, but the board of directors and CEO desired 10 percent growth in order to increase stock price and market capitalization. The size and reach of generating new businesses to close the \$500M revenue gap made it the prime responsibility of the CEO and Executive Team to create new families of products and services.

Almost 60 percent of respondents to the HRPS/i4cp survey list the primary objective for their organization as organic growth (28.2% say this will come through new product and service

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platforms). Yet most companies believe and act as if this will be achieved by doing better at and more of the same things. Oyster International research has found, however, that good strategy, understanding of markets and technologies, and analytical support will not insure that the growth gap will be closed. Instead, the most significant elements of success are found in the answers to the following questions:

1. Is there an enterprise growth gap?
2. Is the leadership team unified around growth goals and the path to them?
3. Is the organization designed to achieve the growth that has been identified?
4. Is the source of growth clear?
5. Can the innovation process deliver new businesses that will achieve the growth goals?

HR will be aligned closely to the CEO growth agenda only when it is actively involved in driving the organization to "yes" answers for these questions. This will require HR to adapt by adding the development of leaders who can identify and execute new ideas in new spaces and the realignment of the organization systems and structures for growth to its strategic competencies. The rest of our article details how HR can make these required and rather dramatic changes so it becomes a full partner in creating new, substantial growth.

Closing the Growth Gap

After studying 24 high growth companies such as Procter & Gamble, UPS, and Medtronic, Oyster International identified two major success factors in closing the growth gap.³ First, these companies were successful in creating New Growth Platforms (NGP): material new families of products and services typically outside the reach of the current businesses. Opportunities lay within domains at the intersection of technology, trends, and customer dynamics.

Explorations into these domains are guided by the company's core capabilities. Unlike new products, NGPs are the kernels to create new strategic opportunities that leverage company size and position. (See Table 1 for examples of NGPs.)

Second, the companies exhibited a common set of characteristics in innovation, leadership, and organization design to sustain the flow of NGPs. These characteristics include:

1. A credible chief growth officer is in charge of a new unit;
2. A recognition that the team is more important than the idea;
3. NGP units are independent units and with strong interdependencies to the core businesses; and
4. The process for screening, selecting, and building NGPs is disciplined, systematic, and repeatable.

³ Laurie DL, Doz YL, & Sheer CP (2006). "Creating New Growth Platforms," *Harvard Business Review*, May.

Herein lays the opportunity for HR to be a player in the company growth agenda and not just sit on the sidelines. HR can help design and build a more agile organization capable of identifying, designing, and iterating a pipeline of NGPs. In other words, HR can help create a culture and organization that is innovative and highly disciplined.

Table 1. Sample New Growth Patterns



Company	Description	Results
UPS	Domain: Service and repair NGP: Service Parts Logistics UPS' capabilities in providing the physical connection between buyer and seller almost anywhere in the world, when juxtaposed with PC customers demanding same-day repair, led UPS to enter the computer repair business (with the acquisition of missing capabilities of such PCB repair)	\$1 Billion business unit in 2005
Apple	Domain: Portable music NGP: iPod Known for stylish, elegant design, great user interface, cool software, and intimate knowledge of its youthful customer base, Apple projected these core capabilities into the portable music domain, reshaped the digital music business with iTunes, and is now extending into the consumer electronics market.	Apple split into separate iPod and Macintosh divisions in 2004 just three years after the iPod was introduced. Apple's portable media players account for 71.5 percent of the market in 2007.
Analog Devices	Domains: Automotive safety, musician's studio NGP: Accelerometer/iMEMS A company with strong capabilities in making small devices (micro-machinery) and analog and digital signal processing, Analog projected these capabilities into new domains such as automotive (motion devices for airbags in automobiles opened up by new regulations and customer demand for safety) and music ("Hot Hand," a device for a guitarist to manipulate sound effects without the need for pedals).	The majority of 2005 revenue from micro-machined products was derived from accelerometers used by automotive manufacturers in airbag applications (about 8% of total revenue). However, revenue from consumer and industrial customers is increasing as Analog develops products using this platform for applications in new end markets.

Before turning to HR's role in innovation, leadership, and organization design within the context of NGPs and cultural change, we need to explore the fundamental difference between core business growth and new growth platforms.

Core Business versus NGP Growth

Many high growth companies have discovered that NGP processes and leadership work on NGPs are fundamentally different than in the core business (see Table 2). Core business growth typically demands skilled operators who are aligned around strategy and are accountable for a share of market growth and cost containment. Their horizons are the next quarter and next budget cycle.

Table 2. Core Business Growth versus NGP

Growth Component	Core Business Growth	New Growth Platforms
Leadership	Agenda owned by the Line Managers	Agenda owned by CEO and Executive Team
Organization Design	Share of market growth and cost containment	Closing the enterprise growth gap
Domain Identification	Current markets	Ecosystem linked to your unique portable and valuable capabilities
Platform Innovation	Enhancing product and geographical adjacencies	Creating new families of products in new spaces
	 Analytics	 Insight

Key attributes of good operators include:

1. A good knowledge of current markets and key customers;
2. A highly analytical nature;
3. Ability to run lean operations;
4. Experience in product enhancements and product cost reductions; and
5. Ability to expand into new geographical areas

NGPs, on the other hand, demand a different breed of leader – a business builder. Leaders here must be constructively dissatisfied; they turn things on their sides and see how things could work in a whole different way. Their horizon for building NGPs is the next three to four years. They rely on insight and intuition, not just the numbers. They see things others do not see and make connections others cannot make. Their passion is identifying and executing growth platforms – families of products and services in new spaces. Key attributes here are:

1. An agile mind;
2. Curiosity;
3. Willingness to immerse oneself in the customers’ (or potential customers) worlds;
4. Experimentation; and
5. A greater sense of urgency and risk taking.

If the company cannot meet its growth goals through product enhancements, geographical adjacencies, or other core business growth strategies, it must move to NGP as a source of growth. Yet as the HRPS/i4cp survey points out, there is little experience in HR or the leadership ranks to navigate in these new spaces. For companies with an enterprise growth gap, there are many adaptive challenges for HR. Adaptive challenges arise when there is limited experience in thinking through new problems that often challenge deeply held beliefs.⁴

Innovation and HR's Role

There are three readily identifiable forms of innovation:

- 1. Process innovation** is the sweet spot of business process management and Six Sigma professionals. Process innovation is concerned with efficiencies and agility in the current businesses. In recent times, HR helped to create high performing organizations by investing in people and training for process improvement, and realigning systems and processes to reward process innovation, elimination of variances, and reduction of time and waste throughout the entire supply chain. This work improved efficiency, responsiveness, quality, and bottom-line performance (earnings growth).

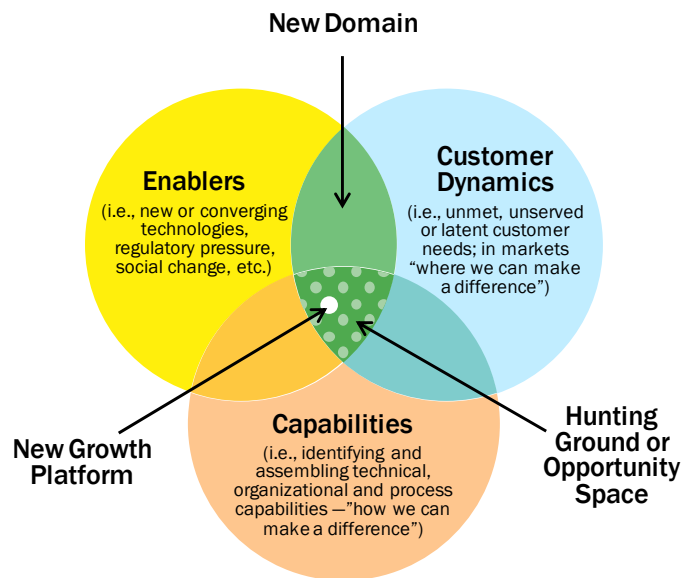
Process innovation is often driven by the COO and supported by HR in building an improvement culture. GE Capital's Six Sigma program is a case in point. Led by Mike Markovits, then head of GE Capital's Center of Learning and Operational Excellence, and in concert with Corporate Quality, the HR team developed company-wide improvement team training applied to real process problems. It also developed toolkits, established a project office to track savings and improvements, and realigned the company's incentive system to make Six Sigma part of the day-day-job. Without a green or black six sigma belt, an employee would not see much upward mobility toward the leadership ranks.
- 2. Product innovation** for which innovation refers to new product development and extensions that occur within the sphere of existing business units. New product introduction contributes to the top line growth rate and builds or sustains market leadership. This kind of innovation is driven by the head of marketing, the CTO, and R&D. Who actually takes the lead in these activities tends to be company specific. HR has participated here by identifying, training and keeping the best talent suited for creating new and improved products. Many of the Center for Quality of Management member companies, such as Analog Devices, Mercury Computer Systems, and Haemonetics Corporation, cite "voice of the customer" and "concept engineering" as keys to analyzing what customers need and want to solve their problems. HR plays a vital role in the customer research, and in creating methods and education for transferring these competencies to key contributors and design teams.
- 3. Platform innovation** is shown in Figure 1. Platforms are a foundation that spawns multiple products and/or services that, by themselves, are eventually the size of a business unit. They are a broad but well-defined approach to customer needs in the form of a business solution. Platforms are a source of sustained profit potential that is scalable and replicable. These innovations result from identifying new domains created at the intersection of enablers or "unstoppable trends" and customer dynamics; linked to an essential set of core capabilities we call the platform logic: those capabilities that are unique, valuable, and portable. When properly executed, this work of creating new growth platforms builds a stream of material new businesses in a disciplined and predictable way. This is the responsibility of top leadership and places new demands on HR to create new social networks, new learning agendas, and new structures and processes to foster significant organic growth.

⁴ Heifetz RA & Laurie DL (2001). "The Work of Leadership (HBR Classic)," *Harvard Business Review*.

In the area of platform innovation and development, five principles have emerged from our research⁵ as key to the development of NGPs in large global companies:

1. Selecting a chief growth officer (CGO) who typically reports to the CEO. The CGO is usually an accomplished general manager and frequently a future CEO candidate. The CGO is a business builder who can mobilize resources to move into new spaces with new platforms and establish the organization capabilities to develop and execute a pipeline of new growth platforms to close the enterprise growth gap.
2. Recognizing that the NGP team is more important than any individual idea. Often ideas arrive underdeveloped or unrecognizable as potential successful businesses. The work of the team is to identify, screen, and shape multiple ideas into NGPs. Profiling and carefully selecting the team is important work for the CEO and HR leader.
3. Creating the conditions that allows the NGP team to be both independent and interdependent. The unit must operate independently in pursuing its mission of developing and incubating NGPs. The unit will typically have different time horizons and often a more risk-taking culture than the core businesses. At the same time, it must be interdependent with other units in the corporation. This is essential to achieve alignment and have access to marketing and technology resources needed to plan for and build NGPs.
4. Addressing governance issues, decision making, and guaranteeing financial independence. Typically in successful companies, investment capital—for the NGP unit and the new products and businesses it identifies—is separated from the budget and operated as a discretionary enterprise growth fund. The fund investments are authorized by an investment committee or representative group within the Executive Team office: often the CEO, CTO, and CFO.
5. Systematizing the NGP creation process. Carefully articulating the process of platform innovation, development, execution, and related activities is important, not only for ensuring that NGP creation becomes a continuous activity, but also for building company-wide commitment to the idea and importance of NGPs. Unless the activities involved in creating platforms are well defined, talented core business managers will never buy into the idea that NGP innovation needs to be separate from the incremental innovation that their units already undertake. HR has much to contribute in helping to

Figure 1. Platform Innovation



SOURCE: Donald L. Laurie, Yves L. Doz and Claude P. Sheer; "Creating New Growth Platforms" (*Harvard Business Review*, May 2006).

⁵Harvard Business School, INSEAD, and Oyster research project: *The CEO Agenda and Growth*. The research involved 24 CEOs and their chief strategy officers, chief technology officers, and selected line managers from companies including: Procter & Gamble, UPS, Johnson & Johnson, Thermo Electric, Corning, Becton Dickinson, Raytheon, Timken, Cabot Corporation, Eastman Chemicals, Inverness Medical Innovations, Sealed Air Corporation, Nokia, ST Microelectronics, and Computer Associates.

select the CGO and the NGP team in terms of job descriptions, candidate profiling, and succession planning. They can be a major player in creating the conditions (structure, systems, and policies) that allow the NGP team to be both independent and interdependent. All too often, HR policies aligned to the core businesses undermine NGP development. For example, at a large health care company seeking new venture growth, leadership compensation encouraged short-term behaviors and discouraged risk taking, exactly the opposite of what was needed. Effective HR would develop relevant compensation, metrics, and behaviors based on the growth goals.

HR's Role in NGP Leadership

Although 60 percent of HRPS/i4cp survey respondents said their companies do not differentiate core business growth from new growth platforms, high growth companies such as Medtronic, UPS, Inverness, and P&G differentiate to a great extent. We have observed that CEOs often lead these efforts, and they start with leadership's role, work, and value added:

1. NGP work is the operational responsibility of the senior leadership;
2. NGP requires a change in the management process of NGP development from budgeting to investing;
3. Value is created through intense focus on customer problems and solutions that lead to NGPs;
4. Leaders take an external perspective on opportunities by making a personal investment in learning about emerging markets and technologies through contact with entrepreneurs, venture capitalists, academics, and other leading-edge thinkers operating in the targeted domain;
5. A platform logic (capabilities that are unique, valuable, and portable) is used as the foundation for growth;
6. Deeply held beliefs are examined to determine whether they support or conflict with the development of NGPs.

Such changes are not without serious risks:

1. If the CEO and Executive Team manage investments in NGPs in the same ways as core business budgeting, NGPs are unlikely to emerge or succeed;
2. Failure to identify and agree on domains can cause conflicting development agendas between the core businesses and the NGP team;
3. If poor understanding and commitment exists among the Executive Team and leadership ranks, new growth ideas will consume resources without delivering results;
4. If the CEO and Executive Team do not invest enough time on NGPs and learning, a pipeline will not develop to close the enterprise growth gap;
5. Failure to identify the platform logic will lead to inappropriate platform identification and inefficient investment decisions.

These are systematic problems and not a ranked list. They are separate and distinct from conventional growth challenges and are addressed through leadership development.

HR's new strategic role includes working with the CEO and the leadership team to address these risks by:

1. Defining the new work required, the risks involved, and the new learning essential to become a successful investor and milestone manager both (individually and collectively);
2. Driving accountability for growth and innovation into compensation, measures, and competency models;
3. Building a coalition of support for NGPs, including the external network;

4. Providing opportunities for the company business builders and entrepreneurs to explore the ecosystem—technologies, trends, and customer dynamics—as part of high potential programs; and
5. Understanding and addressing the adaptive challenges and points of resistance.

Traditional HR work thus needs to be applied in new ways. A framework representing HR responsibilities and accountabilities related to screening, selecting, and building NGPs is in the table below.

Table 3. New Accountabilities for HR in Supporting NGPs

HR Strategy	<p>Helping leaders to frame and communicate the growth challenge for the organization.</p> <p>Redefining the role, work, and value added of top leaders in the work of developing new growth platforms.</p> <p>Identifying and aligning HR systems to the NGP goal.</p> <p>Framing and addressing major issues and adaptive challenges.</p>
Compensation and Benefits	<p>Developing relevant NGP compensation, metrics, and behaviors based on the growth goals and time horizon for the work and deliverables.</p>
Staffing	<p>Helping to select the chief growth officer and the NGP team in terms of job descriptions, candidate profiling, and succession planning.</p> <p>Differentiating the skills and attitude required of managers responsible for delivering predictable, core business results and business builders responsible for conceiving and assembling NGPs.</p>
Organization Structure and Development	<p>Designing and staffing an organization with a mission of developing new growth platforms.</p> <p>Designing and building a more agile organization capable of identifying, designing, and iterating a pipeline of NGPs. In other words, HR can help create a culture and organization that is innovative and highly disciplined.</p> <p>Creating new social networks, new learning agendas, and new structures and processes to foster significant organic growth.</p> <p>Creating the conditions (structure, systems, and policies) that allow the NGP team to be both independent and interdependent.</p> <p>Understanding points of resistance in the shift to new growth platforms at different levels in the organization.</p>
Training	<p>Developing new learning programs that lead to clarity of roles and responsibilities in building new growth platforms and new behaviors among the executive team, NGP team and other key players.</p> <p>Developing leaders who can identify and execute new ideas in new spaces and realigning the organization systems and structures for growth to its strategic competencies.</p> <p>Defining the new work required, the risks involved, and the essential new learning to become a successful investor and milestone manager (both individually and collectively).</p> <p>Building a coalition of support for the NGPs, including the external network.</p> <p>Providing opportunities for the company business builders and entrepreneurs to explore the ecosystem – technologies, trends, and customer dynamics – as part of high potential programs.</p>

After identifying new growth opportunities in Homeland Security, Information Assurance, and Government Services, Lockheed Martin CEO Bob Stevens partnered with Marilyn Figlar, VP of Leadership and Organizational Development, to address the leadership development challenges related to exploiting these opportunities. The challenge was exacerbated by company demographics pointing to a 30 percent turnover during the next decade. Stevens and Figlar developed a new leadership development program called “Full Spectrum Leadership” to foster growth through performance and the right behaviors. Central to the program are the development of five attributes:

1. Shape the future: Creative thinking, what could be new markets, new customers;
2. Build effective relationships: New networks both inside and outside the company;
3. Energize the team: Welcome diversity for new ideas, mentoring, lifelong learning;
4. Deliver results: Turn strategy into reality, view adversity as the mother of innovation; and
5. Model personal excellence, integrity, and accountability: the foundation to the preceding attributes.

For a company that lives in the details, Lockheed Martin requires exquisite discipline and, at the same time, the need to open the aperture for “out of the box” thinking for some leaders. This paradox is being tackled by helping leaders approach innovation and growth in a disciplined manner. Stevens, a former COO who does not like putting fixed assets on the books, has invested in a new Lockheed Martin leadership development facility to develop leaders who get the right results in the right way, while building networks to spur further innovation.

Dick Antoine, chief HR officer at P&G, echoes Stevens’ concerns about growth and leadership. Antoine notes that P&G revenue growth has doubled in the last six years. Today the biggest obstacle to continued growth is leadership capacity. Antoine believes you have to hire the right people in the first place. P&G, which gets more than one million job applications each year in the United States alone, has three Ph.D. psychologists on staff who oversee a rigorous testing process. Success drivers include three key leadership attributes for NGP leadership: the willingness to embrace change, a knack for collaboration both internally and externally, and the ability to execute a plan.⁶

Investing in leadership development is a part of institutionalizing organic growth capability. Another key component is aligning the rewards systems to the growth agenda. The GE “ecomagination” initiative drives accountability for growth and innovation into the organization by tying senior executive compensation to ability to generate new breakthrough ideas. GE also has aligned its famous succession planning and talent review programs to identify and evaluate new behaviors that drive ecomagination top-line growth. These are beginning to look a lot different from Jack Welch’s focus on bottom-line process improvement in the core businesses. GE CEO Jeff Immelt has cited several new behaviors critical in the search for new billion dollar opportunities: identify and build capabilities and processes around growth, ambidextrous leadership (sustained excellence in both growth and cost control), external focus, risk taking, and domain expertise.⁷

Still, in many companies HR policies and programs are anchored to the core business and designed to develop leaders who can manage existing lines efficiently. Compensation plans further discourage innovation and risk-taking by paying for short-term financial performance. Given this, it is not surprising that innovation and growth often fall short of expectations. Or, in some of the other companies we have observed, this important NGP work is outsourced because of gaps in the leadership talent pipeline.

⁶ Based on comments from Robert J. Steven “*Forging Full-Spectrum Leaders*” at the Leadership Excellence Summit at the US Naval Academy in Annapolis on July 18th and “How admired companies find the best talent” by Anne Fisher, Fortune senior writer for CNN Money, Feb. 23, 2006.

⁷ Colvin G (2006). “Q & A: On the Hot Seat,” *Fortune* (Nov. 27).

HR's Role in Organization Design and Change

The HR agenda for NGP organization design reflects the dynamics of platform innovation. NGPs require people, processes, and structures very different from those of existing business units. In addition, the management styles, rewards, and purposes of NGPs are intrinsically dissimilar from the core. The challenge of establishing growth as a permanent, crucial organizational element in a business is very different from managing existing product and service lines.

Our experience and research has identified building blocks that support this difference and help companies move to a more agile organization that can fill the pipeline with new platforms and support development:

1. A mission-specific team that includes functional and experiential diversity is essential for creation of NGPs;
2. A robust internal and external social network must be available to test trends and ideas;
3. The team must have latitude to explore any platform consistent with the platform logic.
4. The NGP leader's role is to drive new platform growth by leveraging the company platform logic, prioritizing domains, and identifying platforms;
5. Disciplined, systematic, and repeatable processes for developing and executing NGPs are required;
6. Infusion of new insights and ideas must be translated into new learning and behaviors; and
7. Investment and stage-gate decision-making principles are explicit and agree.

Again, these kinds of process and procedural changes are not without serious risks:

1. Companies focused solely on efficiencies may fail to preserve the capability to create new growth platforms;
2. Failure to appoint a dedicated team leaves idea development to chance, and funding subject to quarterly business unit performance. Furthermore, developing insight, "imagineering," and venture investing defaults to executives skilled at operating going concerns rather than individuals whose work and know how is in building future legacy businesses;
3. Failure to put a senior and credible executive in charge of NGPs will compromise the ability to bring the enterprise assets to bear in the development of new market opportunities; and
4. Limiting platform exploration to protect an existing business unit will suppress innovation.

Companies committed to material growth, such as Medtronic and P&G, put in charge a highly respected leader, a chief growth officer, to establish the capabilities to develop and execute a pipeline of new growth platforms to close the enterprise growth gap. In fact, Heidrick & Struggles International Inc.'s Jane M. Stevenson, who heads the firm's global search practice for chief marketing officers, says she has seen a fourfold increase in these kinds of CGO positions in the last three years, with most of that growth coming in the last 18 months.⁸

Additionally, these high growth companies have learned that organization design is an essential component in the development and execution of NGPs. Some NGP units utilize resources in the company in the development and execution of NGPs; others are more self-sufficient and have wider authority.

At Procter & Gamble, the FutureWorks organization is organized by domain, platform, and project. Within each domain, there might be two potential new growth platforms and two to four projects within each platform. Project management includes planning, pressure testing the business models, prototyping, and incubating NGP ideas, products, and businesses. FutureWorks' platform teams are users of corporate resources including: trends related to scenario planning and defining the "market landscape," R&D, corporate venture

⁸ "A Dawn of the Idea Czar," *Business Week*, April 10, 2006.

capital, acquisitions, and related activities. P&G also relies on Connect and Develop, a community for connecting with the world’s most inspired minds and developing products that improve consumers’ lives. As CEO AG Laffley puts it, he wants P&G to be known as “the company that collaborates — inside and out — better than any other company in the world.” According to P&G’s Larry Huston and Nabil Sakkab, in 2006:⁹

[M]ore than 35 percent of new products in market have elements that originated from outside P&G, up from about 15 percent in 2000. 45 percent of the initiatives in the product development portfolio have key elements that were discovered externally. Through Connect and Develop—along with improvements in other aspects of innovation related to product cost, design, and marketing—R&D productivity has increased by nearly 60 percent while R&D investment as a percentage of sales is down from 4.8 percent in 2000 to 3.4 percent in 2006. The innovation success rate has more than doubled, while the cost of innovation has fallen also. In the last two years, P&G launched more than 100 new products for which some aspect of execution came from outside the company.

Unfortunately, this sort of pushing of boundaries has yet to affect HR: Only 6.7 percent of respondent in the HRPS/i4cp survey said that HR plays a “large” role in creating social networks that tap into talent and ideas outside of the organization. This needs to change if HR is going to gain influence in NGP.

Alternatively, at Medtronic, when Bill George was CEO and Glen Nelson was the chief growth officer, the office of the CEO included the CEO, COO, and CGO. The CGO was responsible for growth beyond the core businesses. Reporting to Nelson were all planning and execution functions including research and development, strategy, mergers and acquisitions, corporate venture initiatives, and new business/platform development. HR was instrumental in identifying the attributes for these key positions and helping to screen candidates. Furthermore, as Medtronic acquired companies, HR identified new talent to contribute their experience in developing and building NGPs. From 1984 to 2004, the company grew at 18 percent per year, earnings at a CAGR of 20 percent, and market capitalization at 30 percent per year.

Insights from a major chemical company show how HR can help facilitate organization change to spur growth. The HR director worked closely with the CEO to profile the chief growth officer and the team. Three high-

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performing candidates were identified for the CGO: Two were business unit presidents and succession candidates for the chief executive position a few years down the road. The third was a senior marketing manager with considerable entrepreneurial experience. “This will be a great opportunity,” indicated one of the candidates in the formal interview process with the Executive Team. “If I am selected for this position, I will get to shape the future of the company and develop the roadmap that will get us to that future.”

In addition to developing the mission of the new organization and goals for the leader, the HR director worked with a leading psychological testing company to identify the desired attributes of a candidate and test each candidate. Feedback was provided to the CEO, HR director, and the candidate. The purpose was not to screen candidates in or out, but rather to identify and discuss areas that could warrant development or improvement as the candidate moved into his or her new responsibilities. Once the candidate was selected, the HR director worked closely with the new CGO to profile the characteristics desired on a team that would work on different challenges than they had faced in their core business. In aggregate, they knew they wanted a team that was

⁹ Huston L & Sakkab N (2006). “Connect and Develop: Inside Procter & Gamble’s New Model for Innovation,” *Harvard Business Review*, 84, March.

diverse, curious, constructively dissatisfied, and had credibility within the organization. The HR director actively sought out and screened a mix of individuals from different functions and geographical locations. NGPs had been identified as an important CEO priority, and the team was mobilized in a matter of weeks.

In the course of this work, HR helped the CEO successfully navigate a number of sensitive issues, including:

1. Could a business unit leader be extracted from his unit at a time the unit was making an acquisition and planning the critical integration phase?
2. How could they mitigate the risks, perceived by some, of taking high potential managers and scientists out of the mainstream of the business?
3. What if the NGP work was not immediately successful or the team under-resourced? Will the unit be terminated as cost pressures arise (as has happened in the past with innovation initiatives)?
4. What compensation package would reward the creation of NGPs but not put the unit as an outlier to the core business?

We have heard these questions repeated across companies and industries. Questions without answers leave the organization hoping for new growth but rewarding core business results. HR must help frame and resolve these challenges and align the organization for both core business and NGP growth.

Past and Future HR Agendas

In the past, HR was aligned to the CEO agenda around efficiencies and process and product innovation. HR priorities focused heavily on enabling the core business to support the CEO and Executive Team in maximizing earnings. It is not surprising that aligning to the core businesses, improving the company's brand as a desirable, viable place to work, emphasizing long-term workforce planning, outsourcing non-core work and, more recently, reforming pension management topped most HR agendas.

Today, Wall Street is discounting cost and productivity gains, and Boards are looking for growth to deliver increased share price and market capitalization. This means that HR priorities are going to change. Of the HRPS/i4cp survey respondents, 66 percent agree that emphasis on growth in their organization is changing what it means to be "strategic HR," and two-thirds believe HR is not responding fast enough to the strategic challenges related to profitable new growth.

Earlier, we made the case that the most complicated part of growth resides inside the organization:

1. Is there an executive growth gap?
2. Is the leadership team unified around growth goals and the path to them?
3. Is the organization designed to achieve the growth that has been identified?
4. Is the source of growth clear?
5. Can the innovation process deliver new businesses that will achieve the growth goals?

To answer these questions, many HR executives have begun to realign their agenda and, in the process, have identified five key areas for retooling to meet the organization challenges related to profitable new growth (the percentage indicates survey respondents who indicated that retooling was required):

1. Developing new learning programs, leading to new executive team behaviors (67.7%);
2. Designing and staffing the growth-related organization (65.8%);
3. Helping leaders to frame the growth challenge for the organization (64.6%);
4. Redefining the role, work, and value added of top leaders in the growth agenda (55.4%);
5. Shifting the mindset from lines of business to well-defined, less confined domains (50.0%).

Retooling for NGPs is an HR imperative

Early signs hold promise. HR teams in some companies such as GE and Lockheed Martin are revamping their leadership development programs to include the leadership role and value-add in identifying, selecting, and

building NGPs. Key skills and behaviors identified are agility of mind, making connections not made by others, seeing how things could work in a whole different way (e.g., reapplication of capabilities), higher external focus, and developing a greater sense of urgency and risk taking.

On the organization front, P&G, Medtronic, and other companies' HR teams are designing new growth organizations with new roles, responsibilities, and compensation systems to ensure ideas do not remain buried in their organizations and that talent and knowledge are leveraged across the businesses and the network.

Beyond these visible roles, strategic HR leaders will need to push the boundaries of their influence. Here the prognosis is less clear. We believe a key challenge for HR will be to recognize and reconcile the differences in mindset in the core business and the less well-defined and less-confined domains and work in the NGP world. To do this they will have to start by looking in the mirror. Who in their HR organization has experience in building new businesses and ventures, operating external networks, and supporting centers of excellence for growth? Although HR has many of the core competencies required (talent acquisition, leadership development, succession planning, organization design, and compensation), these skills will have to be applied in new ways. As the HRPS/i4cp survey suggests, two-thirds of HR organizations are not responding fast enough to the strategic challenges related to profitable new growth. If that is the case, these skills can be "brokered" in the short run via leading-edge thinkers, networking, and, for selected HR leaders, immersion in the world of the company's best business builders.

Looking forward, the HR agenda will change because the CEO agenda has shifted to the top line. Sustained, steady top-line growth, including the creation of new growth platforms, has real implications for HR in innovation, leadership, and organization design. Either HR will serve a critical role in the development of NGPs or the business will move along without "strategic HR" leadership.

Biographical Sketches

Donald L. Laurie is managing partner of Oyster International LLC. He works with CEOs and executive teams on leadership, organization design, governance, and the building of new growth platforms. He led the Harvard Business School, INSEAD, and Oyster International research: *The CEO Agenda and Growth*. He co-authored "Creating New Growth Platforms" in the *Harvard Business Review* in May 2006 and is the co-author of "The Work of Leadership," a *Harvard Business Review* Classic, in 1997. Don is author of *The Real Work of Leaders and Venture Catalyst: the five strategies for explosive corporate growth*. He is a frequent speaker at CEO summits, *Business Week* roundtables, and such high-profile venues as the World Economic Forum in Davos, Switzerland.

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