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CAUSES OF CRISIS IN SUCCESSFUL COMPANIES

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Abstract: The causes of crisis in successful companies, the manifestations of corporate inertia in a rapidly changing market conditions have been analyzed. The features of active inertia, leading to a crisis in the company have been described.

As market conditions change, the majority of successful companies frequently appear incapable of operative changes. To retain the lead positions, managers should understand the causes of corporate inertia.

One of the most common business phenomena is also one of the most perplexing: when successful companies face big changes in their environment, they often fail to respond effectively. Unable to defend themselves against competitors armed with new products, technologies, or strategies, they watch their sales and profits erode, their best people leave, and their stock valuations tumble. Some ultimately manage to recover – usually after painful rounds of downsizing and restructuring – but many don't.

Why do good companies become unsuccessful? It's often assumed that the problem is paralysis. Confronted with a disruption in business conditions, companies freeze; they're caught like the proverbial deer in the headlights. The managers of besieged companies usually recognize the threat early, carefully analyze its implications for their business, and unleash a flurry of initiatives in response. For all the activity, though, the companies still falter.

The problem is not an inability to take action but an inability to take appropriate action. There can be many reasons for the problem – ranging from managerial stubbornness to sheer incompetence – but one of the most common is a condition, so called active inertia [1]. Active inertia is an organization's tendency to follow established patterns of behavior-even in response to dramatic

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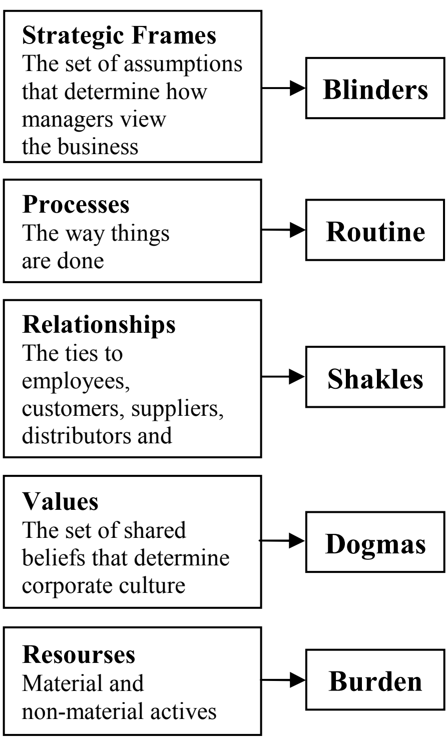
environmental shifts. Stuck in the modes of thinking and working that brought success in the past, market leaders simply accelerate all their tried-and-true activities. The results of those managerial opinions are not good.

Because active inertia is so common, it's important to understand its sources and symptoms. After all, if executives assume that the main enemy is paralysis, they will automatically conclude that the best defense is action. But if they see that action itself can be the enemy, they will look more deeply into all their assumptions before acting. They will, as a result, gain a clearer view of what really needs to be done and, equally important, what may prevent them from doing it. And they will significantly reduce the probability of joining to the "destroyed pilots' club".

The five hallmarks of active inertia. To understand why successful companies fail, it is necessary to examine the origins of their success. Most leading businesses owe their prosperity to a fresh competitive formula – a distinctive combination of strategies, processes, relationships, and values that sets them apart from the crowd. As the formula succeeds, customers multiply, talented workers flock to apply, investors bid up the stock, and competitors respond with the sincerest form of flattery – imitation. All this positive feedback reinforces managers' confidence that they have found the one best way, and it emboldens them to focus their energies on refining and extending their winning system.

Frequently, though, the system begins to harden. The fresh thinking that led to a company's initial success is replaced by a rigid devotion to the status quo. And when changes occur in the company's markets, the formula that had brought success instead brings failure (Figure) [2]. In particular, five things happen.



The crisis dynamics

Strategic frames become blinders. Strategic frames are the mental models – the mind-sets – that shape how managers see the world. The frames provide the answers to key strategic questions: What business are we in? How do we create value? Who are our competitors? Which customers are crucial, and which can we safely ignore? And they concentrate managers' attention on what is important among the jumble of raw data that crosses their desks and computer screens every day. The frames also help managers see patterns in complex data by fitting the information into an established model.

But while frames help managers to see, they can also blind them. By focusing managers' attention repeatedly on certain things, frames can seduce them into believing that these are the only things that matter. In effect, frames can constrict peripheral vision, preventing people from noticing new options and opportunities.

Sadly, the transformation of strategic frames into blinders is the rule, not the exception, in most human affairs. When strategic frames grow rigid, companies, like nations, tend to keep fighting the last war.

Processes harden into routines. When a company decides to do something new, employees usually try several different ways of carrying out the activity. But once they have found a way that works particularly well, they have strong incentives to lock into the chosen process and stop searching for alternatives. Fixing on a single process frees people's time and energy for other tasks. It leads to increased productivity, as employees gain experience performing the process. And it also provides the operational predictability necessary to coordinate the activities of a complex organization.

But just as with strategic frames, established processes often take on a life of their own. They cease to be means to an end and become ends in themselves. People follow the processes not because they're effective or efficient but because they're well known and comfortable. They are simply "the way things are done". Once a process becomes a routine, it prevents employees from considering new ways of working. Alternative processes never get considered, much less tried. Active inertia sets in.

Relationships become shackles. In order to succeed, every company must build strong relationships – with employees, customers, suppliers, lenders, and investors.

When conditions shift, however, companies often find that their relationships have turned into shackles, limiting their flexibility and leading them into active inertia. The need to maintain existing relationships with customers can hinder companies in developing new products or focusing on new markets [3].

Relationships with distributors can also turn into shackles.

Values harden into dogmas. A company's values are the set of deeply held beliefs that unify and inspire its people. Values define how employees see both themselves and their employers. Values also provide the centripetal force that holds together a company's far-flung operations.

As companies mature, however, their values often harden into rigid rules and regulations that have legitimacy simply because they're enshrined in precedent. Like a petrifying tree, the once-living values are slowly replaced by the cold stone of dogma. As this happens, the values no longer inspire, and their unifying power degenerates into a reactionary tendency to circle the wagons in the face of threats. The result, again, is active inertia.

Renewal, not revolution. Success breeds active inertia, and active inertia breeds failure. But is failure an inevitable consequence of success? In business, at least, the answer is no.

Successful companies can avoid – or at least overcome – active inertia. First, though, they have to break free from the assumption that their worst enemy is paralysis. They need to realize that action alone solves nothing. In fact, it often makes matters worse. Instead of rushing to ask, "What should we do?" managers should pause to ask, "What hinders us?" That question focuses attention on the proper things: the strategic frames, processes, relationships, values, and resourses that can subvert action by channelling it in the wrong direction.

Most struggling companies have a good sense of what they need to do. They have stacks of reports from inside analysts and outside consultants, all filled with the same kinds of recommendations. Their problem was that they lacked a clear understanding of how their old formulas for success would hinder them in responding to the changes.

Even after a company has come to understand the obstacles it faces, it should resist the impulse to rush forward. Some business gurus exhort managers to change every aspect of their companies simultaneously, to foment revolution within their organizations. The assumption is that the old formulas need to be thrown to the wind-and the sooner, the better. Veterans say that by trying to change everything all at once, managers often destroy crucial competencies, tear the fabric of social relationships that took years to weave, and disorient customers and employees alike. A revolution provides a shock to the system, but the shock sometimes proves fatal.

Turnaround offers an important lesson to any successful company facing big changes. Active inertia exists because the pull of the past is so strong. Trying to break that pull through a radical act of organizational revolution leaves people disoriented and disenfranchised, cut off from the past but unprepared to enter the future. It's better for managers to respect the company's heritage. They should build on the foundations of the past even as they teach employees that old strategic frames, processes, relationships, and values need to be recast to meet new challenges.

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Причины возникновения кризиса в успешных компаниях

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Ключевые слова и фразы: изменение конъюнктуры рынка; корпоративная инертность, кризис; активная инертность; стереотипы управления; реструктуризация.

Аннотация: Проведен анализ известных причин возникновения кризиса в успешных компаниях, проявлений корпоративной инертности в условиях быстро меняющейся рыночной конъюнктуры. Охарактеризованы признаки активной инертности, приводящей к кризису фирмы.
