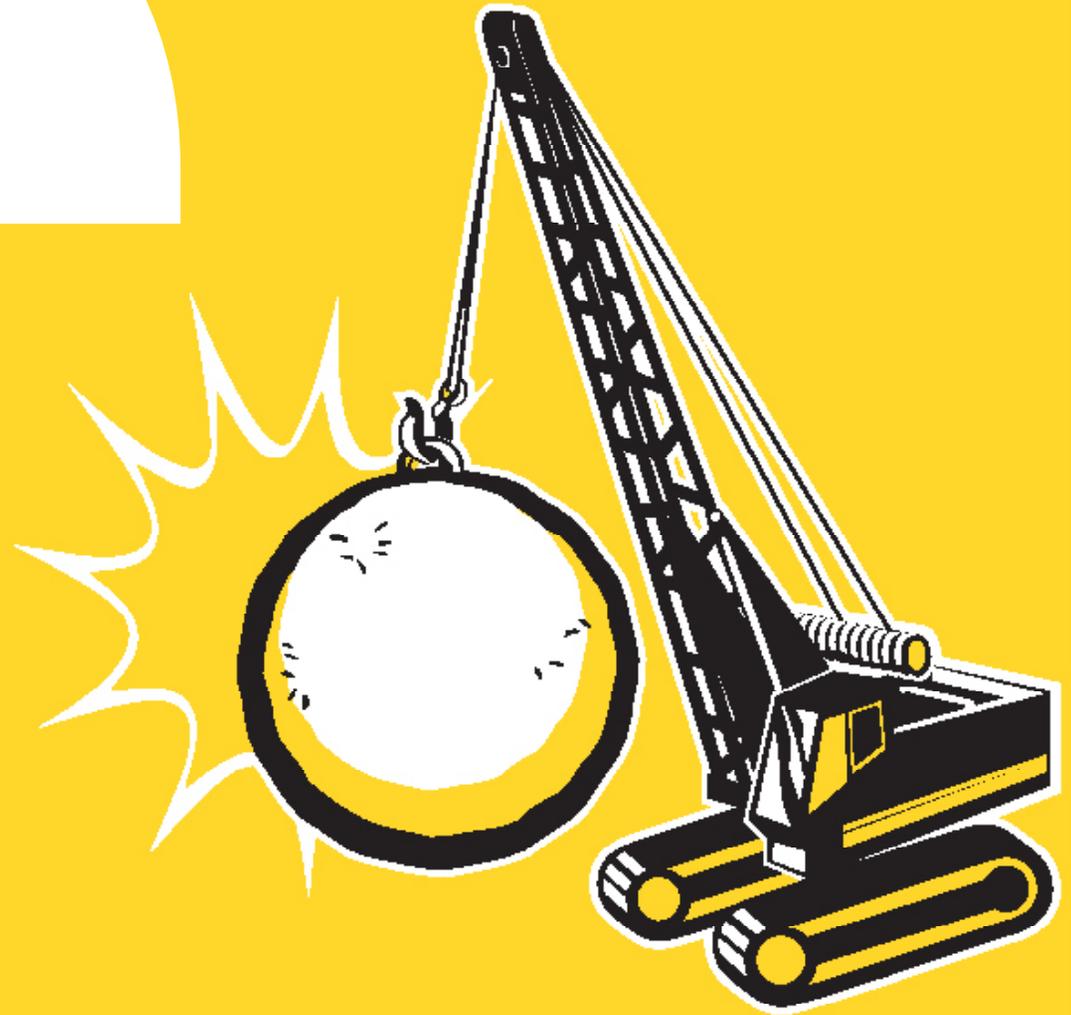


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THE EIGHTH SELF-DESTRUCTIVE HABIT

WHEN COMPANIES PLATEAU THEIR PEOPLE BY JAGDISH SHETH

DID YOU REALIZE THAT THE AVERAGE LIFE SPAN OF CORPORATIONS IS DECLINING,

that most companies are born and die within less than a dozen years? This truth came as such a revelation to me that I began to investigate the reasons behind it. In fact, I became so absorbed in and fascinated by what my research discovered that I ended up writing a book on the subject, recently published under the title [The Self-Destructive Habits of Good Companies...and How to Break Them.](#)

As the title suggests, I came to the conclusion that companies fail, not so much because of forces external to themselves, but because, as they rise to excellence, they often develop self-destructive habits that eventually undermine their success. My book is largely devoted to analyzing and illustrating these self-destructive habits, seven in number, as follows:

1. Denial of the threat of emerging technologies, changing consumer tastes, or a new global environment. No better example can be supplied than Digital Equipment's Ken Olsen, who famously predicted that "The personal computer will fall flat on its face in business."
2. Arrogance over past achievements, or pioneering products and services, or unique strengths. GM, Microsoft, Merck—plenty of iconic companies have exhibited this bad habit, and paid a heavy price.
3. Complacency over past successes, or a belief that the future is in your control or an assumption that scale will protect you against setback. AT&T (the old AT&T, that is) and the airline industry in general demonstrate one of the clearest paths to complacency: when your past success was ensured via a regulated monopoly.
4. Competency dependence, relying on a unique capability which has become irrelevant or obsolete. Companies like Singer Sewing Machines, Encyclopaedia Britannica, Lego, and Avon did one thing so well for so long that they had difficulty transforming themselves to compete in a new environment.

5. Competitive myopia, characterized by a lack of peripheral vision, an inability to discern less obvious challengers whose threat, while not on today's radar screen, is nonetheless dangerous. No. 1 tends to obsess over the challenge from No. 2 (as Coke has done in its competition with Pepsi, forgetting about the challenge from the non-carbonated segment). No. 2 can see only the gap between it and No. 1 (as Avis did v. Hertz, while Enterprise came along and blew them both out of the water).
6. Volume obsession, often a by-product of growth, characterized by an unhealthy imbalance between costs and revenue. Are you the high-volume pioneer (like Nokia in the cell phone business) or the fast-growth phenom (like Krispy Kreme)? Be careful: trying to grow too big too fast has often resulted in out-of-control cost structures.
7. Territorial impulse leading employees and units within a company to become over-focused on their own turf, failing to connect with and focus on the goals of the organization at large. Advertising conglomerate WPP and electronics giant Sony are among the many companies victimized by the territorial impulse.

In addition to the companies mentioned above, self-destructive habits have threatened to bring down once mighty exemplars of business excellence like Ford, General Motors, Sears, Firestone, Kodak and dozens of others. I found it most instructive to analyze these behaviors, to think about what brought them on, and to consider what might be done to curb them. I felt good about the final product.

But then—as these things always seem to happen—about the time the publisher sent the book off to the printer, I began to think of another destructive habit that I could have (and perhaps should have) included. Let's call it "plateauing your people" or "leaving talent on the table."

In his widely-read 1968 book of the same name, Dr. Laurence J. Peter proposed “the Peter Principle”—i.e., that in the typical hierarchical organization everyone rises to his or her level of incompetence.

What I have in mind is just the opposite: that in many organizations, for a variety of reasons, people are not allowed to rise to the level of their full competence. They are underutilized. They are “plateaued.” The full measure of their talent and capability is finally wasted.

The point is that people in such jobs are not likely to be asked to do more than put the family photo on the desk and keep the seat warm.

Some of the most startling examples of this syndrome come from Europe’s government-owned (or formerly government-owned) companies like the telephone companies, the electric utilities, and the railroads. What happens in these cases is that the companies are put to the service of the government’s social agenda—i.e., more employees mean more votes. A surplus of employees also means that each employee works less, so there’s no need to hire and promote talent. Venerable British Telecommunications (BT) offers a particularly egregious illustration. At its peak the company employed 250,000 people, even though experts put the company’s needs at closer to 60,000. Privatization did not reduce the payroll quite that drastically, but since the company went public in the early 1990s, turnover has doubled and the workforce has been cut by half. At the same time, by the way, customer’s prices have fallen by 40 percent in real terms.

Similarly, France is famous for its sacred “job protection rules,” for its high wages and lifelong employment contracts. Efforts at reform are doomed to failure, and politicians quickly develop cold feet. In 1995, Prime Minister Alain Juppe tried to scale back some of the special benefits enjoyed by employees at Electricite de France, but gave up when a month-long transport strike brought the country to a standstill. Since the early 1990s, successive governments in France have tended to increase, rather than reduce, what is already one of the world’s highest minimum wage standards. The point is that people in such jobs are not likely to be asked to do more than put the family photo on the desk and keep the seat warm.

Job security tends to put a damper on things like talent, initiative, and ambition.

You’ve got nothing to worry about and nowhere to go. Why work?

A great example from the private sector is the old Bell system, which, as we know, was a government-protected monopoly, with the government capping its profit margin at something like 14 percent. The company’s cost-center-based structure was organized according to return on investment (ROI), the standard formula for which is “revenue minus cost, divided by assets.” That meant that the way to provide next year’s earnings growth to investors was to build up the denominator, to capitalize expenses into assets. How do you do that? Well, you keep all your functions in-house, you gold-plate everything, and you never fire anybody. Job security tends to put a damper on things like talent, initiative, and ambition. You’ve got nothing to worry about and nowhere to go. Why work?

But now let's look at how this habit can manifest in private-sector corporations. In the most typical scenario, a new leader is brought in to fix a problem or move the company in a new direction, but finds himself unable to do so. Why? He is chewed up and spit out by the company's existing culture. He either leaves in frustration or the board circles its wagons and gets rid of him.

It's my opinion that, ultimately, this kind of culture clash was behind Carly Fiorina's ouster from HP in 2005. In her book *Tough Choices*, Fiorina blames personal grudges and boardroom politics for her firing and says that, contrary to the board's assertions, her team was executing extraordinarily well. Of course, her opinion may not be the most objective, but it was widely understood that her aggressive style was not embraced by the company's veteran employees and the heirs of HP's founders, who bitterly opposed her grand scheme to merge HP with Compaq. Today it looks as though Fiorina's vision has been vindicated and that HP lost a talented leader.

Then there's the story of George Fisher, a tremendous leader who, in effect, got plateaued twice. After succeeding Robert Galvin (the founder's son), Fisher led Motorola into its glory days in the early 1990s, when the company became the global leader in cell phones, pagers, and two-way radios. But the writing was on the wall, and Fisher read it. Despite plenty of opposition to the idea, Robert Galvin's son, Chris, was being groomed to run the company. Fisher got out of the way to let that happen, and Motorola paid the price. By the time Chris Galvin's tenure came to an end, in 2003, the company's stock had lost three-fourths of its value. (The good news is that Motorola appears to be returning to health under Ed Zander.)

Why does talent get left on the table? One cause is the “internal succession” struggle...

But our story gets more interesting with Fisher’s arrival at Kodak. With his Ph.D. in math from Brown and high-tech expertise honed at Bell Labs, Fisher was asked to turn around a company whose culture was defined by chemical engineering. He tried to bring digital vision to a film-manufacturing enterprise, and he probably felt like he was banging his head against a brick wall. When the board dropped the curtain on his six-year tenure in 1999, a Goldman Sachs analyst summed it up this way: “There were high expectations that he could quickly turn Kodak more into a digital company rather than one that’s based on chemistry. Some of those expectations have been unfulfilled.” Actually, Fisher stopped the bleeding at Kodak and orchestrated the company’s entry into the digital age, but with the stock down 20 percent from its 1997 high, the board thwarted his ascent and left him stranded on the plateau.

Other examples come to mind. Michael Armstrong arrived at AT&T in 1997 with the chore of transforming the monopolistic behemoth into a nimble information-age provider of the full range of bundled services. He lasted five years. Bob Nardelli (who, incidentally, had been plateaued at GE) tried to change the culture at Home Depot. He was gone after six years. Steve Heyer was hired in 2001 to “shake things up” at Coca-Cola and within a year had been named President and COO. But when Neville Isdell got the top job in 2004, the plateaued Heyer made his exit.

Why does talent get left on the table? One cause is the “internal succession” struggle, as Coke illustrates. The person who wins the job is going to keep the people who were in his camp, while the loser, however talented, is obviously not going to find a place in the inner circle.

Home Depot illustrates a second cause: the outsider coming in, bringing in his own team, and making the situation uncomfortable for people accustomed to doing things “the old way.” Nardelli was famous for saying that Home Depot had been “stuck in start-up mode for 22 years.” But co-founder Bernie Marcus commented sadly on the numbers of “highly talented people” who took their talents elsewhere after Nardelli’s arrival.

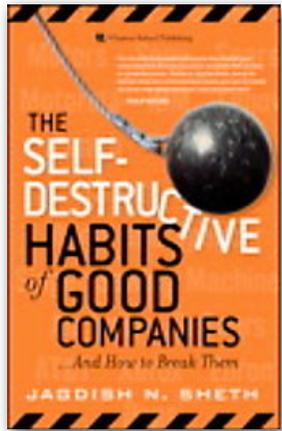
George Fisher might be seen as illustrating a third cause: when the new leader finds himself confronted with a long-standing company bias in favor of one particular function or discipline. Fisher was the digital visionary surrounded by old-fashioned chemical engineers.

Changes in leadership—and in direction—are inevitable, and such changes are bound to entail at least some plateauing, some fruit left unharvested. But the right leader, backed by an enlightened board, can make sure that plateauing doesn’t become a habit.

In their widely read 1994 book, *Built to Last*, Jim Collins and Jerry Porras praised IBM as one of America’s “visionary” companies. But the authors could not believe that the company had decided, in 1993, to bring in “an outsider from R.J. Reynolds with no industry experience.” “It doesn’t fit,” they wrote. “IBM’s decision simply doesn’t make any sense to us.”

Lou Gerstner, after orchestrating one of the great turn-arounds in U.S. corporate history, quieted all criticism with the title of his own book—*Who Says Elephants Can’t Dance?*





BUY THE BOOK

Get more details or buy a copy of Jagdish Sheth's [The Self-Destructive Habits of Good Companies](#).

ABOUT THE AUTHOR

Dr. Jagdish (Jag) N. Sheth is the Charles H. Kellstadt Professor of Marketing in the Goizueta Business School at Emory University. Professor Sheth is highly sought out as a keynote speaker at many industry, academic and public forums. Dr. Sheth is frequently quoted and interviewed by the *Wall Street Journal*, *New York Times*, *Fortune*, *Financial Times*, *Economic Times* and radio shows and television networks such as CNN, CNBC (India) and BBC. A prolific author, in 2000 Dr. Sheth and Andrew Sobel published a best seller, *Clients for Life* (Simon & Schuster). His latest book, *The Self-Destructive Habits of Good Companies:...and How to Break Them*, was published in May 2007 by Wharton School Publishing.

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