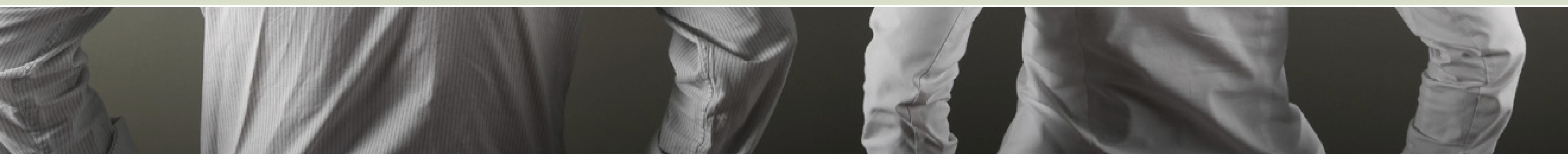
SEDUCED by *SUCCESS*

HOW THE BEST COMPANIES SURVIVE THE NINE TRAPS OF WINNING BY ROBERT J. HERBOLD



Back in the mid 1990's, Kodak was the absolute king of photography with its highly successful and profitable film business. Digital photography was emerging, however, and Kodak didn't pay much attention to it. When technology started to get traction in 1996 via early versions of digital cameras from Japanese manufacturers, Kodak developed and launched a clumsy system called Advantix, a digital camera that required film! Clearly Kodak was thinking defensively, with its goal being to protect its film business.

- For the next six years, Kodak saw its business decline, and its stock price plummeted from $90 in 1997 to $30 by 2003. Management demonstrated no sense of urgency in grabbing digital technology and transforming its business around it.
- In 2003, Kodak announced a 72 percent decrease in its dividend and revealed plans to invest $3 billion in digital photography. The stock market read this as too little too late, and the stock price decreased another14 percent right after the announcement.
- By late 2005, the stock price was $24 per share, digital technology dominated, and the outgoing CEO, who had spent his entire career at Kodak, made an amazing statement. He said: "I saw my first digital camera at Kodak twenty years ago. I was thirty-five. I knew right then that the company was going to transform itself." The lack of urgency, and protective attitude toward film, in those 20 years was incredible. Today Kodak is one of many players in the digital camera business, and is struggling to find a new purpose. Its stock price is still in the mid $20 range.

Another classic example of the difficulty of sustaining success occurred at Sony. It basically invented and owned the portable music market in the 1980's and 1990's with its Walkman product. By 1998, the internet was the rage, and teenagers were trading music in digital format illegally via Napster. The opportunity for a portable digital music player was clear, but Sony didn't see it. Steve Jobs at Apple did and he launched the iPod in 2001 and it wiped Sony out in the portable music business.

Clearly, if any company was going to invent an iPod, you would have thought it would be Sony. Similarly, Sony's very popular Trinitron TV's of the 1990's lost out to flat plasma and LCD TV's, and the Sony PlayStation, the king of game machines, has gotten hammered recently by Nintendo Wii and Microsoft Xbox. Sony is a classic example of prior success causing a company to become slow to spot key trends and get out in front of them.

THE LEARNING

What is one of the biggest risks that a successful company faces? It is success itself! When organizations experience meaningful levels of success, they tend to believe that they are entitled to continued success in the future. In many cases, managers become complacent and comfortable. In fact, what they should be doing is building on all the things they have done well in the past.

The business pages are filled with sad stories of once-successful companies that, after reaching the top, could not keep it going, could not sustain their success. How is it that GM, the premier industrial giant in the 1960's and early-to-mid 1970's, can decline for 30 straight years? How can Kodak, the photography leader for decades, miss the digital photography revolution? How can Sony, who dominated consumer electronics in the 1980's and 1990's, get so far behind in so many of its product lines? The list could go on and on?

The fact is that success is a huge business vulnerability. It can destroy an organization's or an individual's ability to understand the need for change and can also destroy the motivation to creatively attack the status quo. Organizations and people become trapped by what I call legacy practices and legacy thinking. The implicit assumption here is that your current practices have made you a winner; you are at the top of your game, and no one can beat you. They don't notice that the world is changing around them.

THE SOURCE OF THE PROBLEM

Why do these things happen? To gain understanding of this issue, I studied 44 major companies, some of which have had big problems after being successful, and some of which were able to sustain their success. This exercise suggested there are three destructive behaviors that often emerge due to success. They are the following:

1 ~ **Lack of Urgency**: Success seems to lead to the avoidance of any kind of stress in favor of basking in the glory of prior times. Individuals, companies, government agencies, nonprofits and education groups are all vulnerable to this behavior. Lack of urgency has been the case with Kodak over the past 12 years as they watched, but didn't get out ahead of the digital revolution.

2 ~ **Pride and Protectiveness:** Success and stability seem to breed a loss of curiosity and defensive attitude toward any kind of new thinking that would suggest that how business is currently being done might no longer be the best approach. This is sometimes called the "not invented here" problem. At Sony, their leadership reputation of the 1980's and 1990's seemed to cause them to stop innovating and relish in their prior glory.

3 ~ **Entitlement Mentality:** Once you achieve some degree of success or stability, the world does not owe you lifelong success. Many successful individuals and organizations are so impressed with themselves and their achievements that they can no longer imagine a world where they are in decline. While Digital Equipment Corporation revolutionized the computer industry with mid-sized computers in the late 1970's and early 1980's, they publicly criticized and ignored the emerging personal computer architecture and quickly became irrelevant.

AVOIDING THE SUCCESS-INDUCED TRAPS

These kinds of problems can be avoided. Look at how Toyota has prospered for 30 years with its culture of continuous improvement. Look at how Procter & Gamble continually thrives with its constant focus on finding unarticulated consumer needs.

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The extensive review of the 44 companies suggested that the damaging behaviors of lack-of-urgency, a proud and protective attitude, and entitlement mentality generate nine very dangerous traps that must be avoided if success is going to be sustained. Here is a brief description of those traps:

Trap No. 1 ~ **Neglect: Sticking with Yesterday's Business Model**

It's been seen time and again. Individuals and organizations experience the euphoria of winning. But seldom do these same talented people and organizations step back, review all the elements of their business model, and confront the question of whether or not they are improving. What should be happening is that these companies should be constantly emerging with a new, unique logistics approach, or a superior customer services model, or significant new capabilities in their products and/or services, etc. What's important is to be constantly challenging your organization to develop new innovative ideas. You must continually probe your potential to create real advantages in all areas of your business model.

Trap No. 2 ~ **Pride: Allowing Your Products to Become Outdated.**

Great products are all about unique, distinctive capabilities that are constantly updated and kept fresh. That needs to be the on-going goal. Unfortunately, there are plenty of examples of successful products that have been left alone and allowed to drift into mediocrity because their companies became frozen in the practices they believed were the secret to their success.

Trap No. 3 ~ **Boredom: Clinging to Your Once-Successful Branding After It Becomes Stale and Dull**

American fast-food giant McDonald's fell into this trap in 2002 as customers could not play back a unique message about this restaurant chain, plus they complained about slow service, rude employees and unhealthy food. Because the food chain had become so accustomed to being on top, it had let all the elements of its marketing slide into disarray: ineffective strategy/theme/advertising, lack of acknowledgment of current healthy food trends, and poor execution at the store level.

The business world is full of examples like this: once exciting brands that became dull, old and stale. This often happens because less focus is placed on the brand once it is successful. The folks running those brands assume that they have found the magic formula and now it's time to sit back and reap the benefits.

Trap No. 4 ~ **Complexity: Ignoring Your Business Processes as They Become Cumbersome and Complicated**

As successful organizations grow, they often fall into the trap of hiring too many people, which makes the organization more complicated. Organizations then reorganize into smaller groups to get as much clarity as possible, but this often leads to unproductive fragmentation of processes that should be carried out organization-wide.

Why is it so hard to constantly push for improvement in the processes that help run the organization? The reason is that change is very hard for individuals to accept. The price you pay for waiting and allowing that process to become out of date can be enormous. Eventually, you end up in crisis mode, trying to fix things just to catch up, without any notion of actually trying to get ahead of your competition. In addition, by tackling these things when they are running fairly well, you have more of an opportunity to experiment with different approaches, since you are not under the gun to fix a problem urgently.

Trap No. 5 ~ **Bloat: Rationalizing Your Loss of Speed and Agility**

Successful organizations that were once agile typically tend to lose urgency in tackling problems, which, coupled with excess staffing, often lead to reliance on teams, committees, task forces, and consensus to make decisions. These things massively slow down decision making, and they also lead to slow reaction times when there are changes in the marketplace.

Trap No. 6 ~ **Mediocrity: Condoning Poor Performance and Letting Your Star Employees Languish**

Many organizations fall into the trap of sloppy personnel management. This is dangerous, since people are your most important asset. These companies treat all their employees well, but they also treat all their employees about the same.

While many companies take pride in this approach, the problem is that the superstars don't get challenged to their full potential and the poor performers don't get confronted. Typically the performance appraisal system atrophies to the point where it is nearly nonexistent. The organization evolves from a meritocracy to one that is attempting to create a team spirit centered on a successful past.

Trap No. 7 ~ **Lethargy: Getting Lulled into a Culture of Comfort, Casualness and Confidence**

Success can often cause businesses to become very lax about things. They tend to always add projects, but never kill any. They hire excessively. They lack intensity about the competition, and there is a unspoken fear of change. The atmosphere is very cordial, consensus-oriented decision making is rampant and there is a general lack of aggressive behavior. These habits emerge slowly and before you know it, the organization has lost all capability to attack the future aggressively.

Trap No. 8 ~ **Timidity: Not Confronting Turf Wars, Infighting, and Obstructionists**

Organizations tend to fragment into fiefdoms. Management falls into the trap of ignoring the typical buildup of divisive turf wars and infighting. This can occur at many different levels. It can involve warring individuals within a group or a department, or it can involve warring groups. In the worst case, the whole organization, with its various divisions, groups and individuals, is working to protect various turfs.

Once you have information about where the silo and fiefdom problems are, the tough part is doing something about them. That requires nerves of steel and strong leadership skills. However, the situation has to be confronted.

Trap No. 9 ~ **Confusion: Unwittingly Providing Schizophrenic Communications**

Many leaders of successful organizations fall into this trap. They will describe a direction one day, but change their position the next, or they will say one thing, and their actions won't support it. Or maybe they will rely on the chain of command to pass along a key message, without even realizing that at each level it will be "spun," and the meaning and impact will have been modified.

These kinds of communication issues happen at all levels of the organization. The problem can be a first-level group manager who constantly confuses his six direct reports about the direction of their efforts. The reason is that he has not internalized the need to change anything. It can be a division vice president who doesn't have a clear direction for the people of his organization, even though the problems are mounting, a competitor is thriving, or an opportunity is being mismanaged. It can be a high level officer who has a bad habit of commenting randomly on many subjects when in informal settings without even thinking about how often quoted his off-hand remarks will be, and how much confusion they spread.

HOW CAN YOU AVOID THESE TRAPS?

When these things happen, I refer to it as being seduced by success! So how do you avoid being seduced by success? For each of the 9 traps, there are various actions that can help avoid these problems. Below, for each of these traps, we outline one of these approaches:

1 ~ **Business Model:** Avoid committees and consensus in developing big, distinctive business model advantages. Individuals have big, distinctive ideas; committees and consensus turn big, distinctive ideas into mundane ideas.

2 ~ **Product:** Pick your top performers, charge them to get your products out in front of important technology, industry, and customer trends, and then get out of their way.

3 ~ **Branding:** Always be fresh and relevant, but most of all, always be distinctive.

4 ~ **Processes:** Continually demand new approaches to “proven” processes, and for each process there should be a czar that is personally accountable to make sure their process is always super lean and industry leading.

5 ~ **Agility:** The key to speed and agility is leadership. Be sure you have strong, action-oriented leaders in the key jobs.

6 ~ **People:** You need a top notch performance appraisal system to spot the stars and confront the bottom 5–7%, and you need a "key people development program" to continually stretch and grow the future leaders of the company.

7 ~ **Culture:** The focus should be on excellence in continually finding and solving problems and jumping on opportunities, not on basking in prior glory.

8 ~ **Turf Wars and Fiefdoms:** Break up the fiefdoms by re-organizing around your key initiatives for improvement.

9 ~ **Communications:** Every employee should always know where the organization is going and how it is doing.

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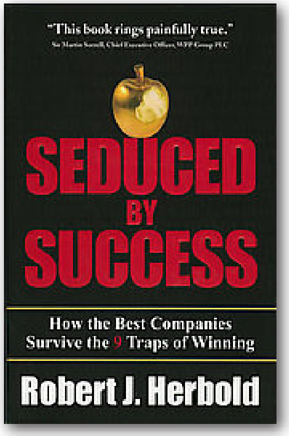

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