Three Factors That Can Turn Success into Failure

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Lars Kolind is the former CEO of Oticon, a leading Denmark-based maker of hearing aids. In his book, The Second Cycle: Winning the War Against Bureaucracy, published by Wharton School Publishing, he argues that size, age and success can make mature companies deaf to signals that portend future decline. He summarizes his views in the following excerpt.

Many mature organizations need reinvention. If you are helping your company reinvent itself as needed, you need to go beyond merely being flexible and responsive. Reinventing a mature company often means changing its mental model, including its approach to customers, suppliers, employees, and everyday working habits. It means constant evaluation and awareness of the big picture, as well as awareness of the details of getting everyday business accomplished -- using the tools shared in this book or developing your own. It means being ahead of change instead of being behind it.

There is a great untapped potential in revitalizing mature organizations within the private and public sectors and within civil society. If tapped, mature organizations could become more relevant and valuable to their customers, they could enjoy greater growth and profitability, and they could create more and better jobs for their staff.

The potential remains untapped for two reasons:

1. Mature organizations tend to think that they already make the most out of their potential -- that is, they believe they are doing the right things. They behave like they are deaf when their fundamental beliefs are questioned. The more successful they are or have been, the worse their hearing becomes.

2. If mature organizations somehow realize that they have a problem (or an opportunity) to improve, they lack the tools to carry through the necessary change, particularly because the transformation that they need is different from what they know. Mature organizations are highly experienced in improving the way they do things, but they lack the capability to question whether they do the right things at all.

You may well be part of the problem: Are you so much a part of your organization’s success that you have lost the ability to step back and look upon your organization at a distance? Managers in particular need to remind themselves constantly that their mental model must never become one of tradition -- it should be one of necessity, oriented toward the future instead of the past.

There are three factors that make mature organizations easy targets for the virus that turns success into failure. The three factors are size, age, and success. While organizations grow, they get more management layers, they establish more departments, and they introduce more and more rigid procedures. As they mature, they establish routines and traditions that tend to make business as usual the norm rather than the exception. Although they enjoy success, they become complacent, lazy, and even arrogant, eventually forgetting the needs of their customers that were the initial source of their wealth and success.

One surprising observation is that mature organizations normally don’t realize the progression of their transformation from success to failure. They watch their core business become a cash cow business -- that is, a stagnating business that generates income and cash -- and they apply their surplus cash to acquire other businesses that they may consolidate into the existing business. The acquisitions add to the short-term top line and also improve short-term bottom line through downsizing and rationalization. If there are no such acquisition opportunities available, mature companies pay out larger dividends or buy back shares from the market.

Mature organizations also become increasingly blinded by their current mental models:

œ They fail to discover changing customer needs.

œ They are bound by marketing and sales channels that gradually become obsolete.

œ They stick to product concepts because they fit existing business models.

œ They treat employees the same way their managers were treated in their early years.

œ They use their bargaining power to put unfair pressure on suppliers and intermediaries.

œ They increasingly focus on management bonuses and other incentive programs.

œ They believe in short-term financial performance and shareholder value creation as the only genuine criteria for success.

For many organizations, this process has happened in parallel with the overall change from the industrial era to the knowledge-based society, and many of their shortcomings have become more serious because of this change in society.

The second cycle platform is a new social construction, a new framework for doing business in the knowledge economy. If it is widely accepted, mature organizations (public and private) can jump out of the conventional lifecycle into sustained second cycle growth. This will benefit shareholders through much greater value creation. It will benefit customers through more innovative and customized products. Employees will benefit from better jobs and a fair share of the value they create.

Suppliers will enjoy win-win partnerships with their customers, and society will benefit from organizations that serve a meaning beyond profitability. This could fundamentally change not only the business community, but the world.

In general, the move from first cycle to second cycle organizations will happen slowly and gradually, as did the change from agriculture toward the industrial society 150 years ago. Those countries that industrialized faster gained competitive advantage and wealth over those that only moved slowly. The same will happen for those companies or countries that manage to transform current social constructions (hierarchical, functional, and bureaucratic organizations) to the realities of the knowledge economy. Your choice is whether you want to lead the transformation or follow behind others.

Just like industrial corporations were not created top-down by government decree, the transformation of organizations toward innovative, knowledge-based, and networked partnerships will grow from below. Visionary leaders will inspire peers and other associates to break the rules of conventional business and jointly move their organizations into second cycles of innovation and growth.

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