3 Ways to Corporate Growth

Burkhard Schwenker

Abstract

Growth is at the core of every corporate strategy. Only growth creates the momentum that is needed to drive an above-average increase in earnings and create jobs. From a global perspective, however, few industries match the sheer variety of conditions for growth that the utility industry must meet. Decentralized organizations are best able to cope with the demands that growth places on companies’ agility and their ability to transform themselves. Essentially, companies can grow in one of two ways. Either they tread the path of organic expansion and ramp up their own business activities, or they team up with other market players. Both alternatives present specific advantages, whose significance varies very considerably depending on the precise competitive situation. In saturated markets, external growth takes precedence. Whatever path a company chooses, growth places heavy demands – professionally, but also on a very basic human level – on the management.

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3.1 Growth Is a Strategic Necessity

3.1.1 Five Reasons for a Growth Strategy

Growth is a strategic necessity in the corporate sector. This principle is valid for all enterprises that intend to stay around for the long haul, including those in the energy sector. Basically, there are five reasons why there is no alternative to a growth strategy.

First, shareholders have a right to see the value of the company in which they have invested their money increase continually. Adding value is the whole purpose of every investment. Unlike many other industries, the energy sector has not nearly done all it can to improve efficiency in the production and distribution of electric power. This, however, can only be one aspect of any strategy to raise profits. Why? Because every time efficiency is improved, this leaves less room for further efficiency gains. This effect can be offset only by growth across the whole enterprise.

Second, it is important to tap economies of scale through growth. To maximize the utility of the learning curve, quick exploitation of new opportunities – i.e., rapid conquests of new markets – is vital. Moreover, a certain critical mass must be reached before economies of scale take effect. Both objectives therefore necessarily demand growth into new dimensions of size.

Third, moves to deregulate markets are intensifying competition and thereby increasing the pressure on margins. When one company gains a competitive advantage, others close the gap faster than ever. Regulatory bodies also stoke the fires of competition. Growth, however, can make up for both of these negative effects.

Fourth, only growing companies give employees and investors the future outlook that both these groups demand. Companies can only hold on to top performers if they offer attractive career development prospects. And such prospects open up automatically when a firm is growing fast. For their part, investors have wide range of opportunities in which they could invest their money. Current returns are one key issue, of course, but so too are the potential profits that can be expected in light of corporate strategy. Growth alone helps companies to generate compelling momentum.

Fifth, competition is heating up not only because of the liberalization of regular markets, but also because of globalization. Globalization is forcing companies to become larger. New corporate groups are emerging around the world. Up to now, the incumbent power utilities in the major industrialized countries have enjoyed an enviable lead. Even this lead can be eroded very quickly if market players do not resolutely pursue growth strategies, however. Whereas Europe and North America were easily the center of mergers and acquisitions (M&A) activity as late as the mid-1990s, 60% of all mergers now take place in Asia. Incumbents must therefore move swiftly to prepare for growing competition in the energy sector too.