Strategic Transformation

Anticipation Versus Waiting to Get into Action

by Jon Craighead

In my many years of working with businesses that have lost their competitive edge, and after examining the causes of failure, we consistently discover their first step to failure was their initial success. Which is why I found an article in the spring edition of MIT Sloan Management Review so interesting. The title of the research study is "Achieving Successful Strategic Transformation," conducted by Johnson, Yip, and Hensmans. This study was done to investigate why dominance of market is lost by so many leading enterprises within their respective industries. The purpose was to ascertain the root causes of these losses. The research was based on the premise that companies that are unable to radically change their entrenched ways of doing things and then reclaim a leading posture in their industry are the exception rather than the rule.

Factually such practice ultimately leads to financial downfall. It brings to mind a time when I was still in school with limited resources; when I would hear a strange, unwelcomed mechanical noise in my car, I would simply turn up the radio so that I couldn't hear it. This of course always led to some problem which might have been corrected or minimized had I acted. Often when I'm talking with organizational leaders about the future of their business, I see a metaphorical increasing of the radio volume. I think, as in my case, this is an avoidance approach, which is particularly the case when to all appearances there is no immediate or pressing need to make or consider making any change.

The researchers in the aforementioned article asked two important questions. First, is decline inevitable? Second, do companies really need a financial downturn to galvanize change, or can they adopt new ways of doing things when not under pressure? Their study examined the performance of 215 British companies over the 20-year period from 1987 to the 2008 recession. Twenty-eight of those companies passed the study's long term performance test. Of this group, only four sustained superior performance consistently over the 20-year period.

The group also interviewed 46 former CEOs covering 40 years of history. As a result they focused on three pairs of companies and measured their performance over the 20-year period, both independently and in comparison: Cadbury-Schweppes vs. Unilever, Tesco vs. Sainsbury, and Smith & Nephew vs. SSL Industries. All six of these companies have a more than successful record; however Cadbury, Tesco, and Smith & Nephew all displayed a rare combination of strategic transformation and strong consistent performance, and over the long term outperformed their mates.

In each case, Cadbury, Tesco, and Smith & Nephew found ways to prevail over strong resistance to change on the part of their founders or long time leaders and the organizational culture. It is understandable that someone who, through thick and thin, overcame all the economical and social obstacles and consistently survived would imagine that whatever it took to sustain the organization would always be applicable, irrespective of future technological, economic or social change. But it's extremely dangerous to have that point of view. In the case of these three companies, their sustained performance is attributed to the ability to enroll or replace once-successful management policies with more modern and viable systems or alternative coalitions to business as usual.

Another interesting contribution to these successes was what the report referred to as "happy accidents." These are unanticipated circumstances or events that ultimately support transformation in the direction favored by the leaders-in-waiting. Although they appear as happenstance, these events are remarkably consistent with a mindset of being aware of the opportunities available. Conversely, when minds are closed the events tend be ignored or go unrecognized.

The article concludes: "Building on history requires managers to reflect on the evolution of their organization and the legacy they can draw on. Which traditions are present, at least in embryonic form, and which ones are absent? In the light of the answer, what new steps could be taken?" While we should hold a healthy respect for tradition, its role is more valuable as a platform; an anchor that binds rather than inspires.

I will endeavor to answer the original questions referred to above: Is decline inevitable? All indications are yes. Do companies usually need a financial trauma to change. For the most part and with few exceptions, all indications again appear to be yes.