The Self Destructive Habits of Good Companies…and How to Break Them

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2014 World Marketing Summit
Tokyo
September 25, 2014
Why Do Good Companies Fail?

• The most insightful question I have ever been asked!

• Many good companies highly praised in In Search of Excellence in the eighties, were in serious trouble in the nineties. Why?

• Many companies used as role models for corporate leadership in Good to Great are also not doing as well despite Level Five Leadership.
The Declining Life Expectancy of Companies

• One third of companies listed in the 1970 Fortune 500 List had vanished by 1983.

• The average corporate life expectancy in Japan and Europe is 12.5 years.

• Corporate life expectancy declined from 45 to 18 years in Germany and from 13 to 9 years in France and from 10 to 4 years in the United Kingdom.

(Source: Arie de Geus, The Living Company, 1997)
Is this an Inevitable Phenomenon?

- While it is predictable, it is not as inevitable as birth-growth-death cycle.

- It is also not a personal leadership issue. While some leaders are directly responsible for the decline or demise of a company, it is not a universal factor.

- What happens, I believe, is that companies develop bad habits as they evolve from survival to success and from becoming good to great companies.
The Seven Bad Habits of Good Companies

1. Denial
2. Arrogance
3. Complacency
4. Competence Dependence
5. Competitive Myopia
6. Volume Obsession
7. Turf Wars

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Denial

• Denial of new reality is probably the most prevalent bad habit of all good companies.

• Most companies succeed by being there. However, they create a cocoon of myth, ritual and orthodoxy to enhance company’s success.

• Denials of three new realities are most dangerous: emerging disruptive technologies, changing consumer tastes and non traditional global competition.
Denial (cont.)

- A company is in a denial state when it believes “I am different”, “If it is not invented here it cannot be good”; and it uses rationalization or excuse for its fundamental problem.

- To break the Denial Habit, you must look for it, admit it, assess it and change it.
Arrogance

• Arrogance is an overblown self image of superiority and self importance.

• Under Alfred P. Sloan’s successful leadership for 33 years, General Motors became arrogant.

• Companies become arrogant when they do exceptional achievement; when they are the David against a Goliath; when they pioneer an altogether new product or service; and when they are generally smarter than the other guys.
Arrogance (cont.)

• The warning signs of arrogance are when you stop listening; when you flaunt; when you browbeat others and when you curry approval.

• The best way to break up arrogance is to rotate management into new challenges; implement non-traditional succession; diversify the talent pool; encourage outside perspectives; and if necessary, bring outside leadership at the top.
Complacency

• Complacency is a sense of comfort and security that past success will continue indefinitely into the future.

• In other words, success breeds failure.

• The best example is the rise of complacency at IBM with its extraordinary success in mainframe computers.

• Complacency often arises when a company’s past success is due to its regulated monopoly position; or its distribution monopoly; or when you are chosen for success by the government; and when the government owns or controls the company.
Complacency (cont.)

• The warning signs of complacency are when: you are in no hurry to make decisions; your processes are overly bureaucratic; you have a bottom up consensus-based culture; your cost structure is high; you are highly vertically integrated; and you have enormous cross subsidies across products, customers and functions.

• The best ways to break the complacency habit are to reengineer the company; reorganize it; divest noncore businesses; outsource noncore functions; or reenergize the company.
Competency Dependence

• When the core competency or the DNA of the company becomes a liability, it results in competency dependence.

• It is what I refer to as the curse of incumbency.

• It limits the vision like the Mao Zedung’s frog at the bottom of the well.

• Classic examples of competency dependence are Singer sewing machines, A&P, Marks & Spencer and more recently Sears Roebuck.

• More contemporary examples include Xerox, Kodak and Microsoft.
Competency Dependence (cont.)

• The warning signs of competency dependence are company’s inability to transform itself; prevalence of malaise and inevitability; and when stakeholders are jumping ship.

• The best ways to break the competency dependence habit are to search for new applications and new markets.

• Also, moving downstream and upstream; developing altogether new competency; and refocusing resources on a global basis.
Competitive Myopia

• Competitive Myopia refers to the natural tendency of a company to narrow down the focus to one or two direct competitors.

• This tendency is partly a consequence of natural evolution of the industry but also because of the co-location of major competitors into clusters.

• Competitive myopia also arises when the number one company is also a pioneer of the industry; and when the number two company becomes obsessive about challenging the number one company.
Competitive Myopia (cont.)

- There are several ways to break the habit of competitive myopia. These include redefining the competitive landscape; broadening the product or market scope; becoming industry consolidator; counterattacking non traditional competitors; and refocusing on the core business.
Volume Obsession (cont.)

• A company acquires the bad habit of volume obsession when:
  • It is the pioneer of a high margin business and margins collapse over time due to competition
  • It has a false understanding and metrics about economy of scale
  • It accumulates future obligations such as employee retirement and healthcare plans which are unsustainable
  • Its non operating costs (cost of capital, taxes, and dividends) become excessive.
Volume Obsession (cont.)

• There are several ways to break this habit: align costs with revenues; convert cost centers into revenue or profit centers; decentralize P&L to business and function units; shift vertical integration into virtual integration; outsource non core functions and activities; right size company management; implement target costing; practice lean operations; and become a world class customer.
The Turf Wars

• The root cause of turf wars is the affinity and identity to a functional discipline above affinity and identity with the company and its vision and values.

• Turf wars arise due to organization design; when the company is dominated by a single functional culture; and when there is poor post merger integration.
• To break the habit of territorial impulse, it is important to invest in internal marketing; to push management out of their ivory towers; to create permanent cross discipline teams; to reorganize around customers or products; to automate and integrate functions; and to rotate leadership across functions.
In Summary: The Seven Bad Habits of Good Companies

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To Conclude

• All good companies on their way to success, acquire one or more of these seven bad habits.

• The Seven Bad Habits are:
  • Denial
  • Arrogance
  • Complacency
  • Competency Dependence
  • Competitive Myopia
  • Volume Obsession
  • Turf Wars
To Conclude (cont’d)

• In this presentation, I have discussed how each habit is acquired by good companies; what are the warning signals you should look for; and how to break that habit.

• Ultimately, it is all about leadership. The job of the leader is to constantly monitor the company’s health and prevent it from learning bad habits. However, if a bad habit is discovered, it should be promptly destroyed.

• The best cure for a bad habit is no cure at all. It is preventing the company from acquiring the bad habit in the first place.