by Joan Adams

Why Do Good Companies Fail?

A look at the Seven Deadly Sins in the context of the PVF world.

Very few successful companies stay successful year after year. Take a quick look at the companies listed at the top of the stock market in 1907, 1957 and now 2007, and you will see very few repeaters. Why is this? What happens to these industry leaders, once on top of the world? Just about every last one tumbles dramatically over time, and in many cases they completely disappear a mere 25 or 50 years later. GM, Ford, Ma Bell, Sears, Firestone, Krispy Kreme, Digital, Kodak, Bendix, PanAm… Even more depressing — the average life expectancy of American companies is declining.

An influential professor at the Goizueta Business School at Emory has taken a look and come up with some interesting observations. I am not a big fan of so-called "business books" — as a rule, I find them too simple, too generic, too gimmicky. But every now and then a business book strikes my fancy. Dr. Jagdish N. Sheth's book, *The Self-Destructive Habits of Good Companies*, is one of them. It takes a hard look at the causes for company failure, particularly where the company was at one point the epitome of success. The book is both interesting and useful. First of all, because this is not speculation — these companies were at the pinnacle of success and failed.

Second, because it is a lot easier to see how and why "other" companies fail than it is to take a hard look at our own companies. His analyses provide the readers with a means by which they can start the process of self-examination in their own company. The moral of the book is simple, but not at all trite: If the high and mighty can fall for the following seven reasons — then so, too, could your company.

Sheth identifies seven self-destructive behaviors — what I call the Seven Deadly Sins of Success. These seem to occur in all companies. I will honor some unwritten tradition a la Harry Potter of No Spoilers and not blab about the specific cases in the book. Instead of talking about the companies he analyzed — let's look at the Seven Deadly Sins in the context of the PVF world.

1 **Denial** — This is that bizarre state that causes successful companies to think because they are successful now, they will be successful forever.

2 **Arrogance** — Successful companies start thinking that because they are doing so well now, they are right about everything. They stop listening to the sales guys, the customers, and anyone else because they know "better."

3 **Complacency** — This is the erosion of hustle. The successful company culture gets very comfortable in what they are doing and how they are doing it. The innovation and the drive that started the company have slowly disappeared and no one has even noticed!! The company has slid into the "same old, same old" behavior.

4 **Competency Dependence** — Many companies were (and remain) one-trick ponies. They forget that their one trick is now the industry standard. So certain in their brilliance with their one innovation — they don't bother doing anything new.

5 **Competitive Myopia** — A company enters the market with new products and services and "wins" by taking market share from existing companies. The company now defines success as taking share from these competitors — never seeing the possibility that an entirely new competitor may enter the scene and launch a successful surprise attack from "outside." Think for a moment — what would happen if Home Depot decided to get into the industrial PVF business?

6 **Volume Obsession** — When growth is the object, selling more and more is the result. Companies sacrifice all sorts of things when they are on a "We must generate volume in order to grow" strategy. This growth strategy typically erodes margins, throwing these companies into the horrible world of the commodity business where the only way they can get a sale is to cut price. Eroding margins are more often than not a signal of a market in trouble. (Does anyone really think they will be able to compete on price with the Chinese and Indian manufacturers of pipe?)

7 **The Territorial Impulse** — When successful companies grow, they tend to get more and more bureaucratic. The organization is broken out by functions (sales, operations, marketing), what the management gurus call silos. No matter what they are called, departments work more for themselves rather than the company as a whole. The culture is one of protecting one's turf rather than improving the company's results.

The author addresses six key external events that surprise businesses. They are: regulation, capital markets, competition, technology, globalization and customers. Companies that can't or won't change in the face of these events suffer, badly. Regulatory, competitive and capital market changes can hit fast. Woe to the company that doesn't see it coming.

And here's the kicker — he answers the big question: Why are companies susceptible to the seven deadly sins of success? Ironically, the very habits and behaviors that help companies get started and grow are the mindsets that will later bring them down. Most companies come into existence through some market opportunity. Part of a company's early and continuing success is due to the people who started it — but a large part is due to the environment in which it was created.

This is where arrogance comes in — entrepreneurs and CEOs refuse to believe that some of the success came from luck and circumstance. They take all the credit for success, certain that they created the company out of nothing, single-handedly. They hold onto this belief as long as the external environment doesn't change and the company continues to succeed. When bad things happen, they find themselves totally unprepared, unable to change and in a world of hurt.

It's hard for the successful entrepreneur or the successful president to understand that he or she needs a serious reality check. But we all need it. Reading stories of how these immensely successful companies, some seemingly indomitable in their field, were brought low by the seven deadly sins is a sobering read. It gives one pause — if those companies were susceptible to environmental changes, well then, maybe you, too, could be vulnerable, in ways you haven't even imagined.

Reading this book is the first step. Some self-examination is the next. Changing management is the key in order to change the mindset. Comfortable companies are usually due for some reorganization: shake up the territories; break down the departmental silos; move people around.

Don't wait until the outside world shakes up your company — shake it up yourself. Learning to change is tough. Not changing is fatal.<<

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