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The Self-Destructive Habits of Good Companies

... And How to Break Them

By Jagdish N. Sheth; Wharton School Publishing, 2007

Many companies, good though they may be, engage in self-destructive behavior. Some companies that seem to be doing well and are on top of their industry can, in a very short time, spiral downward into disaster mode. Among other things, they possess top managers, proven track records of success, an excellent competitive position, and equally outstanding products. Why, then, do companies such as these go wrong? This question is one that has plagued business thinkers for ages.

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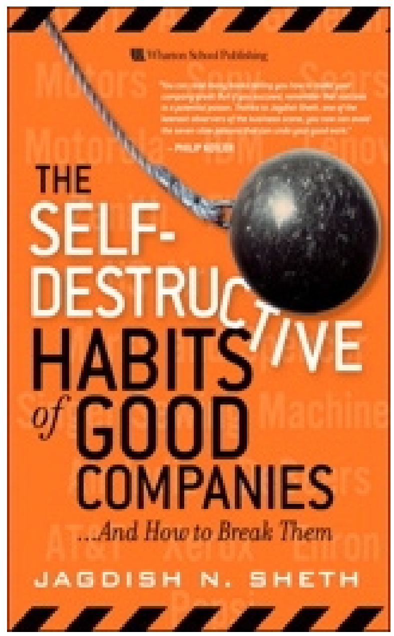

About the Author/s:

DR. JAG SHETH is a renowned scholar and world authority in the field of marketing. His insights on global competition, strategic thinking and customer relationship management are considered revolutionary.

Dr. Sheth is the Charles H. Kellstadt Chair of Marketing in the Goizueta Business School at Emory University. Prior to this, he was a distinguished faculty member at the University of Southern California, the University of Illinois, Columbia University and the Massachussetts Institute of Technology.

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Inside This Book Summary:

Why You Need This Book

The Self-Destructive Habits of Good Companies answers this question by identifying seven very dangerous habits that even well-run companies fall prey to. In addition, it helps its readers diagnose and do away with these habits before they destroy the readers' companies. It presents its arguments clearly and simply by using case studies to illustrate points it makes.

Why Do Good Companies Go Bad?

When companies rise to excellence, they often unwittingly develop self-destructive habits that eventually undermine their success. Just as with people, such habits are learned and not innate. Sometimes they get worse over time, and thus become addictions; however, they can be broken and overcome, and the companies can be returned to the straight and narrow path leading to success.

In a nutshell, good companies fail when they are unable or unwilling to change when their external environment changes significantly.

Sometimes CEOs are directly responsible for the self-destructive habits their companies develop. Whether or not this is the case, one thing is certain: it's definitely his or her job to break them. Real change is likely to come only from an executive with the power to initiate it. Sometimes, however, especially if and when the crisis has become severe, it may be time to change the leadership.

The message is overall positive: if a company is willing enough to examine itself, ask some hard questions and deliver honest answers, it can ultimately transform itself. Regardless of however dire the straits it might be in.

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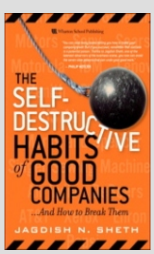

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Habit #1: Denial: The Cocoon Of Myth, Ritual, And Orthodoxy

The process of denial begins when a company leaves behind its beginnings and begins to create a mythology about its history and success. Over time, these myths become orthodoxies and rituals, and thus become ossified. And if and when the environment changes, these ossifications prevent the company from responding the way it should.

Things that lead to the habit of denial:

1. Denial of emerging technologies that could level the playing field between the company and "lower" market players.
2. Denial of changing consumer tastes, preferences, and buying patterns that could also serve to erode the company's competitive edge.
3. Denial of the new global environment and of the fact that the past must be left behind sometimes in order to stay competitive and that sometimes everything has to change.

The warning signs of denial:

1. The "I am different" syndrome akin to saying "Hey, we're different, so there's no way it can happen to us."
2. The "not invented here" syndrome the

company is too proud to admit that someone else has come up with a better way to do whatever it is the company does.
3. The “looking for answers in all the wrong places” syndrome the company ignores, rationalizes, or blames others for its situation instead of admitting its fault.

How to break the habit of denial:

1. Look for it-- The company needs to:
   a. Analyze its response to the failures of other companies.
   b. Listen carefully to its managers.
   c. Examine its products, personnel and processes for prejudices, preferences that aren't necessary, or for resistance to change.

2. Admit it-- if and when symptoms of denial are found, the company must admit it has the 'disease'. If it doesn't, nothing can be done about it.

3. Assess it-- measure how deeply your company is in denial.

4. Change it-- the deeper you are in denial, the harder it is to change. It is still possible to do so, though; it isn't completely impossible.

Habit #2: Arrogance: Pride Before The Fall

Arrogance is an offensive display of superiority or self-importance, pride, or disdain that comes about because of an inflated sense of self. The ancient Greeks considered arrogance, or hubris, the “tragic flaw” that lead to the downfall of mighty heroes. It's much the same with companies.

Things that lead to the habit of arrogance:

1. Exceptional achievement in the past that can warp the company's perception of present reality.
2. David conquers Goliath the company is a formerly new or disadvantaged company that manages to knock a formerly leading company off its pedestal.
3. The company pioneers a product or service that no one can duplicate.
4. The people behind the company are, plain and simple, smarter than those who work for the company's competitors.

The warning signs of arrogance:

1. The company stops listening, believing that it's seen it all before and no longer needs to listen to customers, employees, investors, consumer advocates or the government.
2. The company flaunts it: it becomes extravagantly eager to show off its success.
3. The company browbeats others and begins to act like a bully, both internally and externally.
4. The company becomes high-handed and abuses rules and procedures in the belief that no one can regulate or even question what it does.
5. The company curries approval, favoring those who validate its views and getting rid of those who are critical.

How to break the arrogance habit:

1. Rotate management to new challenges. The company needs to challenge management but has to allow them to fail; failure is an excellent teacher of modesty.
2. Implement nontraditional succession planning. The company should consider fast-tracking candidates across functions, divisions, and markets.
3. Diversify the talent pool recruit from a variety of educational institutions, countries and demographics to make management strong.
4. Change the leadership; consider bringing in an outsider.

Habit #3: Complacency: Success Breeds Failure

Complacency is the sense of security and comfort that derives from the belief that the success that's taken place in the past will continue indefinitely. It prefers the status quo and is fostered by the illusion of “sturdy genes” which states that bad things can't happen in a “good” company.

Things that lead to complacency:

1. The company's past success came via a regulated monopoly.
2. The company's success was based on a distribution monopoly.
3. The company was “chosen” for success by the government.
4. The government owns or controls the business.

The warning signs of complacency:

1. The company is in no hurry to make decisions. Its entire culture is geared towards moving slowly speeding up goes against the grain.
2. The company's processes are overly bureaucratic. Decision-making is done (and limited) by whole number of committees.
3. The company has a bottom-up, decentralized, consensus-based culture. Everybody has to get on board before a decision is made.
4. The company is completely vertically integrated. Everything is done internally.
5. Enormous cross-subsidies are in place by functions, by products, by markets, by customers. Average costing and average pricing prevail.

How to break the complacency habit:

1. Reengineer to achieve high quality, eliminate waste, and reduce inefficiency.
2. Reorganize. Decentralize profit and loss by creating and molding business units around products or geographies.
3. Outsource contract out all non-core functions.
4. Reenergize consider a new leader with a positive, opportunity-oriented vision

Habit #4: Competency Dependency: The Curse Of Incumbency

Most companies depend and focus on a core competency for success. But sometimes, a core competency can become obsolete or noncompetitive. Somebody else can be doing a better job, and if a company is unable to figure out what to do, it has become competency-dependent. This becomes a self-destructive habit when it limits decision-makers' vision and blinds them to other opportunities.

Things that lead to competency dependence:

1. R&D dependence those who live by

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Professor Sheth has published more than 200 books and research papers in different areas of marketing and business strategy. Many of these are considered classic references.

His timely advice promises to aid business leaders looking to develop immediate and long-term strategies for improving their competitive position.

To know more about the author, go to: http://www.jagsheth.net/

R&D die by it. What happens if and when a competitor's R&D effort produces a product that knocks the competition out of the marketplace?

2. Design dependence consumer choice is driven not by which product is better made or more advanced, but rather by which has the combination of form and function we call "good design."

3. Sales dependence every company depends on sales; some companies develop a sales approach or technique that become their core competency.

4. Service dependence service industries are disappearing and it's hard to find "non-self" service anymore.

The warning signs of competency dependence:

1. Efforts to transform the company have been futile. Reengineering, reorganization, retooling have been tried and still no good results.
2. The thrill is gone and the company is in a funk.
3. Stakeholders are leaving; investor, supplier and customer loyalty has vanished.

How to break the habit of competency dependence:

1. Find new applications where the same competency results in new value.
2. Determine new markets where the same competency remains an asset.
3. Move upstream, downstream expand the range of your competencies by moving up or down the value chain.
4. Refocus company resources into areas and arenas with more growth and profit potential.

Habit #5: Competitive Myopia: A Nearsighted View Of The Competition

Companies suffer from "competitive myopia" when they define their competition too narrowly and acknowledge only direct and immediate competitors. It can stem from a loss or lack of peripheral vision that would notice less obvious challengers (those who are not on the radar screen but who nevertheless are present and dangerous).

Things that lead to competitive myopia:

1. The natural evolution of the industry. Once the evolving industry has completed the shakeout phase and most of the companies who initially joined have dropped out, only a handful of serious competitors will have survived. These will only look to themselves and ignore both niche players and newcomers until it's too late.
2. The clustering phenomenon. Companies cluster in one location because of the availability of resources (natural, labor and the like). It becomes too easy for companies to focus on the competition in their backyards.
3. When #1 is also the pioneer. A company that's on top of its industry, one that it pioneered, can find it all too easy for it to focus only on the one or two players coming up from behind.
4. The opposite scenario, when #2 chases #1. When a company is gaining and has #1 in its crosshairs, it's only natural and inevitable for it to ignore everybody else.

The warning signs of competitive myopia:

1. A company allows small niche players to coexist with it. The focus is the big guys and the niche companies aren't seen as a threat.
2. The loyalty of a company's supplier is won by a nontraditional competitor, and the company fails to recognize that the supplier can become a competitor.
3. New entrants, especially those from emerging economies, are underestimated.
4. The company becomes helpless against a substitute technology.

How to break the competitive myopia habit:

1. Redefine the competitive landscape. The company needs to check the entire competitive parameter to see where it is

vulnerable.
2. Broaden the scope of the product or market. The company must diversify by expanding the market for its existing products or expanding existing product lines.
3. Consolidate to squeeze out excess capacity. Buyers' bargaining power must be decreased.
4. Counterattack the nontraditional competitors. Attack their home turf.
5. Refocus on the core business to concentrate limited resources in the most successful area. (Just be mindful of the dangers of doing this.)

Habit #6: Volume Obsession: Rising Costs And Falling Margins

The company's costs may be too high for the revenue it's generating or, to put it in the simplest way possible, too much money is being spent for the company to make money.

Things that lead to volume obsession:
1. The high-margin pioneer a company that pioneered the industry used to have the prerogative to charge high prices since no competitors existed to drive the price down. It's when competitors do come onto the scene that problems develop.
2. The fast-growth phenomenon a successful company that hurdles all the obstacles at the start may end up focusing too much on growth
3. The paradox of scale the thinking is that every industry competition will ultimately bring all prices down, and that that decline can be counterbalanced by reducing costs through scale. Unfortunately, those cost savings may not materialize.
4. The ball and chain of unintended obligations virtually all successful companies make such obligations with their employees and communities and often they can prove difficult to fulfill, such as what you might owe your retiring employees some years down the road.

The warning signs of volume obsession:
1. Guideline-free, ad hoc spending the company has “more interesting” and “more challenging” things to think of instead of controlling costs.
2. Functional-level cost centers profit and loss are always calculated at the corporate level, even though it may no longer be efficient or sensible to do so.
3. A culture of cross-subsidies the success of one business unit is used to conceal the failure of another one.
4. Truth in numbers the company's auditors, stock prices, or industry analysts are saying that the numbers are not in the company's favor.

How to break the volume obsession habit:
1. Identify where the company's costs are. Create an appropriate revenue/cost alignment.
2. Convert cost centers into revenue centers or profit centers.
3. Move from vertical integration to “virtual integration” the company concentrates on the one or two things it does best and lets others do the rest.
4. Outsource non-core functions to outsiders with appropriate economies of scale.
5. Reengineer to automate processes to improve cost efficiency.
6. Implement target costing nail down costs from the beginning and hold them there, or reduce them.
7. Become a world-class customer be an excellent buyer not by squeezing suppliers but by making them lifelong partners.

Habit #7: The Territorial Impulse: Culture Conflicts And Turf Wars

As companies grow they tend to organize themselves into “functional” and later “regional silos" they divide themselves internally along functional and regional lines. Successful growth requires systematization and organization rules, policies, and procedures. However, the various units into which companies organize themselves don't always get along well with each other, for various reasons.

Things that lead to the territorial impulse:

1. The corporate ivory tower the CEO and his top management are insulated from day-to-day operations.
2. Growth requires the institution of formal policies and procedures a blizzard of rules and regulations can reduce communication between divisions.
3. The founder's culture is subsumed within a larger corporate culture and the informal, spontaneous culture is extinguished.
4. A company's culture is dominated by one functional specialty. Every division has its own functional cultures and it's very unhealthy for one to dominate over all the others.

The warning signs of the territorial impulse:

1. Dissension - a lot of headstrong lieutenants instead of one strong general
2. Indecision decision-making is an agonizing or even impossible process
3. Confusion one side doesn't know what the other side is up to
4. Malaise nobody's happy

How to break the territorial habit:

1. Engage in effective internal marketing the leader must bring all the people together in a common cause.
2. Push the managers out of the ivory tower rotate the people in and out of different functional or geographic silos.
3. Create permanent cross-functional teams organize permanent management teams that include representation from all silos.
4. Reorganize around customers or products rather than around function or geography.

Ways To Prevent Each Of The Self-Destructive Habits

Denial

- Constantly challenge business assumptions and orthodoxies.
- Create a hands-on leadership institute that teaches managers to focus on the future.

Arrogance

- Hire a professional executive coach who reminds you of the pitfalls of arrogance.
- Limit personal publicity.
- Make sure that checks and balances are in place so no one has absolute power.

Complacency

- Develop strong metrics to judge the level of complacency.
- Institute performance-based compensation.
- Rotate leaders from function to function.

Competency dependence

- Constantly migrate from current-gen technology to next-gen technology.
- Expand core technology into other products and markets.
- Diversify competency into different markets or market segments.
- Grow through acquisition and integration.

Competitive myopia

- Put together a stand-alone business intelligence team.
- Invest in alternative competing technologies.
- Acquire peripheral or niche companies that are potential paradigm shifters. Target an emerging market where future competition is likely to come from.

Volume obsession

- Set up a reward system for the sales force based on account profitability.
- Make procurement a strategic function, not an administrative one.
- Consistently and aggressively add new, higher-margin products to the portfolio.

Territorial impulse

- •Implement a transparent and predictable method for succession planning.
- •Create a culture in which no one function is superior to another.
- •Focus on an external driver to have functions operate as a coalition with a common goal.
- •If a dominant subculture exists in a company, rotate people from that culture among the various functional silos.