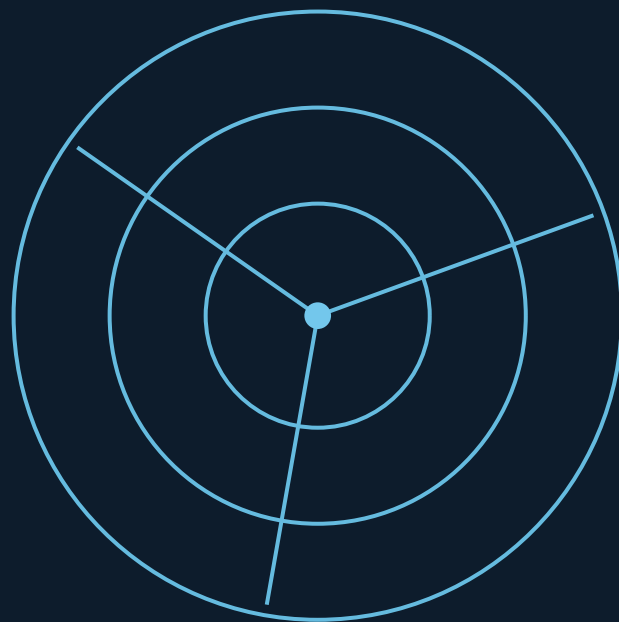


THE GROWTH ILLUSION

Why Organizations Often Misunderstand the Origins of Their Own Performance



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The Growth Illusion is the organizational phenomenon through which organizations gradually substitute the diagnosis of performance with the observation of performance. By treating business outcomes as explanations rather than as starting points for inquiry, they reinforce false assumptions, institutionalize incorrect conclusions, and gradually weaken their ability to create sustainable enterprise value.

Every executive meeting begins in much the same way. Revenue. EBITDA. Market share. Cash flow. Productivity. Customer satisfaction. Organizations have never measured performance with greater precision than they do today. Enterprise systems generate unprecedented amounts of information, dashboards provide real-time visibility, and performance indicators have become increasingly sophisticated. Yet despite this abundance of information, many organizations continue making strategic decisions without fully understanding the forces that produced the very results they are evaluating.

The problem is not that organizations measure performance. The problem is that they gradually stop asking the questions that give those numbers meaning. A revenue increase quickly becomes evidence of commercial excellence. An improvement in EBITDA is interpreted as proof of operational discipline. A decline in profitability is attributed to poor execution. A gain in market share is celebrated as competitive superiority. The KPI quietly becomes the explanation when, in reality, it was only the observation.

That is **The Growth Illusion**.

The phenomenon extends far beyond growth itself. Organizations naturally seek simple explanations for complex outcomes because certainty is far more comfortable than ambiguity. When performance improves, they tend to attribute success to strategy, execution, leadership, innovation, or culture. When performance deteriorates, they often blame external conditions, operational failures, or market dynamics. Sometimes those explanations are entirely correct. More often, however, they explain only part of the story.

Business outcomes are rarely produced by a single cause. Growth may reflect genuine competitive advantage, but it may also result from favorable market momentum, competitor mistakes, regulatory changes, acquisitions, product life-cycle dynamics, inflation, or temporary macroeconomic conditions. Likewise, disappointing performance does not necessarily indicate deteriorating capabilities. Regulatory interventions, geopolitical instability, severe weather events, supply chain disruptions, shifts in consumer demand, strategic investments that intentionally reduce short-term profitability, or deliberate decisions to prioritize long-term value may all affect financial results without weakening the organization's underlying competitive position.

Financial statements faithfully record outcomes. They do not explain causality. That distinction is fundamental because organizations rarely make decisions based solely on facts. They make decisions based on the explanations they construct around those facts. When those explanations are inaccurate, capital is allocated behind false assumptions, capabilities are strengthened or abandoned for the wrong reasons, and strategy gradually drifts away from reality—not because information was unavailable, but because its meaning was misunderstood. Perhaps the greatest irony is that the information required to reach better conclusions often already exists inside the organization. What is missing is rarely data.

It is disciplined executive inquiry.

Every KPI answers only one question:

What happened?

Leadership requires answering several more.

Why did it happen?

What actually caused it?

Which factors were under our control, and which were not?

Which drivers are structural, and which are temporary?

What should we preserve, strengthen, change, or abandon before making our next strategic decision?

These questions appear deceptively simple, yet they fundamentally change the quality of executive conversations. Organizations that stop after measuring performance manage indicators. Organizations that continue until they understand causality manage the business itself.

This distinction becomes particularly important during periods of exceptional success. Organizations routinely perform detailed analyses when results disappoint. They investigate failures, challenge assumptions, identify root causes, and implement corrective actions. Success, however, often escapes the same discipline. Strong performance is celebrated, strategies are validated, incentives are paid, and leadership moves on without ever questioning whether the outcome truly reflected superior capabilities or simply favorable circumstances. Ironically, organizations often scrutinize failure with greater rigor than success, even though both provide equally valuable opportunities for learning.

The consequence is subtle but profound. Organizations gradually begin learning the wrong lessons. They become increasingly confident in explanations that were never rigorously challenged. Over time, those explanations shape investment decisions, organizational priorities, incentive systems, and strategic direction until the real drivers of performance disappear beneath increasingly comfortable narratives. Eventually, the organization becomes exceptionally good at explaining its results—but progressively less accurate in understanding them.

The Executive Discipline: Never Stop at the KPI

The responsibility of leadership is not simply to review performance.

It is to diagnose it.

Every significant business outcome—whether an extraordinary success or an unexpected disappointment—should trigger the same disciplined process of inquiry. The first question should never be *"What happened?"* It should always be *"What actually caused it?"* Only after answering that question should leaders decide what deserves greater investment, what should

be corrected, what capabilities should be strengthened, and which assumptions require reconsideration.

Understanding performance, however, is only the first responsibility of leadership. Preserving that understanding is the second. Unless the reasoning behind important business outcomes is deliberately challenged, documented, shared, and embedded into the organization's collective knowledge, it gradually disappears. As leadership changes, markets evolve, and organizational priorities shift, companies often preserve the numbers while quietly losing the logic that gave those numbers meaning. Future executives inherit historical performance, but not the understanding that produced it.

Organizations create competitive advantage by learning from experience.

They sustain competitive advantage by ensuring that learning becomes institutional rather than individual. That, however, is a different organizational phenomenon—one that deserves its own discussion.

Leadership Reflection

When your organization reviews performance, does the conversation end with the KPI—or does it only begin there?

Closing Principle

- Performance tells us what happened.
- Leadership begins by understanding why.
- Organizations that consistently create enterprise value never confuse outcomes with explanations, indicators with understanding, or measurement with judgment.