Why Indian companies need to get Fit for Growth^{SM} and what you can do

strategy&
Formerly Booz & Company

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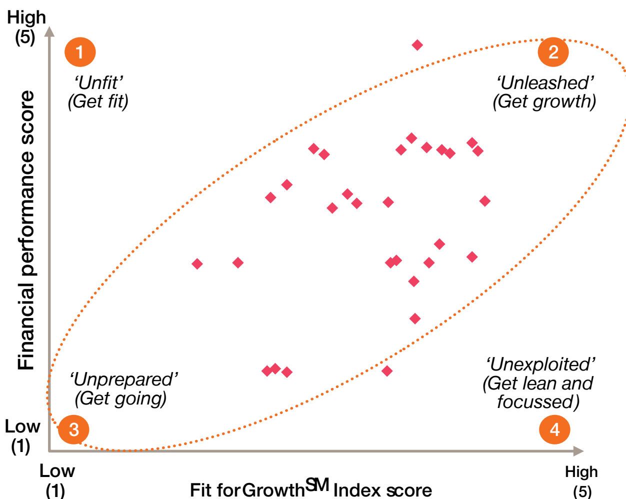
With the Indian economy beginning to bounce back and with business sentiment significantly improving across sectors, growth is very much back on the agenda. The time is right for organisations to invest in building scale and critical capabilities that will enable the next level of growth. The key question leaders struggle with however, is where to begin. The Fit for Growth℠ (FFG) Index, conceptualised by Strategy& (formerly Booz & Company), enables organisations to answer just that, by providing a set of guidelines for building competitive muscle while cutting the corporate fat that weighs a company down.

Our global study found that winning organisations have a systematic approach to growth. First, they create clarity and coherence in their strategy–being clear about how they're adding value and differentiating themselves in the marketplace. Second, they put in place an optimised cost structure and approach to capital allocation–continuously investing in the capabilities critical to success, while proactively cutting costs in less critical areas to fund these investments. Third, they build supportive organisations–redesigning structures, incentives, decision rights, information flows, skill sets, and other organisational and cultural elements so the collective actions of their people align closely with their strategy. The FFG Index is based on these very pillars that constitute a winning organisation–strategic clarity, optimal resource allocation and a supportive organisation–and evaluates how well a company fares across all three aspects.

There is a clear correlation between the Fit for Growth℠ Index and financial performance

Following our global survey of approximately 200 companies which produced a strong correlation between the FFG Index and financial performance, we recently tested the index against a sample of about 30 leading Indian organisations at various stages in their growth journey. A strong correlation exists between the index and company performance, demonstrating that organisations with high index values also generate premium returns.

Fit for Growth℠ Index score vs financial performance
(Indian survey N=30)



** Our survey sample comprised 30 companies in 15+ industries. Companies were chosen to yield a balanced sample including high, low and medium financial performers in each industry. In addition to our knowledge of the companies, we examined information from research databases and analysts' reports.*

Unfit companies are high performers with limited capabilities but experience high short-term financial returns

Unleashed companies monetise strong strategies and capabilities to achieve full potential

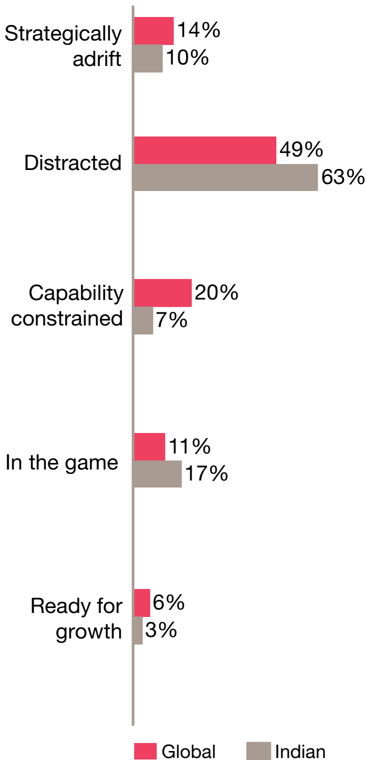
Unprepared companies lack strategic clarity, capabilities, and organisation coherence driving low financial returns

Unexploited companies have strong capabilities but limited financial returns driven by high exposure to adverse market dynamics

The Fit for Growth Index helps answer the question: where to begin?

So what should companies, that are not so fit for growth, do? For this, we looked at the companies' FFG Index scores in isolation. The FFG score, a weighted average of the strategic clarity, resource alignment and supportive organisation scores was used to classify companies into five major types– strategically adrift, distracted, capability constrained, in the game and ready for growth.

Fit for Growth[SM] Index score based archetypes (global and Indian companies)
(Global survey N=200, Indian survey N=30)



Typical characteristics

Strategically adrift:
- Strategy, priorities and capabilities not clear
- Typically market followers

Distracted:
- Strategy not linked to concrete operational initiatives
- Disproportionate resources spent on 'non-core' activities

Capability constrained:
- Capabilities not best-in-class, not geared up to support growth
- Need to adapt organisation / processes / systems to get 'in the game'

In the game:

Execution hindered by:
- Lack of performance-centric culture and talent management
- Ineffective governance and inadequate risk management

Ready for growth:
- Differentiated and proven capabilities
- Efficient, flexible and lean organisation structure with nimble governance mechanisms and a coherent culture

** Our Indian survey sample comprised 30 companies in 15+ industries. Companies were chosen to yield a balanced sample including high, low and medium financial performers in each industry. In addition to our knowledge of the companies, we examined information from research databases and analysts' reports. The global survey had ~200 companies*

Interestingly, comparison of the data from Indian companies with our global survey revealed similar broad characteristics–effectively driving for growth is a difficult task.

- India has fewer 'strategically adrift' companies than observed globally. This can be partially explained by the active entrepreneurial involvement in several Indian companies, with the leader articulating and driving a common vision and purpose. This is supplemented by the unambiguous growth mandates given to several of the Indian subsidiaries of multi-national companies.
- The 'distracted' archetype, indicating a mismatch between strategy and execution, was the most prominent among global (49% of responses) as well as Indian (63% of responses) companies–an expected outcome if we take into account the economic slowdown that led many organisations to adopt a reactive approach to investments and cost management, often resulting in strategic misalignment.

- Both our Indian and global survey underlines the rewards, but also the challenges in driving sustainable growth. In both surveys, aligned, growth–oriented companies (in the game and ready for growth archetypes) represent less than 20% of the total. This reflects the challenges of combining robust strategy with solid execution.

The FFG Index score, while not definitive, does give useful pointers on the areas that an organisation should examine more closely.

How to become Fit for Growth[SM]: Typical interventions

Strategically adrift	*Distracted*
• ***Review your business model:*** Products, segments, channels • ***Re-craft corporate strategy aligning it with your differentiated capabilities***	• ***Review your cost structure:*** Prioritise funds towards building differentiated capabilities • ***Objectively track performance*** of business / initiatives and take ***prompt remedial action***

Capability constrained	*In the game*
• ***Transform your*** – ***operating model*** – ***organisation structure*** – ***processes*** – ***systems*** • ***making them nimble, scalable and fit for purpose while preserving the entrepreneurial spirit***	• Create a ***performance-centric culture*** • Beef up ***talent management capability*** • Streamline ***governance model*** • ***Proactively manage enterprise risks***

The sharp recession of 2008, as well as the stagnation and in some cases the sharp downward pressure of the past few years have battle-hardened the CFO. In our conversations with leaders across Indian industry, we are increasingly seeing the emergence of the 'transformational CFO'. The role of such a CFO is evolving beyond delivering on the traditional functions of finance, control and accounting and increasingly taking on greater responsibility to ensure quality of execution of the organisation's growth agenda. To strengthen the organisation's readiness for growth, depending on the current state and the future aspirations of the organisation, the CFO needs to focus on one or more of the following four key areas to drive growth:

- Supporting the senior management in ***building differentiated capabilities*** to support the company's medium and long-term strategy
- ***Transforming the cost structure*** to align investments towards building those capabilities while taking out cost from non-essential areas
- Creating a ***scalable operating model*** to support the size and complexity associated with growth with appropriate process orientation, automation and right-skilling
- Operationalising a ***robust risk and governance*** framework to ensure sustainable growth

Methodology

Our survey sample comprised 30 companies in 15+ industries. Companies were chosen to yield a balanced sample including high, low, and moderate financial performers in each industry.

The Fit for Growth Index has been designed such that it assesses companies in three key areas: strategic clarity and coherence; resource alignment; and supportive organisation. Each company receives a composite score on a scale of 1 to 5 based on its 'fitness' in each of these areas.

In calculating the Fit for Growth Index score, we weighed the three factors as follows: strategic clarity and coherence (50%), resource alignment (30%), supportive organisation (20%). The second and third factors–the aligned resource base and the supportive organisation–together make up a company's execution capability. Thus, a company's index score is derived in equal parts from its strategy and executional fitness. These weightings reflect our belief that strategy and execution are equally important in determining performance.

To supplement our own knowledge of the companies, we examined information from research databases, analysts' reports, earnings call transcripts and business periodicals.

The financial performance score has been designed to assess a company's performance agnostic of its industry and take into account its size and complexity of operations. In calculating the score, we therefore took an average of the revenue growth of a company relative to its industry, its profitability relative to the industry as well as its revenue ranking in the consideration set. The latter helped us differentiate between companies whose growth numbers were exaggerated due to a small revenue base and those whose growth numbers were subdued by virtue of a large revenue base. This is in-line with our belief that sustained growth on a large revenue base is more 'fit' than that witnessed by smaller, emerging companies.

To know more about Fit for Growth, please visit the microsite for further information:
www.strategyand.pwc.com/global/home/what-we-think/fitforgrowth

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