

BARRIERS AND PATHWAYS
TO SUSTAINABLE GROWTH

Harnessing the power of the
Founder's *Mentality*

BAIN & COMPANY 



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Harnessing the power of the Founder's Mentality

All companies need to grow profitably in order to succeed. But only 11% of companies manage to grow profits and revenues by 5.5% or more over a 10-year period, and earn back their cost of capital. That's a sobering statistic for company leaders, directors, employees and investors.

This report, based in part on Bain & Company's 18-year longitudinal study of sustained value creators, two global surveys of senior executives and extensive interviews, addresses the following questions:

- What are the primary barriers and challenges that companies face today in their pursuit of sustained and profitable growth? How does this vary across stages of their life cycles?
- What distinguishes the companies that are able to anticipate and address these challenges most successfully from those that fail to achieve their goals?
- Are successful companies set up internally in a fundamentally different way, which allows them to react to challenges and adapt to opportunities better and faster than those that fall short? Do these differences trace back to the founding of the company and its deep fundamentals?
- Why is it that companies seem to mature at such different rates? Some stay flexible, open minded and innovative, and are excellent at attracting and retaining young talent; yet, others slow down, descend into bureaucracies, fall behind the innovation curve, and have difficulty attracting and holding talent.
- How can leaders use these insights to address the predictable crises of growth or to renew their organizations?

Key findings

Eighty-five percent of the executives we surveyed, and a full 94% of those running companies with more than \$5 billion in revenue, said that internal obstacles, not external ones, keep their companies from growing profitably. Only a small percentage blamed external factors, such as unfairly advantaged competitors, government regulations and subsidies, inaccessible technologies and market conditions that did not offer growth opportunities.

The primary internal barriers to growth cited by executives included revenues growing faster than talent, increasing distance from the customer with growth, complexity of decision making slowing the company down, inability to choose focus and direction, and difficulty mobilizing resources. All of these challenges increase with company size and complexity, and we refer to this as the "paradox of growth": Growth creates complexity, and complexity is the silent killer of profitable growth.

About 80% of the major swings in market value for companies occur as a result of decisions made and actions taken during three types of predictable crises that companies encounter (sometimes multiple times) during the course of their life cycle. These are the crises of overload, which typically occurs during a rapid scale-up period (five to ten times); stall-out, when the growth engine in a mature company loses momentum; and free fall, when a company's business model no longer works and performance declines sharply.

- Two out of three large companies (worth \$5 billion or more) will stall out, go bankrupt, be acquired or break into pieces in the next 15 years. Only one in seven recover their past momentum. Stall-out happens fast and is hard to reverse.
- About 5% to 7% of companies are in free fall or about to tip into it at any one time; of those, only 10% to 15% will recover and redefine their business models successfully.

The Founder's Mentality defined

Many of the companies that surmount these challenges of growth and demonstrate higher levels of business and financial performance have maintained attitudes and behaviors most commonly found in young companies run by strong, successful founders. These attitudes and behaviors are specific and observable. We call them the "Founder's Mentality." Companies that maintain these traits as they grow tend to move and adapt faster, be more open-minded, and anticipate and adapt to the future better than those that lose the Founder's Mentality as they age.

- Since 1990, returns to shareholders in public companies where the founder is still involved are three times higher than in other companies.
- Companies that are in the top 20% in terms of performance, regardless of whether they are still founder-led or not, are four or five times more likely to exhibit the attributes of the Founder's Mentality than the bottom 20%.

Through our research, we have identified three primary traits of the Founder's Mentality:

- The first is a *sense of insurgent mission*, characterized by a sense of higher purpose, a long-term horizon, and a few spikes in capabilities and assets that make a company special and are the centerpiece of its business model.
- The second is *an obsession with the front line*, characterized by an intellectual curiosity about every detail of the customer experience and of how everything in the business works. Executives use instincts formed at the ground level to make every decision; frontline employees are empowered and are the heroes of the business; and the customer voice is central to all decisions.
- The third is *an owner's mindset*, characterized by a powerful sense of responsibility for employees, customers, products and decisions; an antipathy to bureaucracy; and a bias toward speed in decisions and actions.

The Founder's Mentality tends to decline as companies grow in scale and become more mature. Layers form, increasing distance from leaders to the front line. Customer and employee loyalty and engagement tend to decline. Speed of decision making declines with size. We have identified eight forces that erode the Founder's Mentality and the advantages of size as companies scale. We call these forces the westward winds and the southward winds. They are defined in more detail in our study.

By contrast, cultivating these three traits—the insurgent mission, the frontline obsession and the owner's mindset—helps companies overcome the crises of growth. It puts them on the path to what we call *scale insurgency*, a state in which companies have grown to scale and achieved a position of leadership while maintaining the many benefits of the Founder's Mentality. Scale insurgents represent more than 50% of net value created in the stock market. These companies, about 7% of the total, achieve both scale and high levels of the Founder's Mentality at the same time.

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- Chris Zook and James Allen, *The Founder's Mentality: How to Overcome the Predictable Crises of Growth*, Harvard Business Review Press, June 2016
 - Seven sets of discussions around the world with top growth companies, part of a Bain & Company project called the Founder's Mentality 100 (FM100)
 - Interviews with about 100 executives and founders worldwide
 - Two global surveys of growth targets and barriers (n=325, n=377)
 - Bain Sustained Value Creator Database (n=8,000 global public companies)
 - Analysis of case examples from Bain & Company's Global Experience Center (GXC) and from outside sources (literature search and books)
 - Analysis of performance of Founder's Mentality companies vs. other companies (macro with S&P 500 companies and micro using a database of 200 company practices)
 - Supplementary surveys (e.g., Endeavor Global Entrepreneurs)
 - Analysis of value creation at different stages of a company's life cycle
 - Analysis of large-company stall-outs (frequency, recovery, causes, speed)
 - Analysis of small-company rates of growth
 - International studies of growth and job creation and the role of young companies
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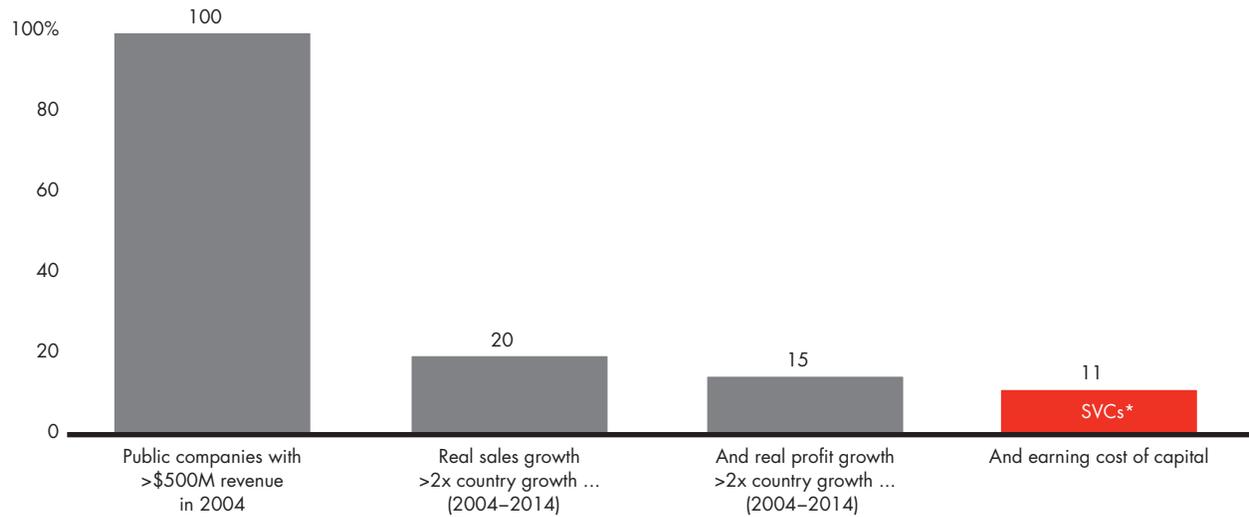
1.

The growth paradox

- Only 11% of companies are “sustained value creators”—companies that manage to achieve more than a modest level of profitable growth while earning their cost of capital over the course of a decade.
- 85% of executives surveyed cited internal barriers, not external barriers, as the primary obstacles to growth.
- The biggest internal barriers are the problems created when revenue grows faster than talent (55%); the loss of a sense of higher mission (43%); and the sluggishness and bureaucratic rigidity that accompany size and complexity.
- Leaders of 56 companies in developing markets cited two major causes leading to internal barriers: the problems that accompany size and complexity (71%) and revenues growing faster than talent (63%).

Figure 1: Only 11% of companies are sustained value creators

Growth performance by percentage of companies, 2004–2014

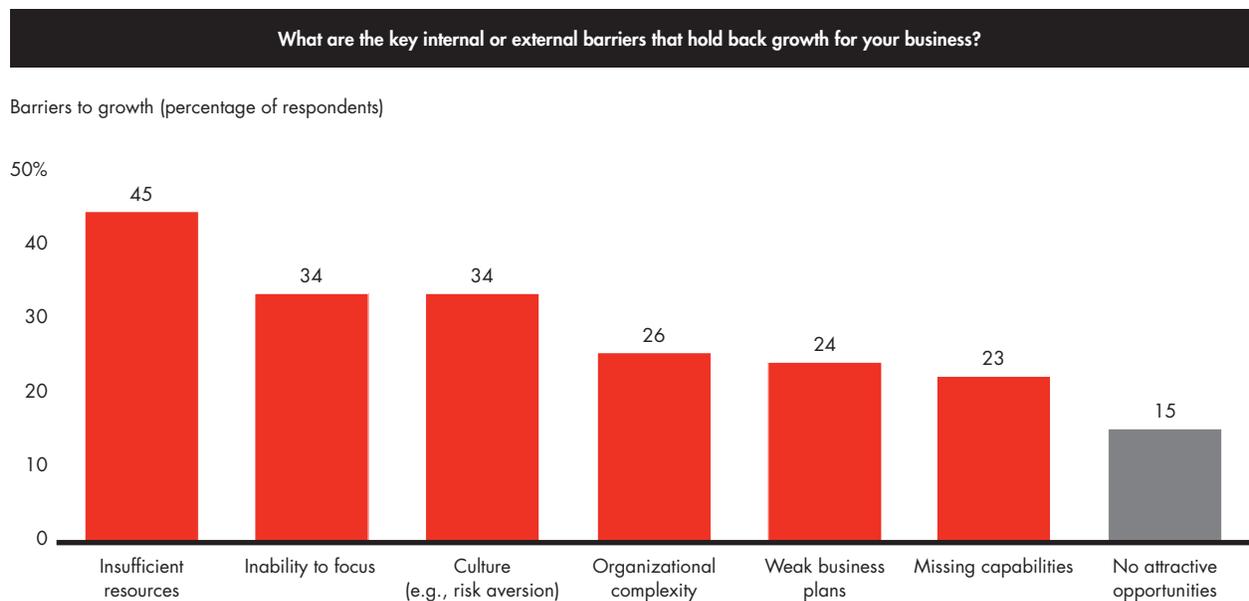


*Sustained value creators

Notes: Growth benchmark is more than two times the country's real GDP growth (i.e., after correction for inflation) with a minimum of 5.5% growth; earning cost of capital is defined as above-average total shareholder return; analysis of ≥3,000 companies in 43 advanced and developing economies

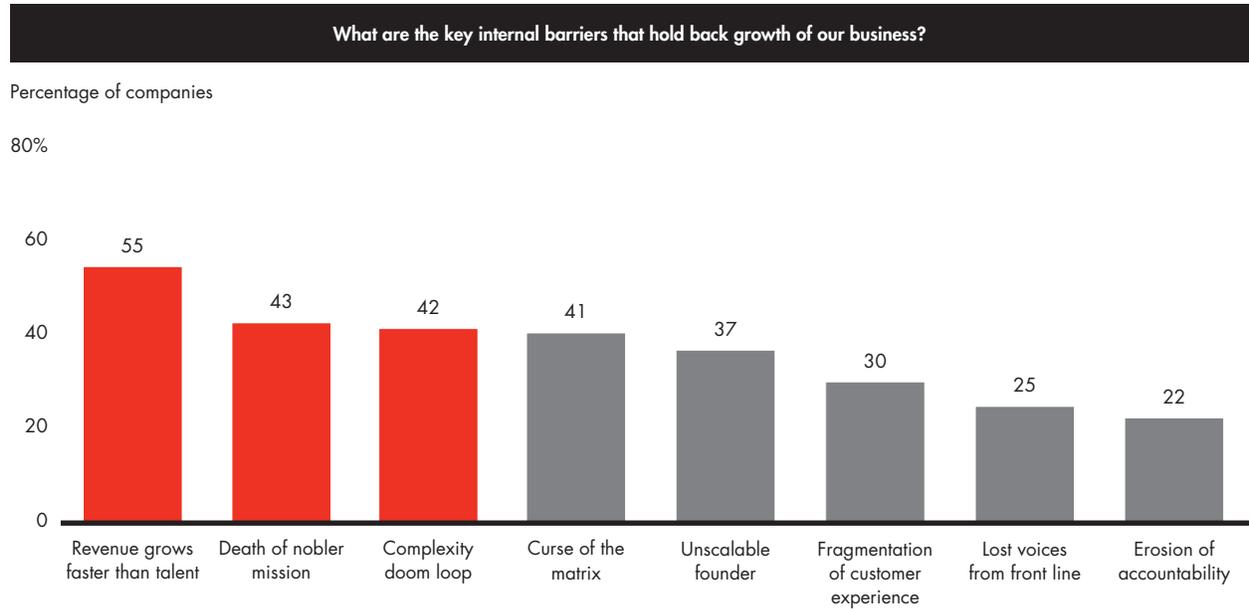
Sources: S&P Capital IQ; Bain analysis

Figure 2: The majority of executives—85%—say internal barriers are the primary obstacles to growth



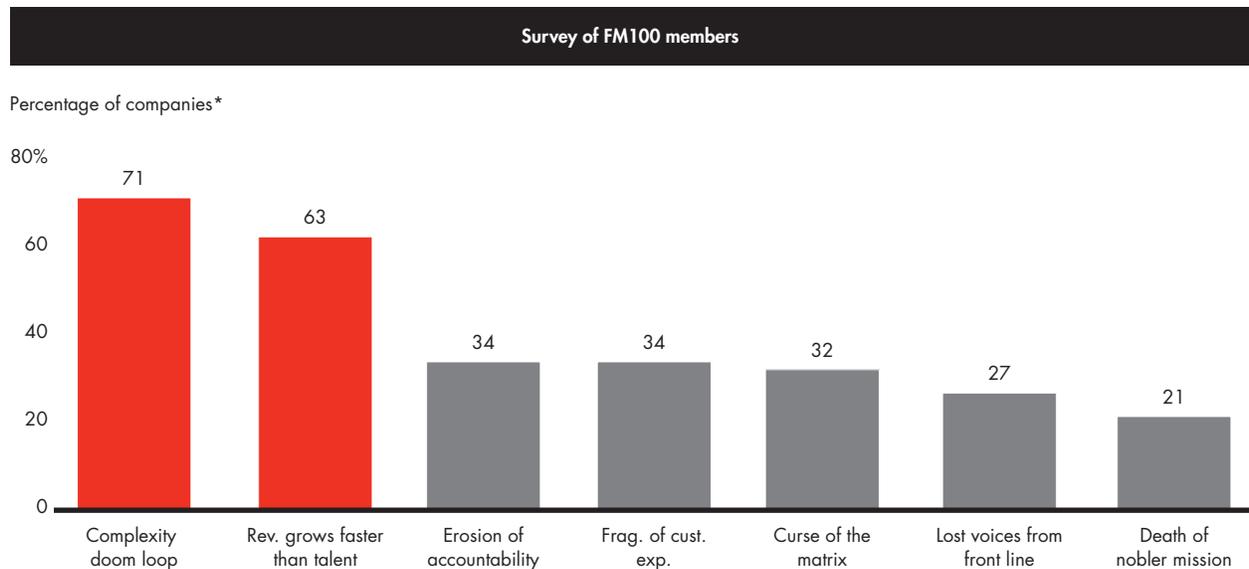
Source: Bain and Economist Intelligence Unit joint survey, March 2011 (n=377 executives in North America, Western Europe and Asia)

Figure 3: Internal barriers to growth



Source: Bain and Research Now Founder's Mentality survey (n=325)

Figure 4: Internal barriers to growth in developing markets



Note: Percentage of companies is calculated as the number of companies where the respondent from the company has highlighted that specific "wind" as a percentage of total companies in the analysis
 Sources: Bain FM100 survey* (n=56)

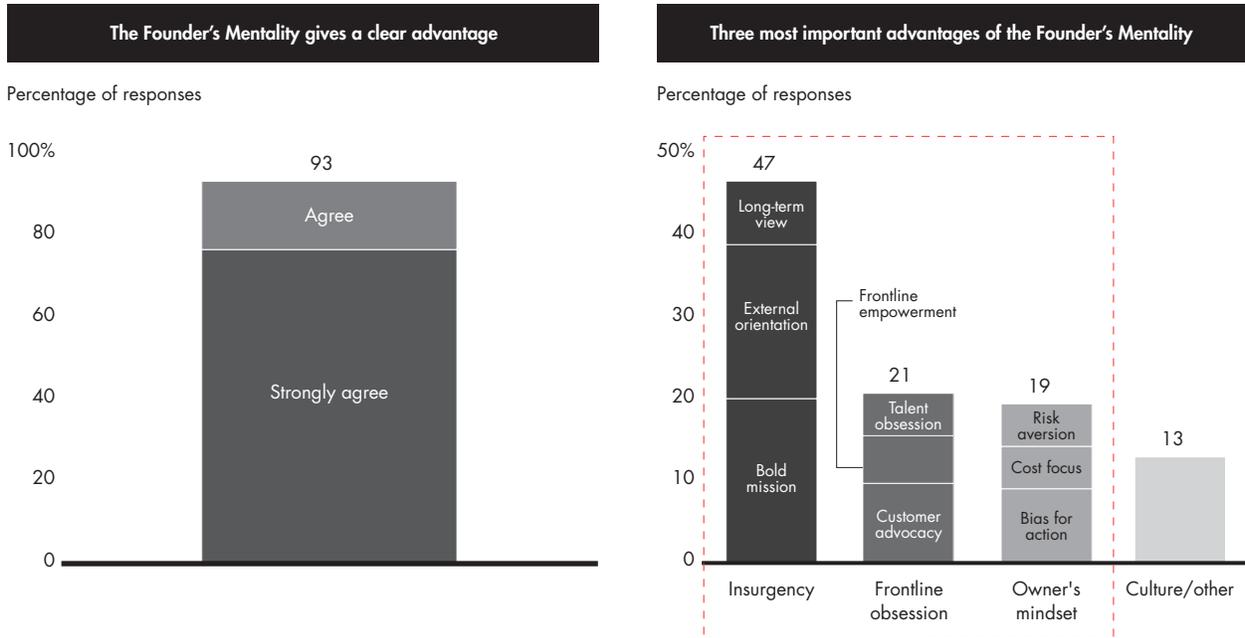


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The Founder's Mentality

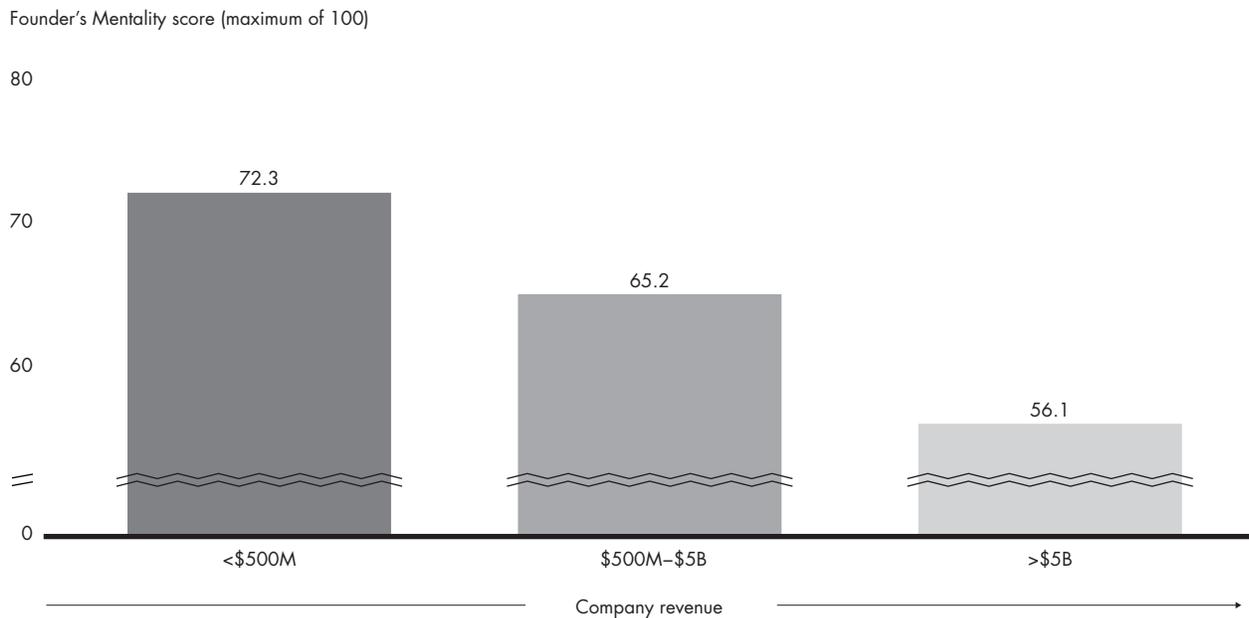
- Most companies that achieve sustainable growth are run with “the Founder’s Mentality”—a set of motivating attitudes and behaviors that can usually be traced back to a bold, ambitious founder.
- Since 1990, founder-led companies have consistently outperformed other S&P 500 companies. From 1990 to 2014, they performed 3.1 times better.
- Even when we exclude tech companies, founder-led companies outperformed other S&P 500 companies by 1.8 times from 1990 to 2014.
- The most sustainably profitable companies exhibit the characteristics of the Founder’s Mentality four to five times as often as lower performers.
- 93% of entrepreneurs surveyed consider the Founder’s Mentality a huge competitive advantage.
- As confirmed by surveys, the Founder’s Mentality consists of three main traits: a sense of insurgent mission, an obsession with the front line and an owner’s mindset.
- Executives perceive a significant decline in the Founder’s Mentality with size. The Founder’s Mentality score drops dramatically from companies with revenues of \$500 million or less (72.3/100) to companies with revenues of \$5 billion or more (56.1/100).

Figure 5: Most executives believe the Founder's Mentality is the secret to sustainable growth



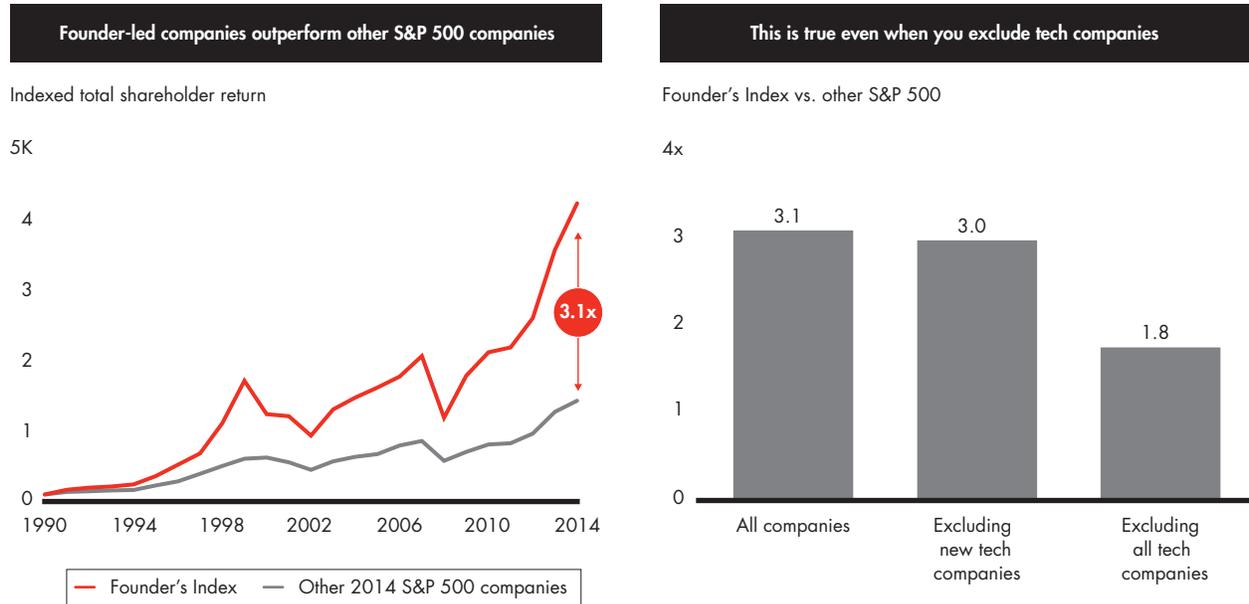
Source: Endeavor survey, June 2013

Figure 6: Executives perceive a decline in the Founder's Mentality with size



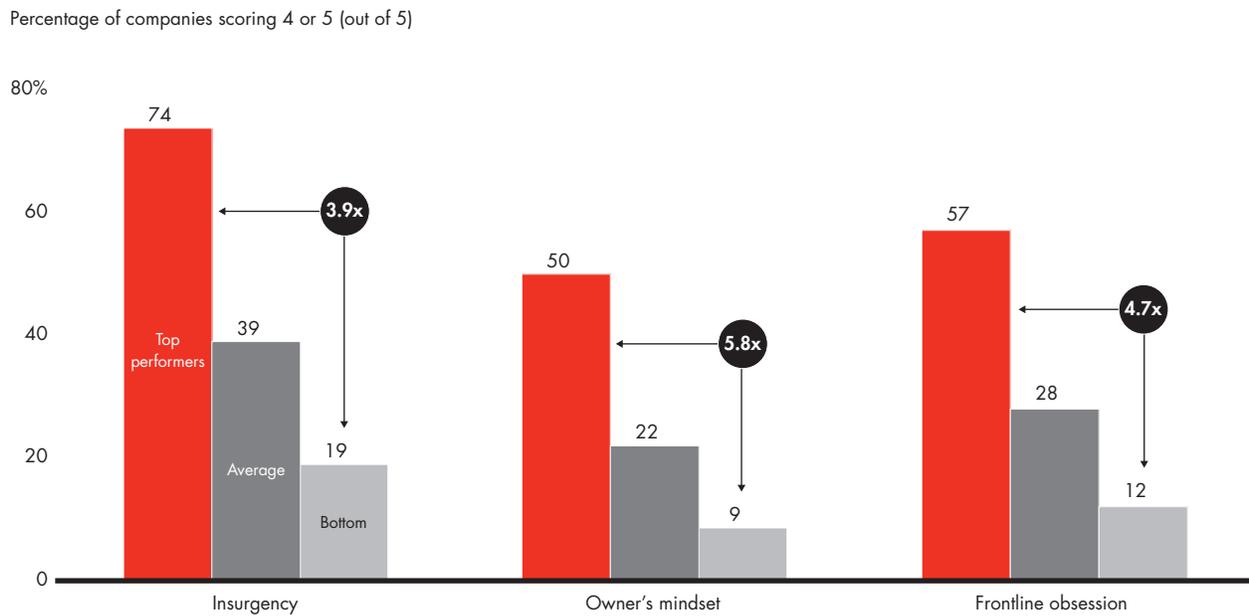
Source: Bain and Research Now Founder's Mentality survey (n=325)

Figure 7: Founder-led companies consistently outperform



Note: "New tech" companies are defined as those founded after 1990
 Sources: S&P Capital IQ; S&P 500, September 2014; Bain analysis

Figure 8: Top performers exhibit the characteristics of the Founder's Mentality four to five times as often as bottom performers



Source: Bain evaluation of 200 companies worldwide; internal study relying on literature search and experts



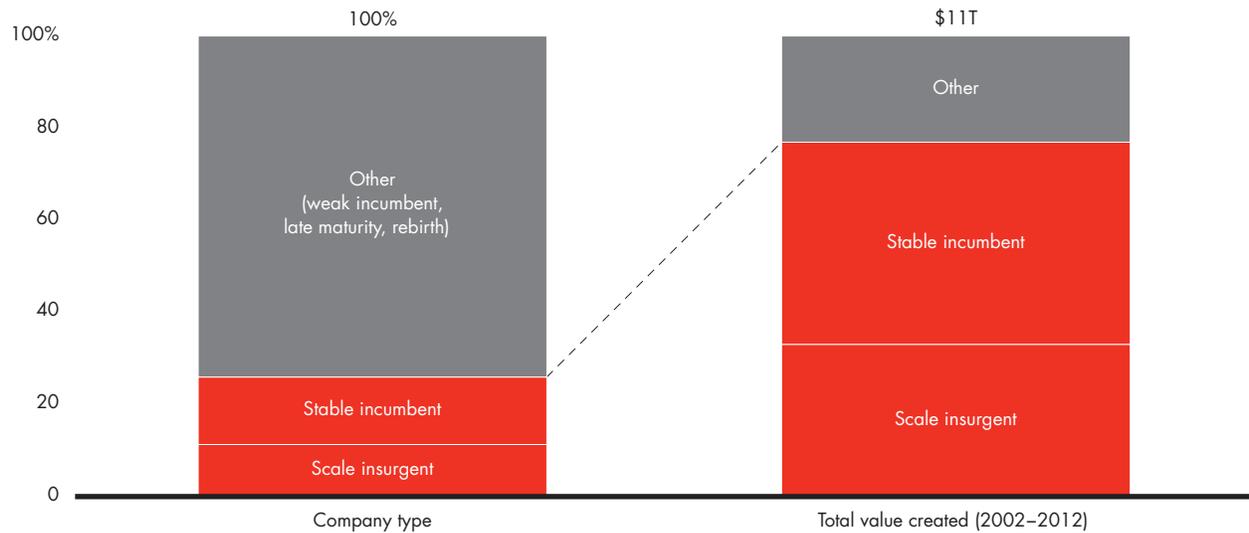
3.

The crises of growth

- About 80% of the swings in value for companies occur during or as a result of decisions made in one of three crisis periods: overload (the crisis of youth), stall-out (the crisis of incumbency) and free fall (the crisis of late maturity). Focusing on the Founder's Mentality helps companies survive all three.
- Only one in 17,000 companies will grow to \$500 million and become a sustained value creator because of the bottlenecks, systems breakdowns and complexity that accompany growth and lead to overload.
- Executives surveyed cite a series of predictable forces that contribute to overload that include revenue growing faster than talent (55%), an unscalable founder (37%), lost voices from the front line (25%) and the erosion of accountability (22%).
- As companies scale, the Founder's Mentality becomes difficult to preserve: Executives surveyed report that senior management loses external focus, spends less time directly with customers and has trouble with personalized talent management.
- Unlike in the past, large companies have a hard time sustaining growth and creating value for shareholders.
- When stall-out hits, it can be sudden and drastic. The 50 companies with the biggest market-cap declines in 2007–13 had an average growth rate of 12% in the 5 years before stall-out, compared with a rate of –1% in the 5 years during stall-out.
- About a third of the 1998 Fortune 500 companies stalled out, and a third were acquired or went bankrupt. Of those that stalled out, only 10% to 15% recovered.
- Executives report that four key forces create stall-out: the death of the nobler mission (43%), unchecked complexity that kills growth (42%), bureaucratization (41%) and the fragmentation of customer experience (30%).
- 80% of those that recovered from stall-out did so by returning to their core business, and 20% by redefining the whole business model.

Figure 9: One-quarter of companies create 80% of value

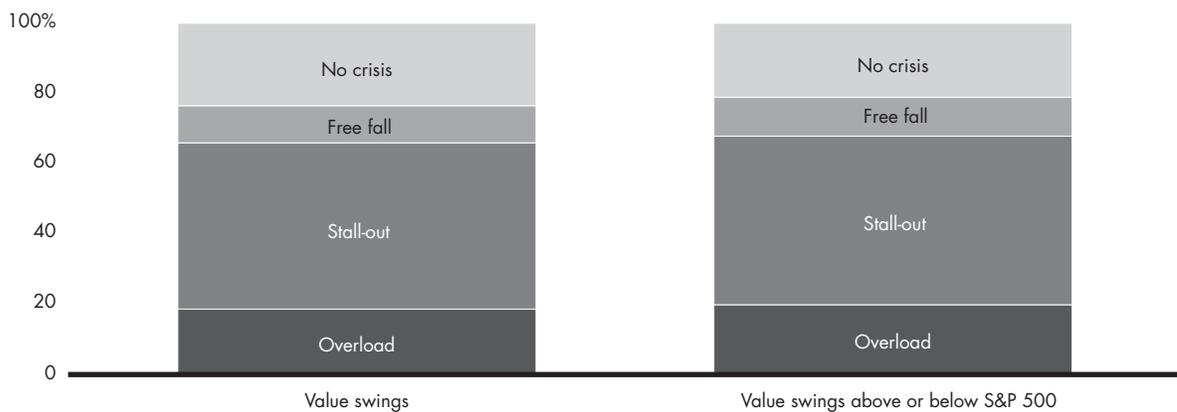
Companies with revenues >\$500M in advanced markets



Source: SVC database (n=~3,000)

Figure 10: About 80% of the swings in value occur during or as a result of decisions made in one of the three crisis periods

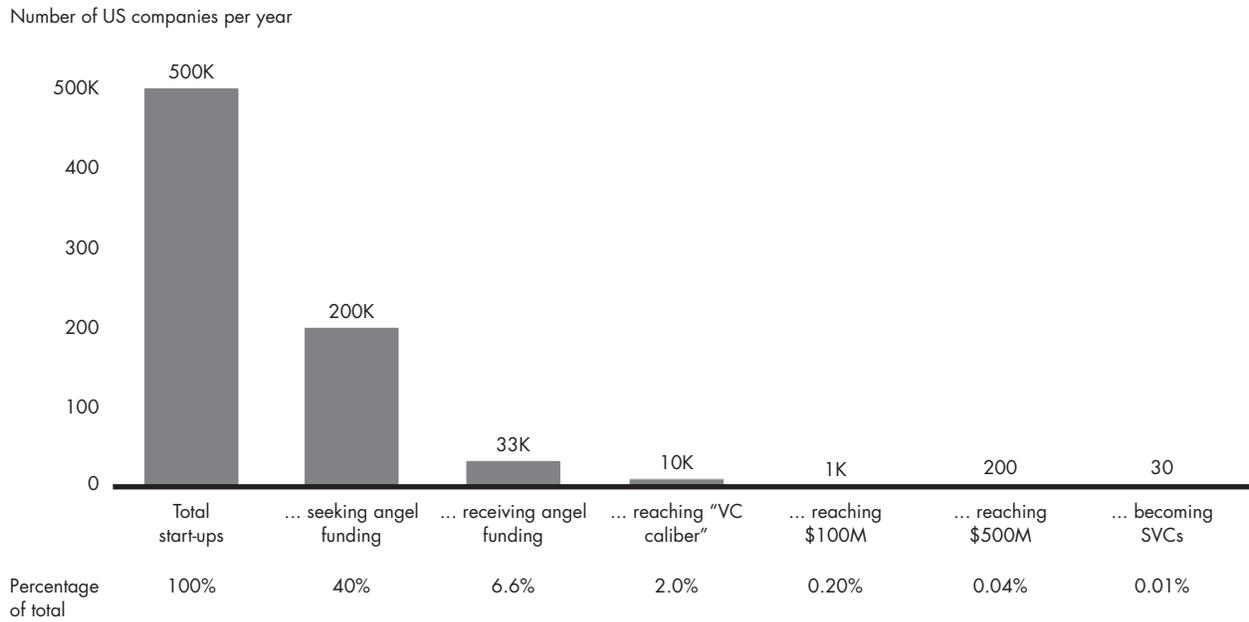
Percentage of value swings



Percentage of swings during or due to crisis

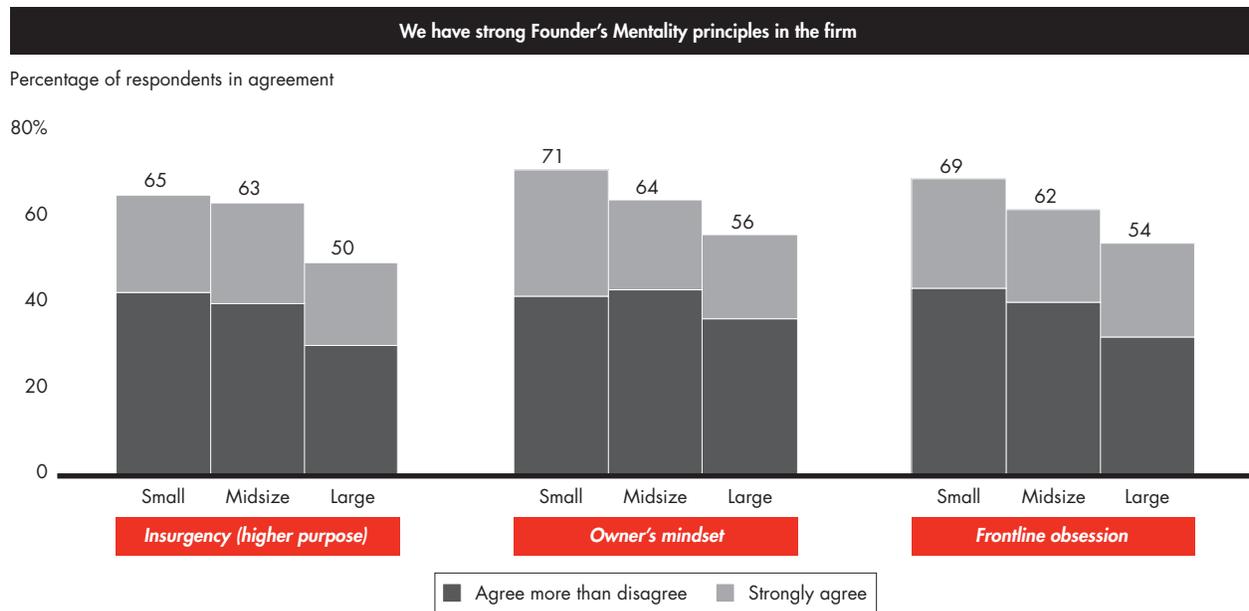
Sources: Bain analysis of 20 typical companies that experienced multiple life cycle phases; S&P Capital IQ; company reports

Figure 11: Only one in about 17,000 start-ups grows to \$500 million as a sustained value creator



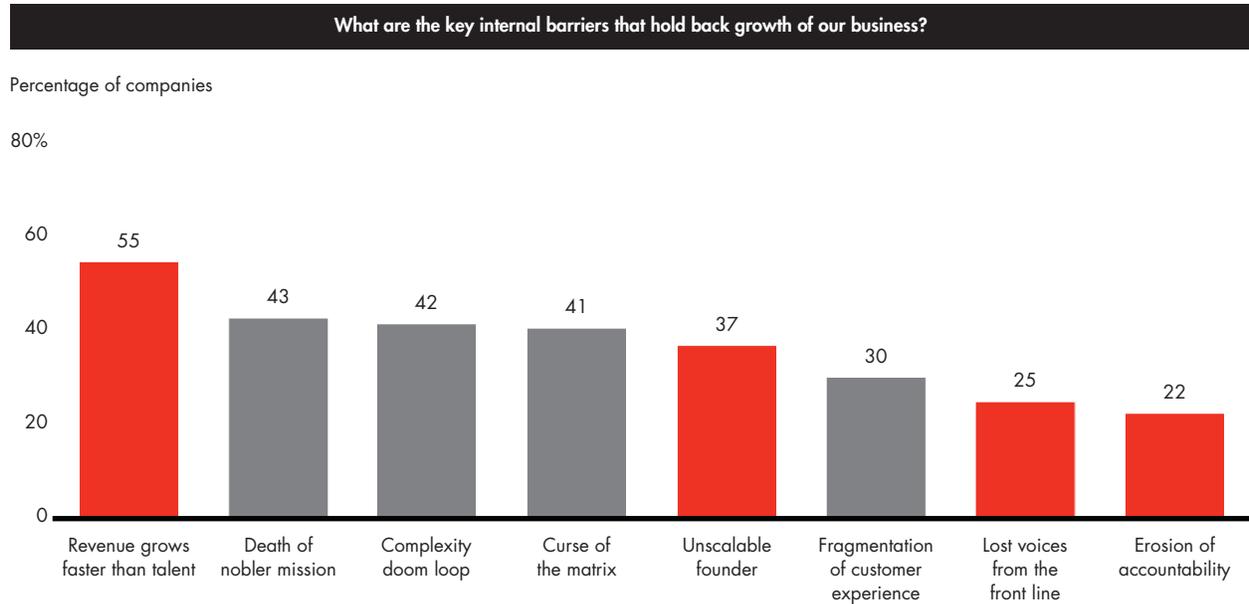
Sources: Business Dynamics Statistics (US Census Bureau); Bureau of Labor Statistics; S&P Capital IQ; Kauffman Foundation; Bain analysis

Figure 12: As companies scale, the Founder's Mentality is difficult to preserve



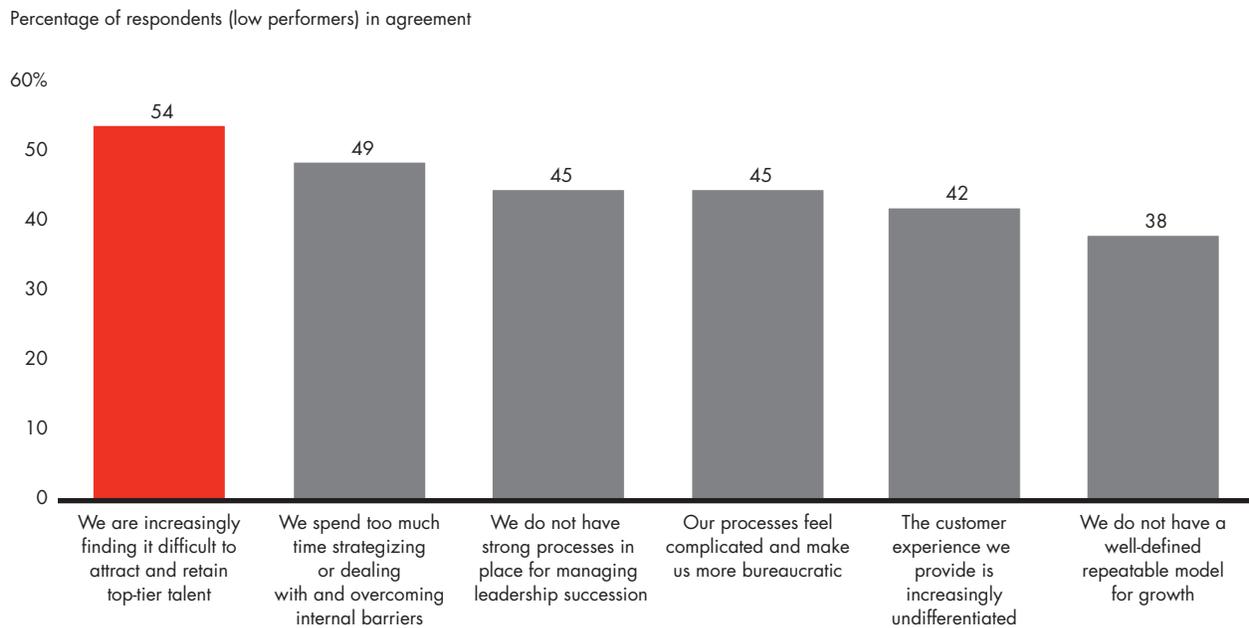
Note: Firm sizes are classified as follows: small is <\$500M (n=143); midsize is \$500M-\$5B (n=104); large is >\$5B (n=78)
 Source: Bain and Research Now Founder's Mentality survey (n=325)

Figure 13: Forces that lead to overload (what we call “westward winds”)



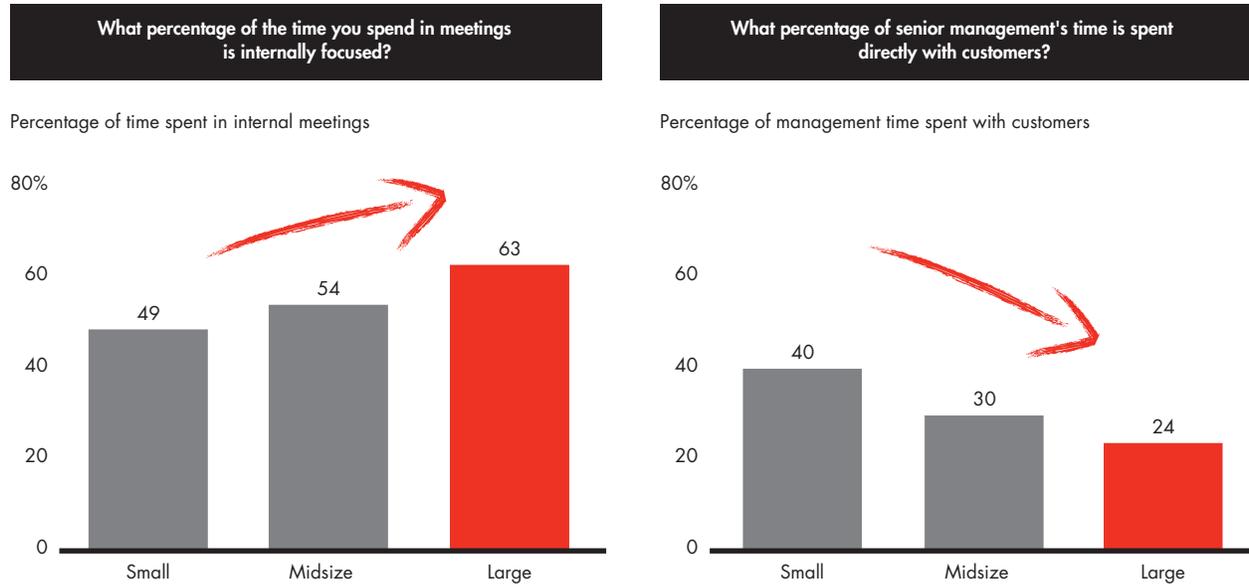
Source: Bain and Research Now Founder’s Mentality survey (n=325)

Figure 14: Managing talent is the biggest challenge for companies



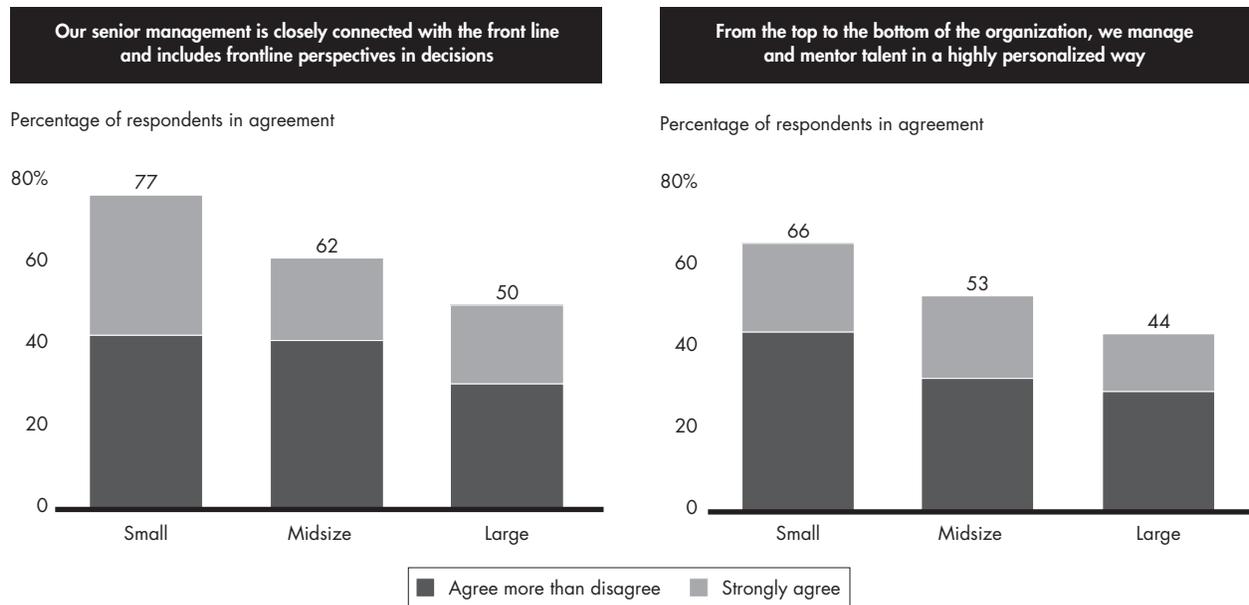
Source: Bain and Research Now Founder’s Mentality survey (n=325)

Figure 15: Management's external focus declines with scale



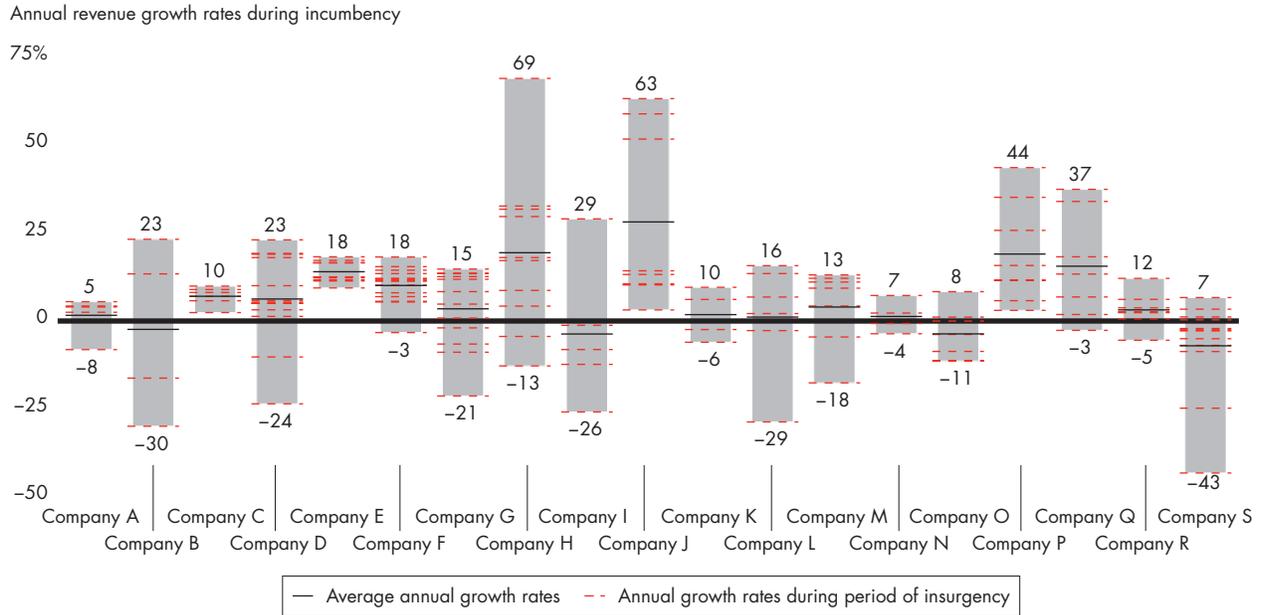
Note: Firms are classified according to size: small is <\$500M (n=143); midsize is \$500M-\$5B (n=104); large is >\$5B (n=78)
 Source: Bain and Research Now Founder's Mentality survey (n=325)

Figure 16: Connection with the front line and personalized talent management decreases with size



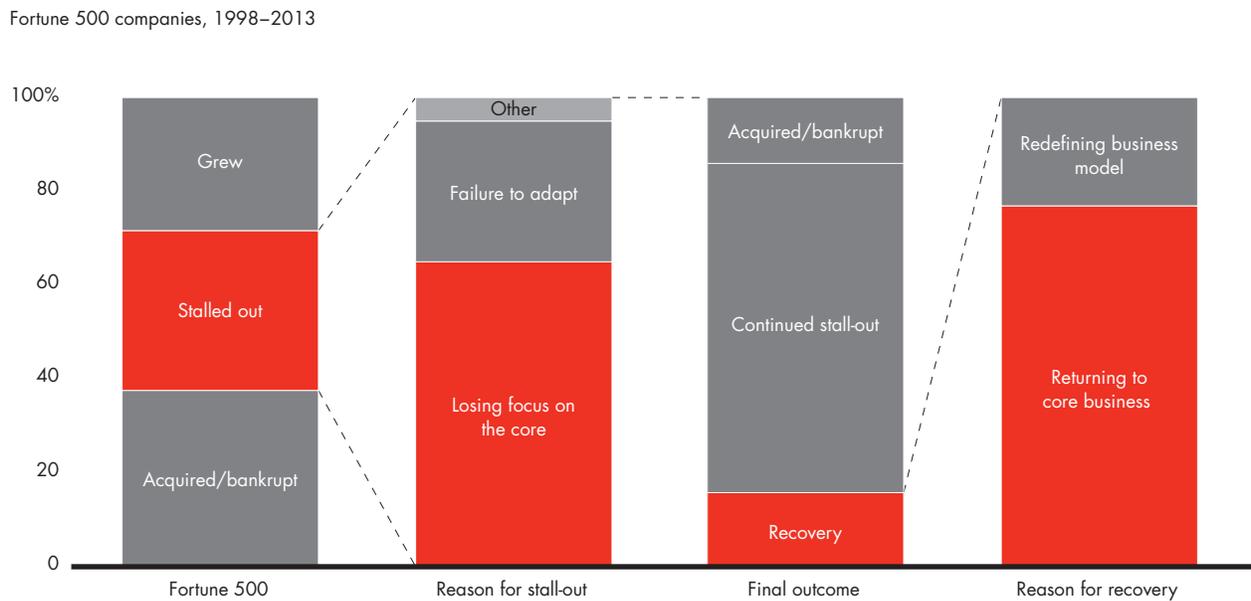
Note: Firms are classified according to size: small is <\$500M (n=143); midsize is \$500M-\$5B (n=104); large is >\$5B (n=78)
 Source: Bain and Research Now Founder's Mentality survey (n=325)

Figure 17: Most companies experience large swings in growth rates during incumbency



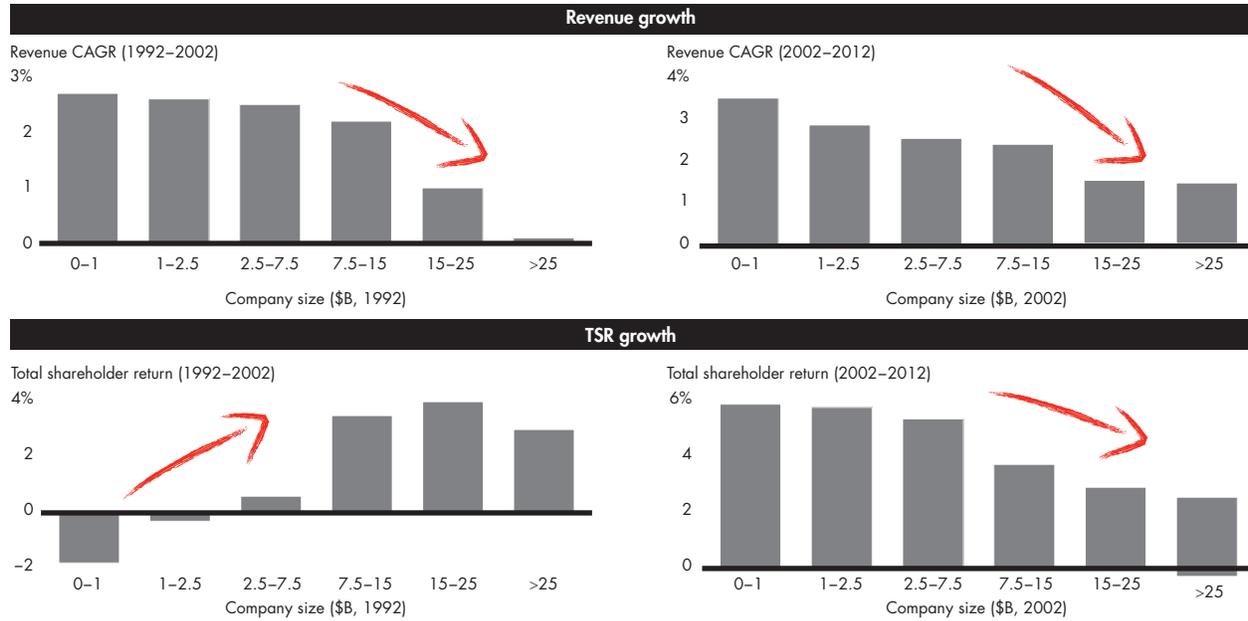
Notes: Sample is 19 large companies that have long operating histories and have experienced multiple life cycle phases; contains cross section of industries and geographies
Sources: S&P Capital IQ; company reports; Bain analysis

Figure 18: About two-thirds of companies stall out, are acquired or go bankrupt, and only about 15% of those that stall out recover



Sources: S&P Capital IQ; literature search; Bain analysis

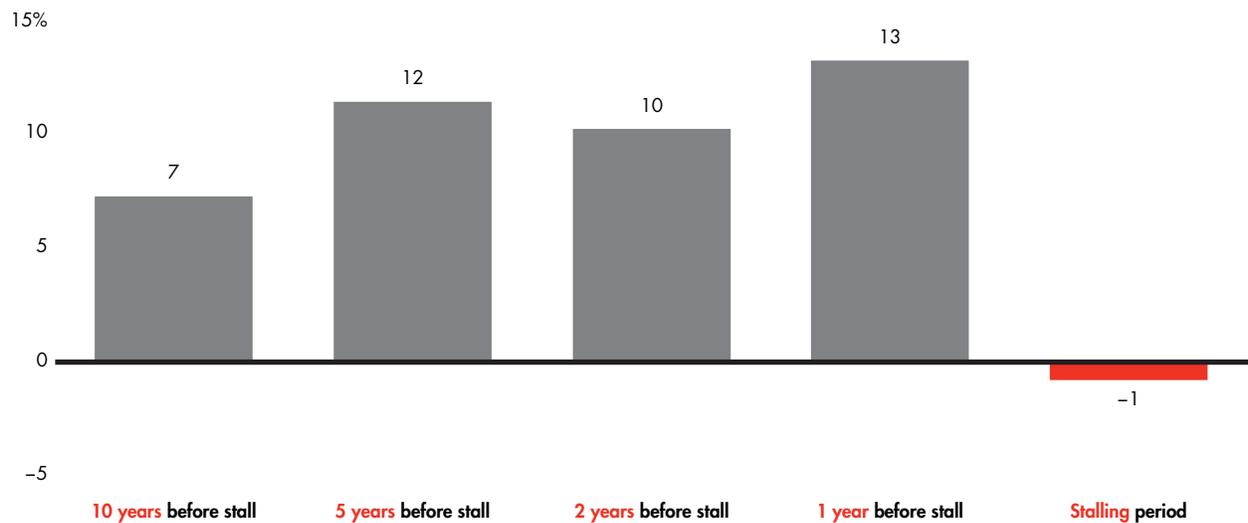
Figure 19: Unlike the past, large companies are having a hard time growing sustainably and creating value for shareholders



Notes: n=~1,000 (1992–02) and n=~2,000 (2002–12) companies in advanced economies; excludes natural resource and financial companies; unweighted averages
Sources: S&P Capital IQ; Bain analysis

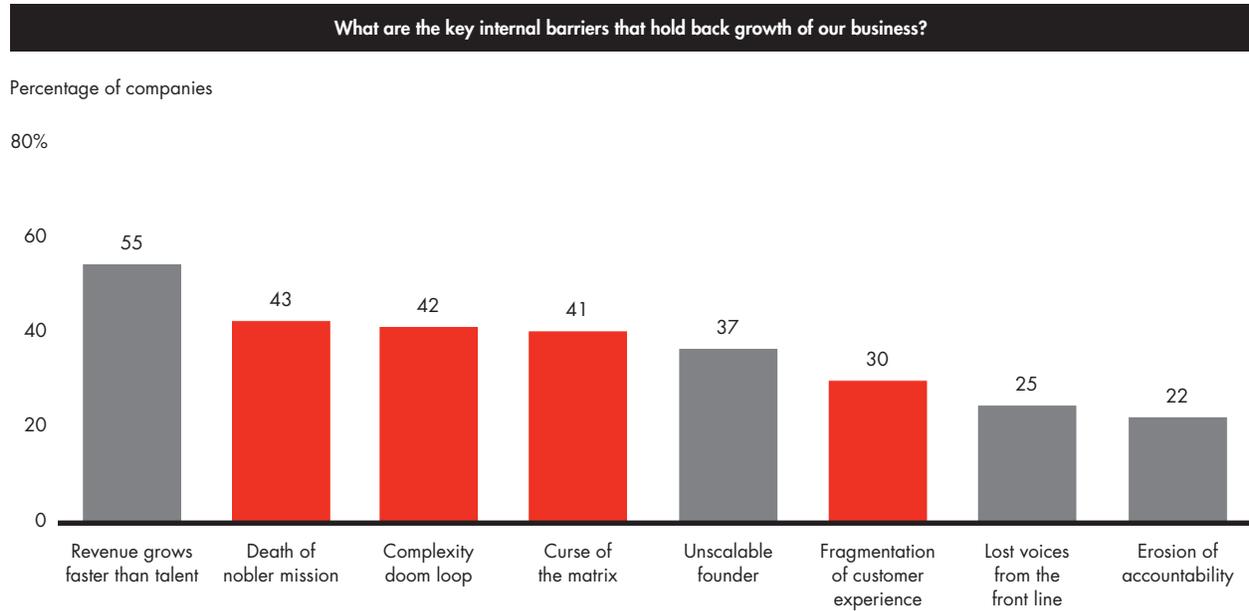
Figure 20: Growth often stalls suddenly and drastically

Revenue CAGRs for 50 largest declines in market cap, 2007–2013



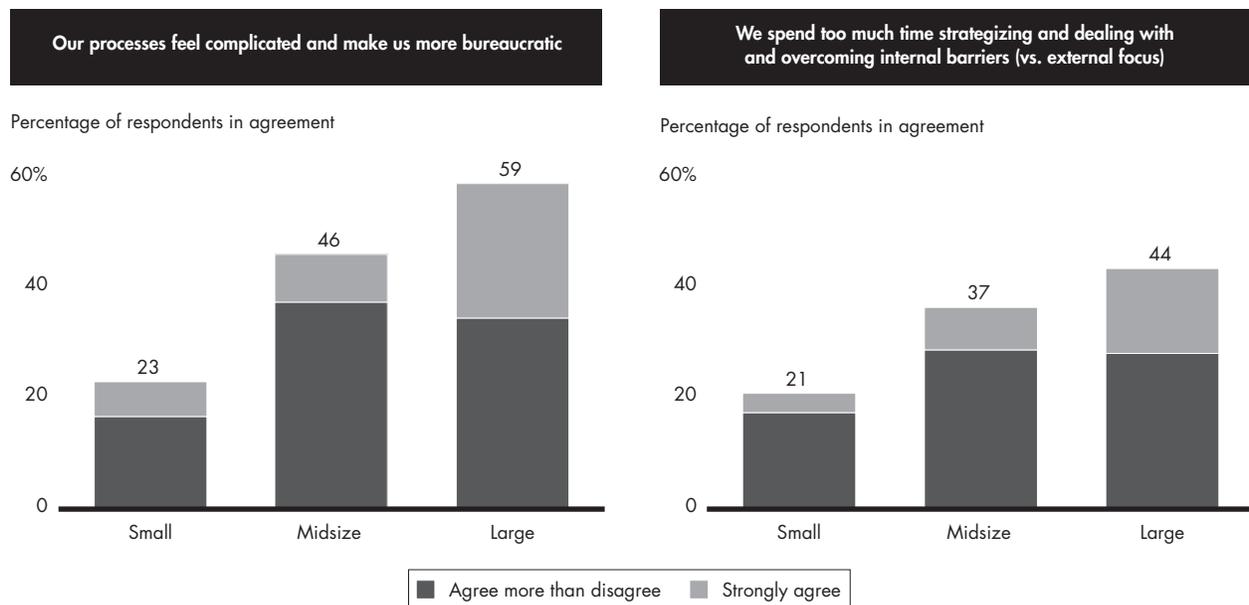
Note: Data before stall is for 47 of the top 50 companies based on data availability in 1997
Sources: S&P Capital IQ; Bain analysis

Figure 21: Forces that lead to stall-out (what we call “southward winds”)



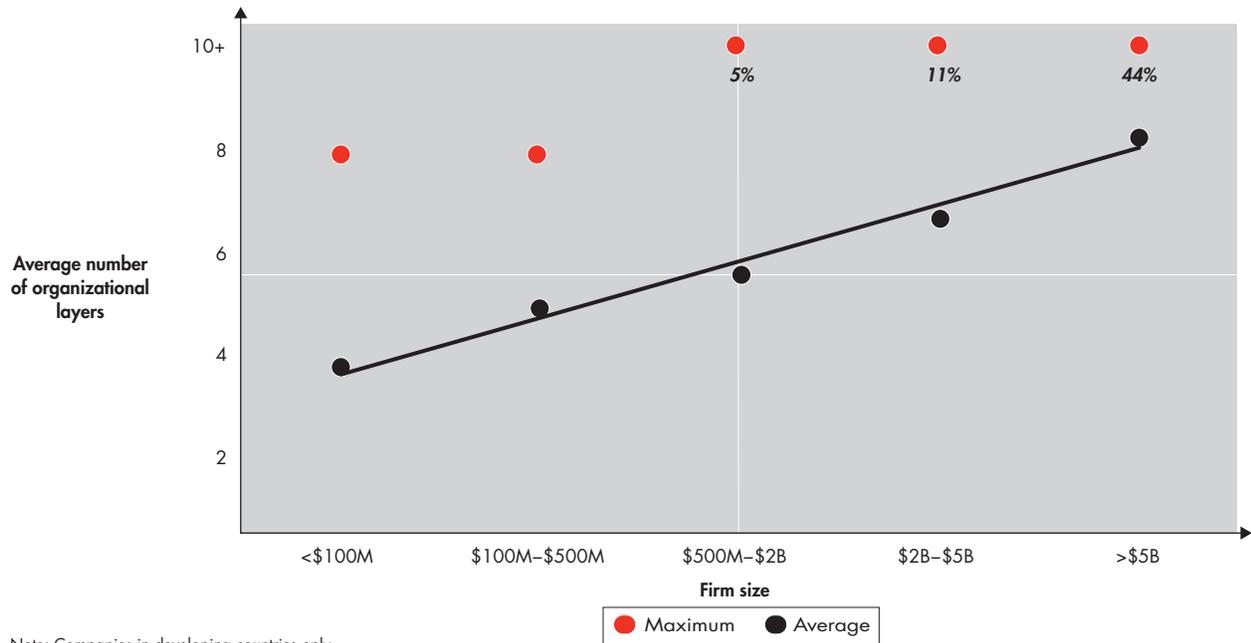
Source: Bain and Research Now Founder’s Mentality survey (n=325)

Figure 22: Complexity and bureaucracy increase with size



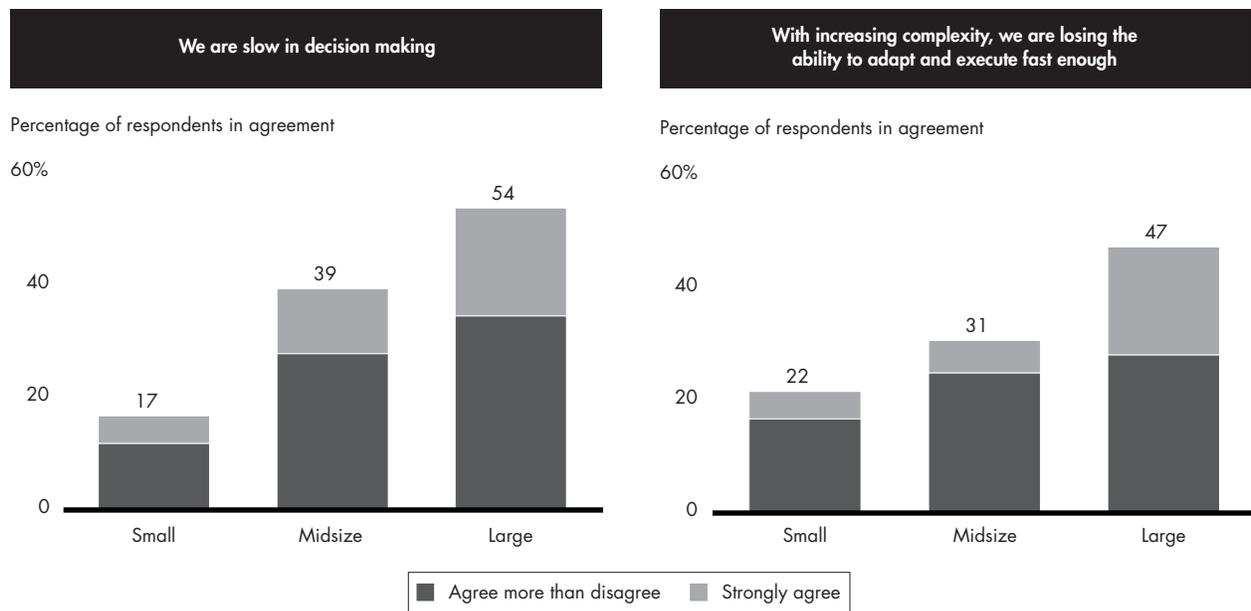
Note: Firms are classified according to size: small is <\$500M (n=105); midsize is \$500M–\$5B (n=69); large is >\$5B
 Source: Bain and Research Now Founder’s Mentality survey (n=325)

Figure 23: With scale, hierarchy increases



Note: Companies in developing countries only
Source: Bain and Research Now Founder's Mentality survey (n=325)

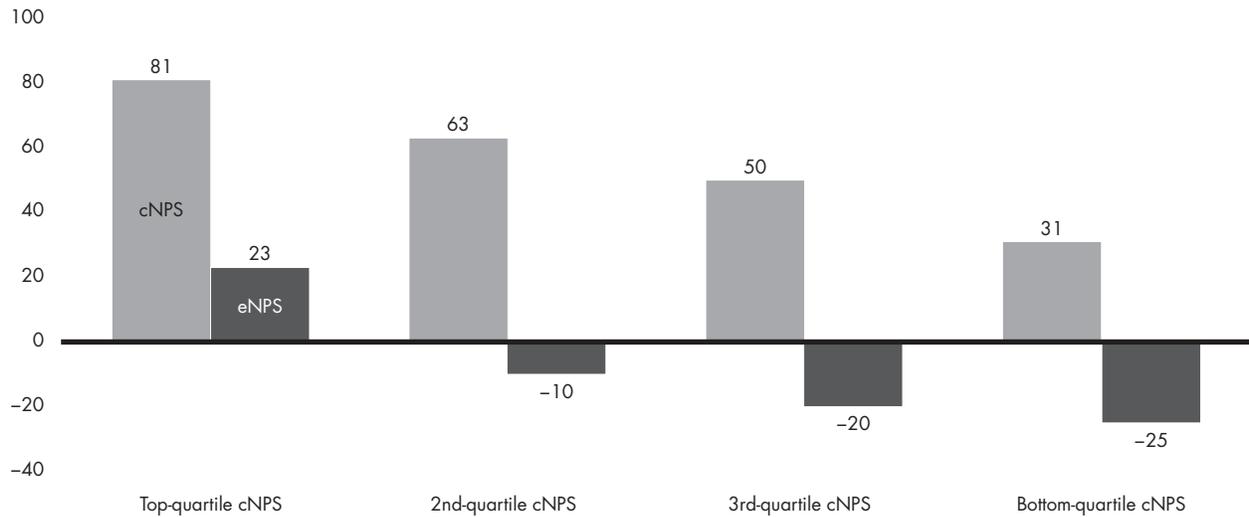
Figure 24: Large, complex companies make decisions slowly



Note: Firms are classified according to size: small is <\$500M (n=143); midsize is \$500M-\$5B (n=104); large is >\$5B (n=78)
Source: Bain and Research Now Founder's Mentality survey (n=325)

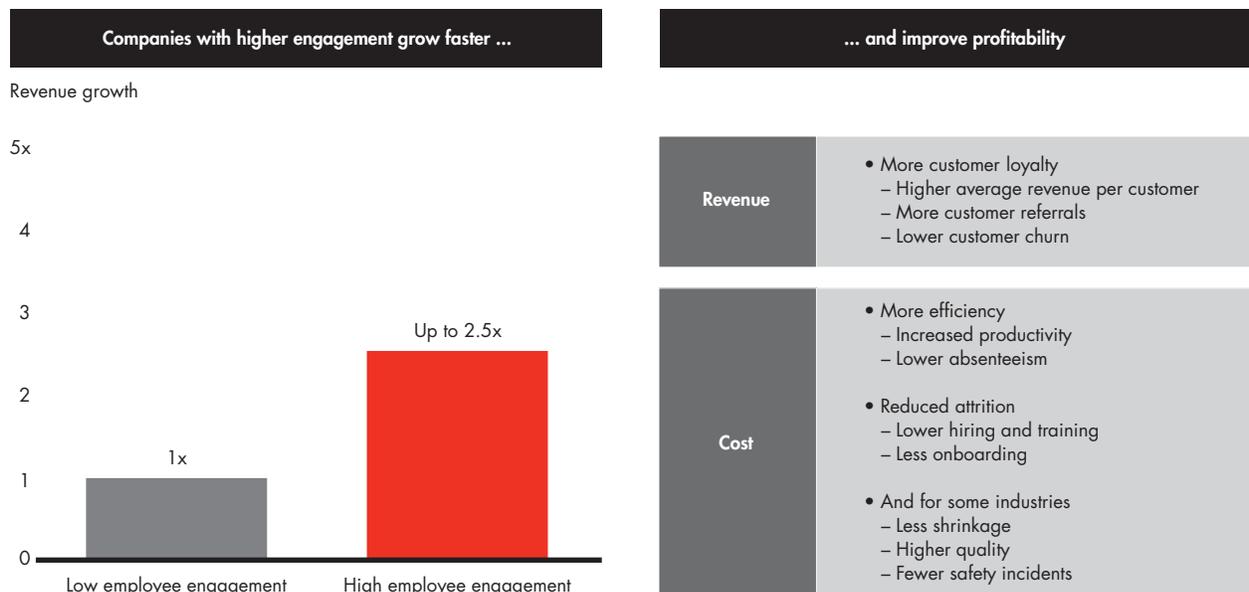
Figure 25: The correlation between customer loyalty and employee engagement is strong

cNPS vs. eNPS, by quartile



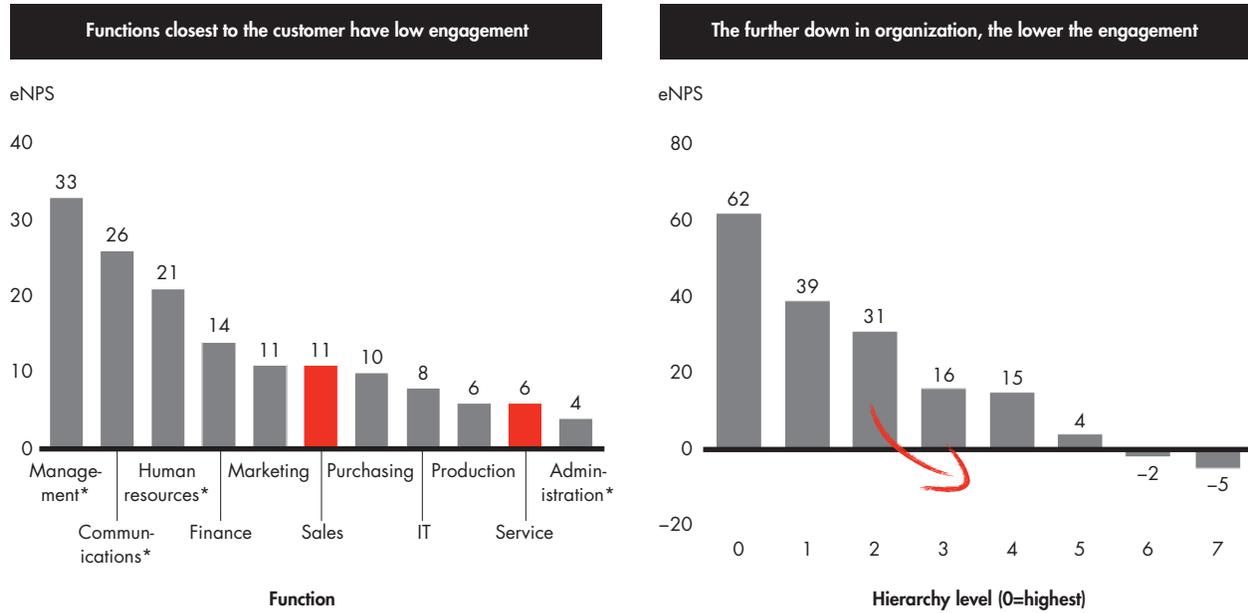
Notes: cNPS is customer Net Promoter Score®; eNPS is employee Net Promoter Score®, based on approximately 70 units within a banking company operating in four European countries
 Source: Netsurvey/Bain analysis, September 2012 (n=800 employees and 6,000 customers)

Figure 26: Companies with engaged employees deliver superior financial results



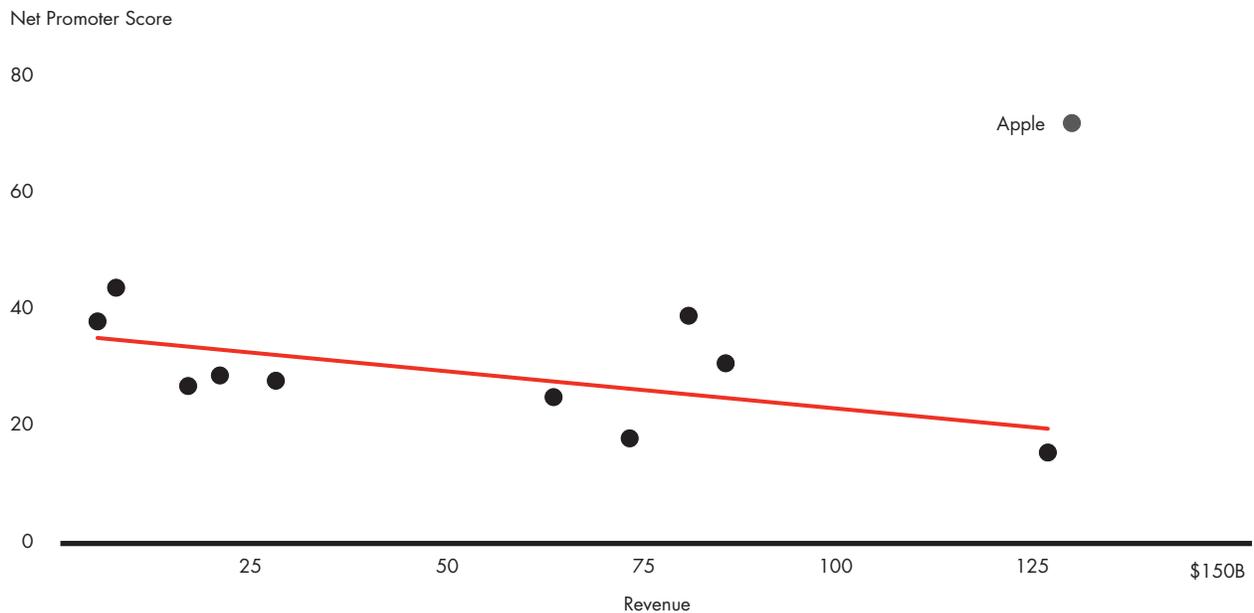
Sources: Hay Group Insight, *Engaging and Enabling Employees to Improve Performance Outcomes* (2009 Hay Group global normative database); Russell Investment Group; Great Place to Work Institute (1998–2008)

Figure 27: Engagement levels are often lowest for those interacting with customers



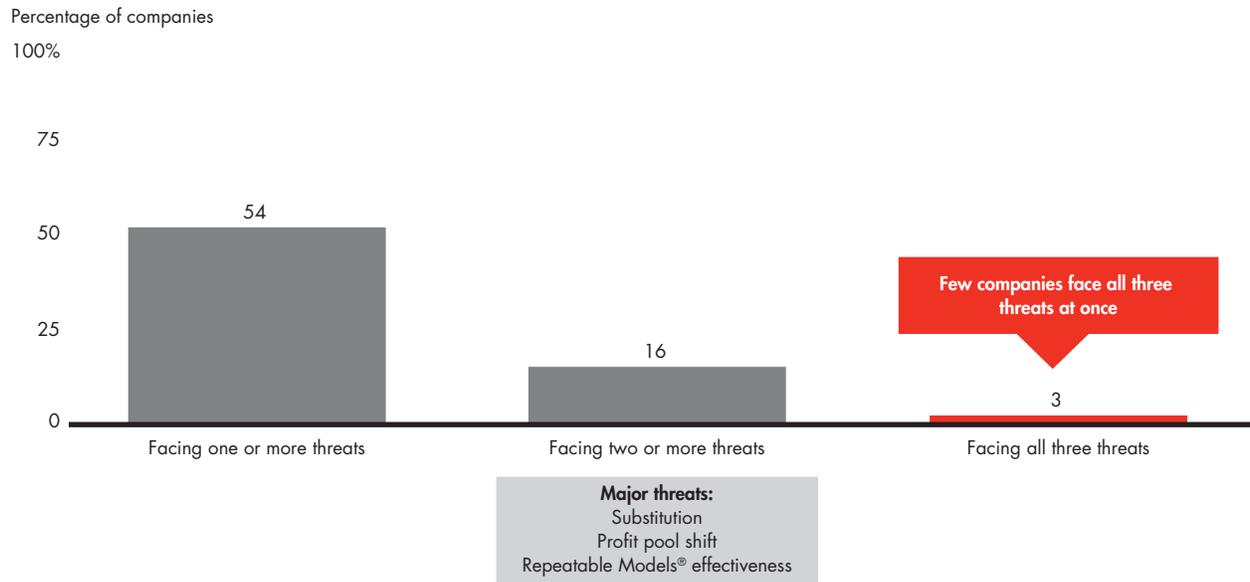
*Sample size is >600
Sources: Netsurvey/Bain analysis, September 2012 (n=27,628); Netsurvey/Bain analysis, September 2012 (n≥130,000)

Figure 28: Most companies see customer loyalty degrade with size



Source: Satmetrix NPS survey

Figure 29: Most companies face at least one severe threat, but few face all three



Notes: Analysis includes all companies in top-5 for sales by year for each sector since 1987; companies chosen from 12 countries; analysis restricted to 10 sectors of highest interest; n=123; threat analysis restricted to single "highest threat" era from past 25 years
Sources: S&P Capital IQ; literature search; company financials; Bain analysis

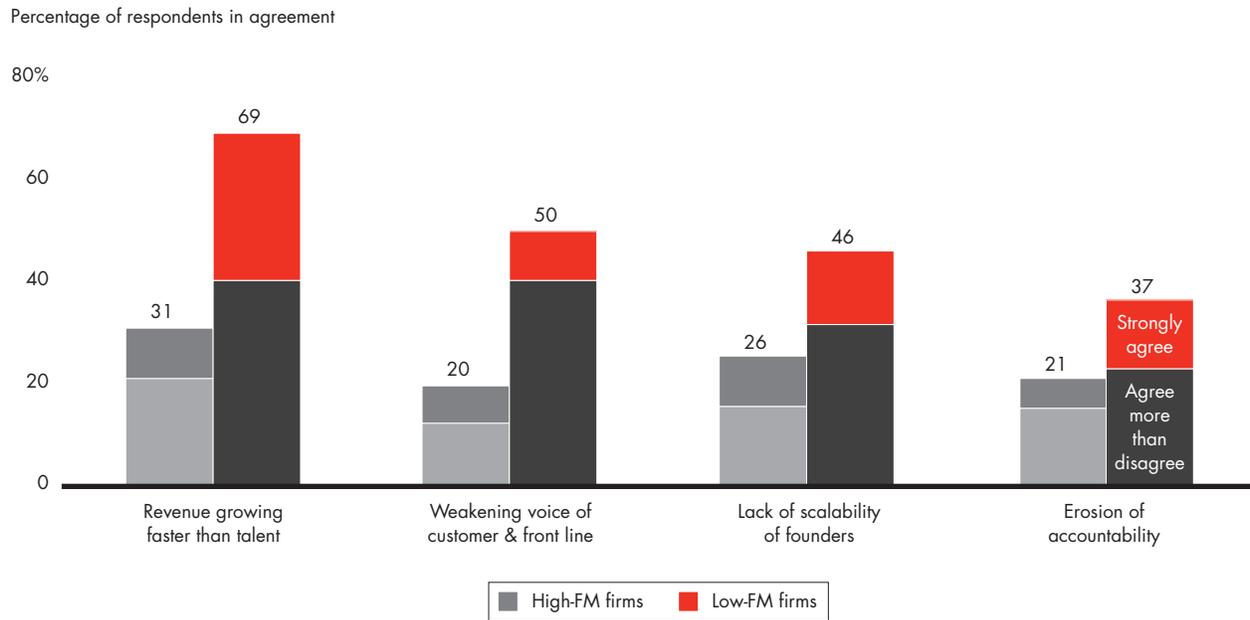


4.

The case for renewal

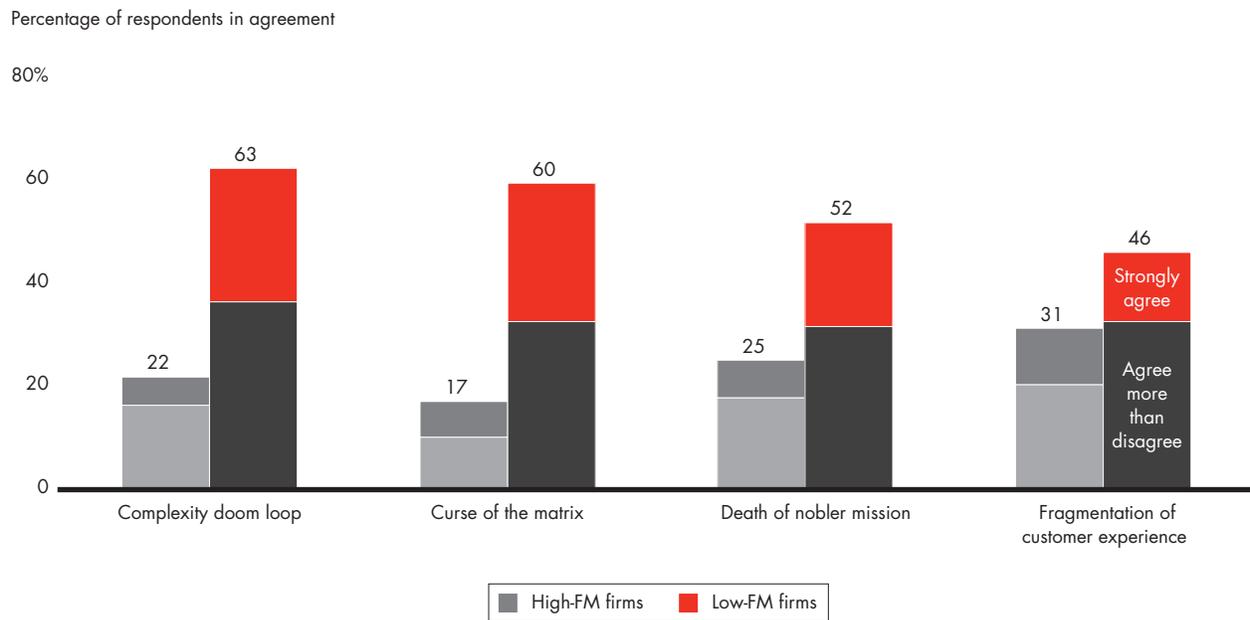
- Firms with low Founder's Mentality lag behind companies with high Founder's Mentality when it comes to attracting, retaining and training talent, as well as engaging customers and frontline employees.
- Firms with low Founder's Mentality are less able to contend with the forces that cause overload and stall-out.
- Firms with high Founder's Mentality are more externally focused and customer focused.
- Successful transformations recover about three times the value lost during decline.

Figure 30: Companies with low Founder's Mentality are hit harder by westward winds



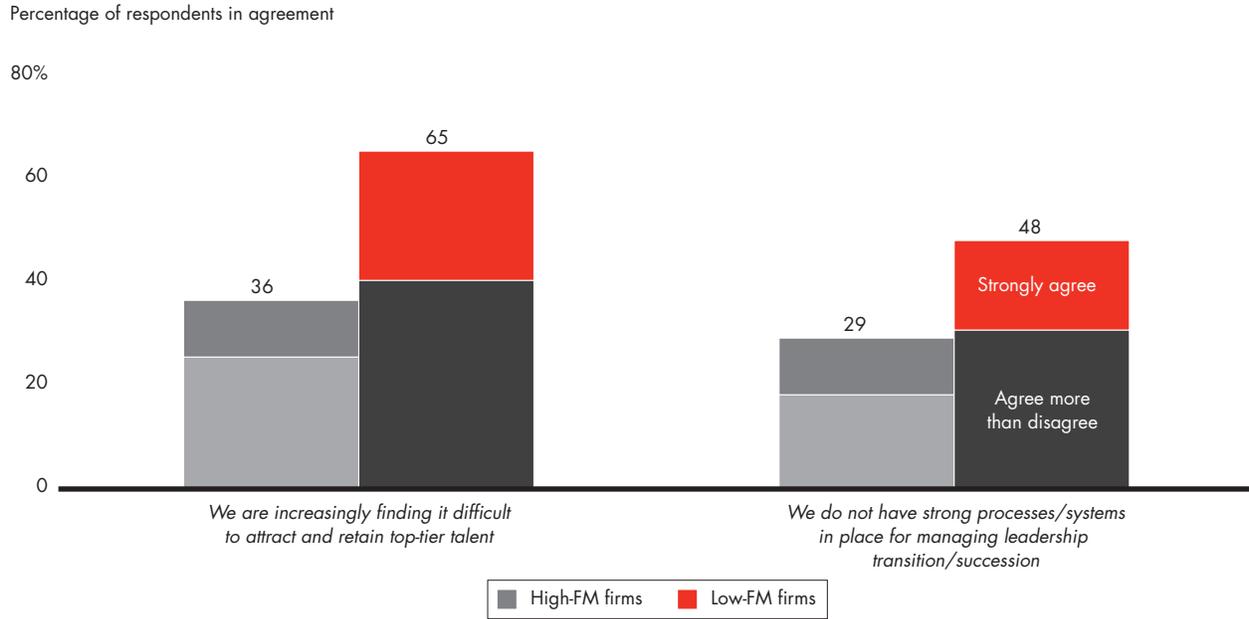
Source: Bain and Research Now Founder's Mentality survey (n=325)

Figure 31: Companies with low Founder's Mentality are also hit harder by southward winds



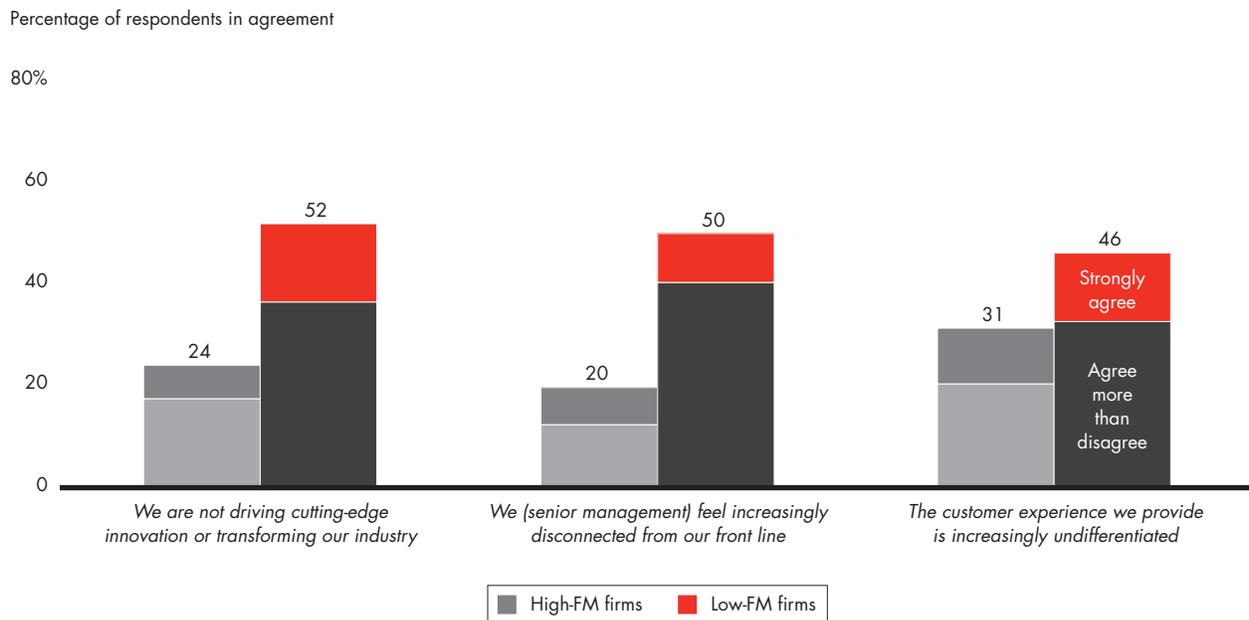
Source: Bain and Research Now Founder's Mentality survey (n=325)

Figure 32: Companies with low Founder’s Mentality lag those with high Founder’s Mentality when it comes to talent



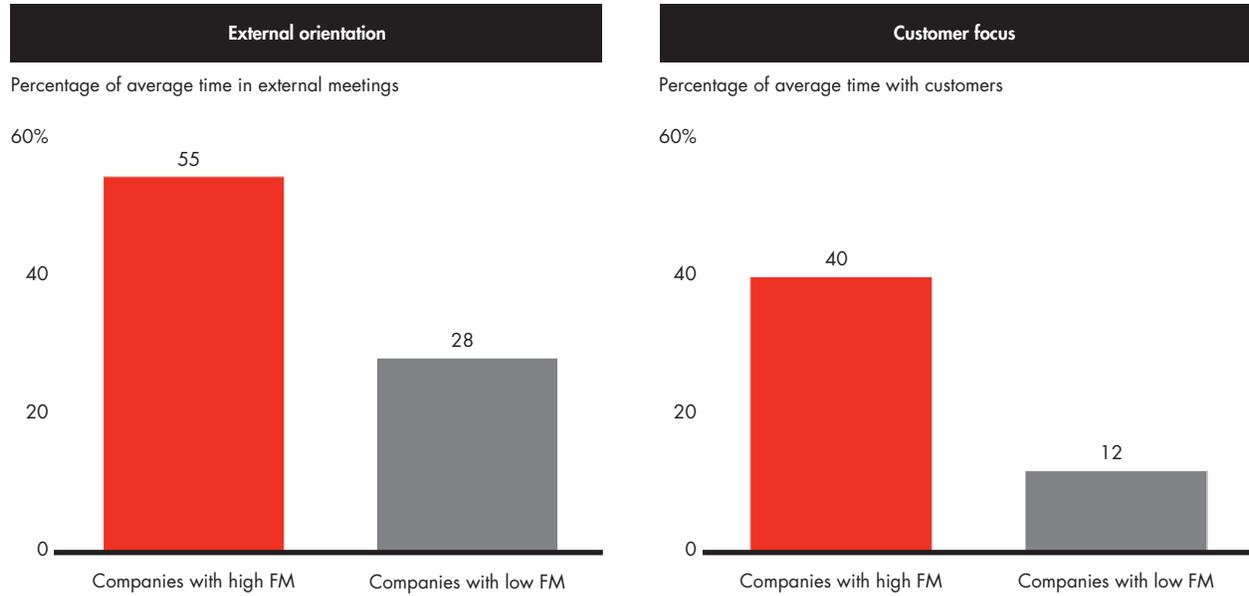
Source: Bain and Research Now Founder’s Mentality survey (n=325 companies)

Figure 33: Companies with low Founder’s Mentality lag those with high Founder’s Mentality when it comes to connecting with the front line or with customers



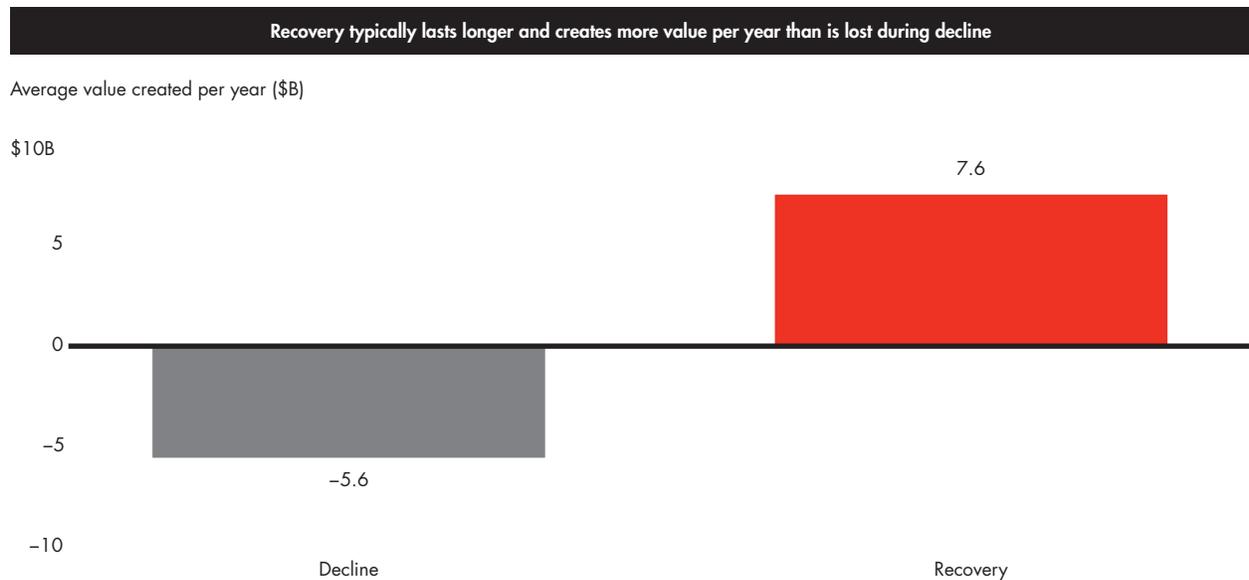
Source: Bain and Research Now Founder’s Mentality survey (n=325)

Figure 34: Companies with high Founder’s Mentality are more externally focused



Source: Bain and Research Now Founder’s Mentality survey (n=325)

Figure 35: Successful transformations recover about three times the value lost during decline



Notes: Based on a sample of 35 significant business transformations for which public data is available; period analyzed includes downturn/stagnation through the end of the business cycle in question (may extend beyond recovery of initial value lost); n=35
 Sources: S&P Capital IQ; Ycharts; Bloomberg; Bain analysis

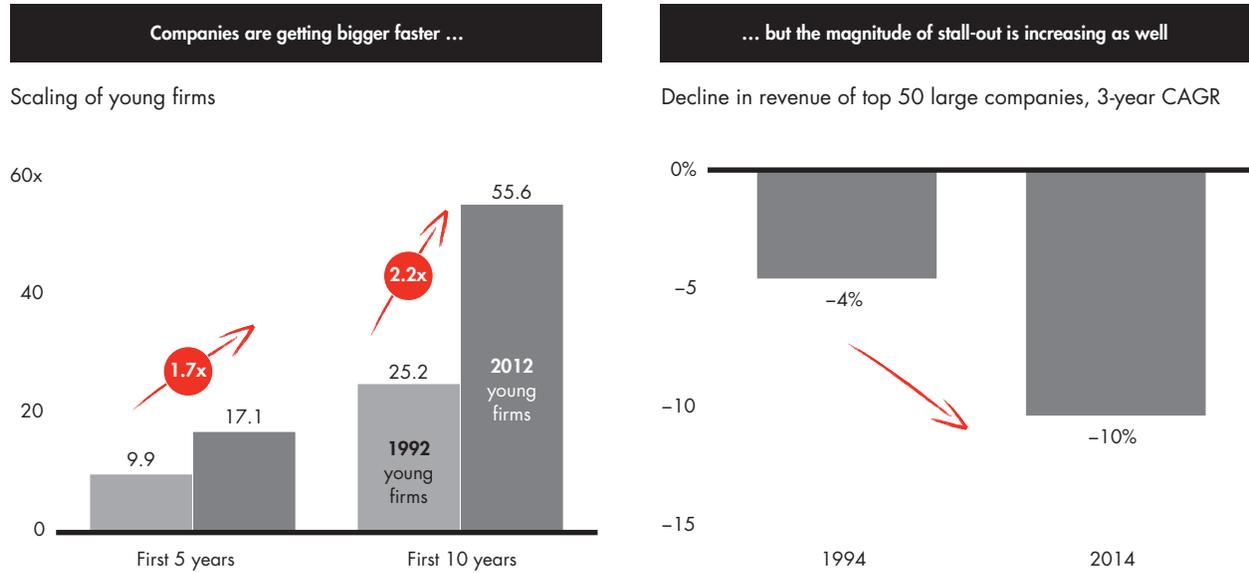


5.

**Faster growth,
faster stall-out**

- Companies are growing to scale faster than ever.
- Companies that were young in 2012 grew 1.8 times faster in their first five years than companies that were young in 1992.
- Those same 2012 companies grew 2.2 times faster than their 1992 counterparts in their first 10 years.

Figure 36: Higher growth is required to enter the top ranks, but the potential downside has increased as well



Notes: Methodology for right-side chart: Starting point is database of companies with >\$500M in market cap in 1993, 1994, 2013 or 2014; we define large companies as those with >\$6B in revenue for 1994, >\$10B for 2014 (roughly adjusted for inflation); we calculated the 3-year revenue decline for large companies and ranked highest to lowest
Sources: Company archives, websites and annual reports; Fortune.com; inflation rates from Bureau of Labor Statistics; S&P Capital IQ

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