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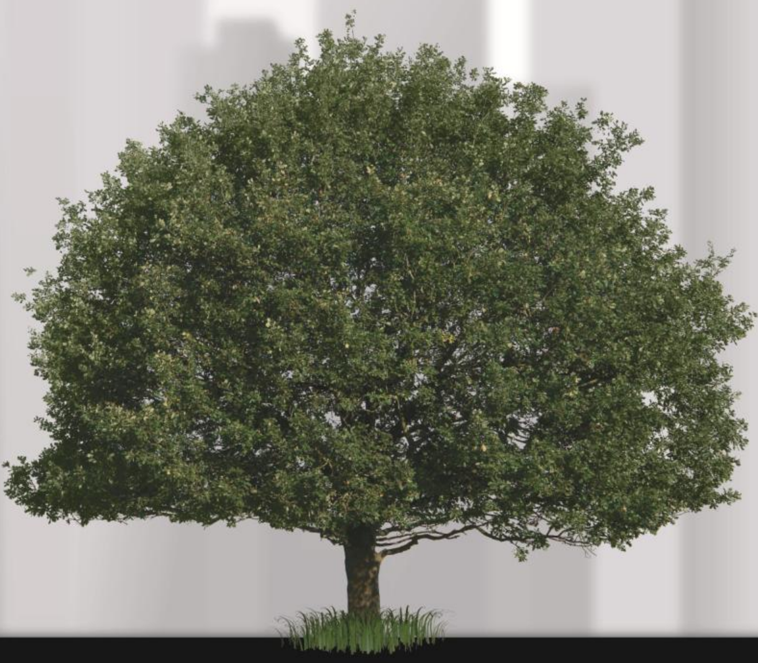
The 5 people drivers of the profitable growth cycle™



Executive summary

Growth challenges in the "new normal" environment

In the low growth global environment following the GFC, organisations are finding it increasingly difficult to achieve their financial goals. Although profitable growth is one of the top challenges facing businesses today, not many organisations are succeeding in driving both revenue and profit growth successfully. This paper explores why profitable growth is such a challenge and what organisations need to do to get back on the path of consistently achieving the profitable growth they desire.

The external challenges facing organisations are well understood. They include suppressed demand across much of the globe and new and increasing global competition. New low-cost, internet enabled business models are also disrupting many industries. Savvy customers with access to more suppliers and more information are demanding better value and this is forcing down profit margins in most industries.

This paper focuses on how organisations can achieve profitable growth through their people even in these difficult and challenging economic times. Most organisations say that their people are their greatest asset. But why do some organisations achieve so much more through their people than others? How does improving employee engagement impact customer engagement, productivity and innovation? And how are all these critical factors inter-related? This paper answers these and many related questions.

Building a platform for profitable growth

Profitable growth starts with an organisation being well positioned to serve its customers and perform well relative to its competitors or peers.

Strong positioning provides a solid platform for growth. It depends on:

- Development of a compelling vision, strategy and business model that differentiates the organisation and that is appropriate to the competitive environment,
- Sourcing of appropriate capital and funding, and
- Acquisition and development of the appropriate tangible and intangible assets.

This paper starts with the premise that an organisation is reasonably well positioned in its market place, and that the key challenge is to execute and refine its positioning. For organisations that are reasonably well positioned to start with, applying the five people drivers of the Profitable Growth Cycle will not only help accelerate revenue and profit growth, but will also help constantly fine tune their market positioning so that their growth will be sustainable over the long term.

Well positioned organisations have a significant head start on their competitors and are much better placed in the race to achieve profitable growth. Organisations that are not well positioned would be best served by first conducting a strategic review to determine how best to reposition themselves to succeed in their markets. Once the repositioning work has been done, those organisations that adopt the five people drivers of the Profitable Growth Cycle will do far better than those that don't.

High growth organisations think and act differently

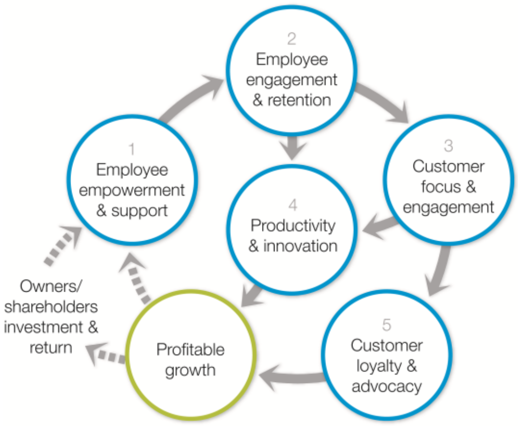
We developed Insync Surveys' Profitable Growth Cycle™ by referencing numerous research studies into this topic, the most important of which have been included in Appendices C and D. We also applied the practical lessons learnt from conducting almost 500 customer surveys and over 500 employee surveys over the last 5 years.

The Profitable Growth Cycle is a framework for understanding the inter-relationships between employee engagement, customer engagement, and productivity and innovation, and how these factors can be leveraged to drive profitable growth.

High growth organisations (HGOs) understand that achieving profitable growth starts with investment in their employees. This leads to employee engagement and retention, which leads to customer focus and engagement, which in turn leads to customer loyalty and advocacy. Customer loyalty and advocacy enable an organisation to maintain and grow its revenue base which is a critical component of profitable growth. Employee engagement and retention, and customer focus and engagement, both lead to productivity gains and innovation, which also lead to profitable growth.

In summary, the framework outlines how the five factors inter-relate to drive and enable a virtuous cycle of profitable growth for an organisation.

Insync Surveys' Profitable Growth Cycle™



Driver 1: Employee empowerment and support refers to the need for clear direction and expectations, and the development and support of employees to enable them to do their jobs well. This leads to:

Driver 2: Employee engagement and retention. Motivated, focussed and experienced employees are more likely to stay with an organisation and apply discretionary effort which leads to drivers 3 and 4.

Driver 3: Customer focus and engagement. Engaged and longer serving employees build strong customer relationships and ensure robust systems are implemented to meet customer needs. This leads to both drivers 4 and 5.

Driver 4: Productivity and innovation. Productive employees and lower recruitment and induction costs enable competitive pricing and innovation which underpin sustainable profit margins.

Driver 5: Customer loyalty and advocacy. By keeping existing customers and utilising referrals to win new customers, an organisation is able to maintain and grow a strong revenue base.

*"Your employees won't look after your customers,
unless you look after your employees."*

Profitable growth is the outcome from customer loyalty and advocacy (driver 5) on the one hand, and productivity gains and innovation (driver 4) on the other. Profitable growth is a crucial component of a virtuous cycle that enables continued investment in employee empowerment and support, and thereby reinforces and strengthens the other drivers of the Profitable Growth Cycle. Profitable growth also provides the required return or dividend flow to the owners of the business. In certain cases, confidence in the organisation's growth record and opportunities will promote additional investment from the owners if required to accelerate the organisation's growth trajectory.

High growth organisations create a virtuous cycle that continues to build on itself over time. These organisations understand the inter-relationships in the cycle and in particular that great customer outcomes are achieved as a result of highly engaged, empowered and well supported employees. Conversely, organisations that don't understand or buy into the importance of these inter-relationships will find that their efforts are continually frustrated. These organisations are less likely to invest their time and resources appropriately and face a real risk of being caught in a downwards spiral.

Overlaying the whole Profitable Growth Cycle is the need for authentic leadership that buys into the principles set out in this paper, starting with empowering and supporting their employees. The organisation's CEO and leadership team will need to be united in their commitment. They need to embed all elements of the Profitable Growth Cycle into their organisational culture and DNA until it becomes its way of life. As they model and continually reinforce all the elements of the cycle, momentum will build and profitable growth will become a reality.

A tale of two organisations

This paper includes a case study that analyses two organisations in the business services industry. One organisation has achieved revenue growth of 18% and profit margin growth of 10%. We refer to this as the high growth organisation (HGO). The other has experienced a revenue decline of 5% and a margin decline of 8%. We refer to this as the low growth organisation (LGO). Both organisations undertook an employee and a customer survey with Insync Surveys in 2012. With permission from the respective CEOs, we examined the survey results associated with the five people drivers for both organisations to see how they might explain the differences in performance.

The data shows that the HGO is not doing everything right and the LGO is not doing everything wrong. However, it is very clear that the HGO has diligently focussed on the five drivers of the Profitable Growth Cycle. It continues to invest in its employees and its employees continue to invest in its customers. Customers are proud to deal with this organisation and intend to continue purchasing from it for the foreseeable future. By managing the linkages in the cycle, the HGO has delivered very strong growth in both revenues and profits.

While the case study is limited to just two organisations and therefore cannot support generalised findings, it does illustrate the concepts that have been presented and shows how specific actions by a leadership team can result in significant financial improvements within a short time frame. We trust that the case study will give readers practical ideas for improving the performance of their own organisations.

Further reading and information

The full version of this paper, further reading and additional evidence relating to this important topic are available on request.

Whilst the focus of this paper has been on organisations that seek to make a profit and grow, the principles in this paper and the Profitable Growth Cycle apply equally to not-for-profit organisations and government entities. By applying these principles, these organisations will be able to deliver the highest quality service to their customers and stakeholders within their funding parameters. Other papers will be available that outline how the Profitable Growth Cycle can be applied to public sector entities, community service organisations and other industries.

For more information contact Insync Surveys at research@insyncsurveys.com.au.

About Insync Surveys

Insync Surveys is passionate about helping organisations achieve sustainable high performance by measuring and improving employee, customer, board and other stakeholder engagement. We have conducted over 1,000 employee, customer and board surveys over the last five years for some of the largest organisations throughout Asia Pacific, including ASX, BHP Billiton, Cathay Pacific, Chevron, Fairfax, GlaxoSmithKline, John Holland, Nufarm, Orica, QBE, Suncorp, Toll, WorleyParsons, Visy, AFL, Mission Australia, federal and state government departments, many local councils and most universities.

Insync Surveys has delivered surveys in 38 languages across more than 90 countries. Our benchmark database exceeds one million responses, giving us the ability to provide context and deep insights when interpreting survey results. We also assist clients with focus groups, action planning and change management. We have made significant investments in our people, processes, culture and technology to ensure that we can provide cost-effective and actionable insights to our clients that make a real difference to their organisations.

To discuss how to increase your organisation's performance or to access other free research reports from Insync Surveys, please contact us.

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