

SUCCESS: The worst thing that ever happened to your organisation?

Quick Points: An overview in 60 seconds

Recently published research points to the fact that successful organisations face little publicised challenges that could ultimately lead to their downfall.

- Key Point 1:** Organisations tend to follow a lifecycle from birth through to growth, maturity and then either renewal or decline.
- Key Point 2:** Organisations that have successfully scaled new heights must be aware of two broad failure syndromes that could threaten their future.
- Key Point 3:** The *Burnout Syndrome*. Quite simply, these organisations grow too fast, control systems fail to keep pace and the organisation forgets about its core “bread and butter” business.
- Key Point 4:** The *Premature Ageing Syndrome*. These organisations rushed into a period of accelerated decline fuelled by the belief that the “old ways will win through”.
- Key Point 5:** Look out for early warning symptoms – including powerful unchallenged leaders, rapid unplanned growth, the “leave it to me – it will be alright” message, inadequate management information and, above all, silence.

Please read on to learn more.

Does success breed failure?

Your organisation has exceeded its growth plans, broken profitability records, stunned the analysts and you are the envy of your competitors. Is it time to uncork the champagne or should I offer you my deepest commiserations?

The proposition that success might be, if not properly managed, the worst thing that ever happened to your organisation is one that I would like to explore in this briefing.

Research surprisingly indicates that success can breed failure, so if you're interested, please read on.

Do Organisations Have a Life Cycle?

Do organisations, like us mere mortals, follow a life cycle from birth through to growth, success and then death? This is an issue that researchers have been looking at for just over 30 years. Some of the first findings proposed that organisations do have a tendency to follow distinct life cycle phases running, for example, from birth through successful growth to maturity and from maturity to either revival or decline.

Importantly, these studies suggest that the most critical stage in the life of an organisation may be the point when an organisation has successfully scaled new heights. If the post-success phase is not managed correctly, then the organisation may plummet into decline rather than power on to reach new heights.

Managing the Challenges of Success

Professor Danny Miller examined this issue in a paper that he published in 1994 entitled *What Happens after Success: The Perils of Excellence*. This research did indeed suggest that success posed very real management problems. In his study of 36 organisations, Danny Miller found that success tended to produce organisations that were especially prone to:

- *Focus on established strategies and practices.* In short, members of the management team start to overly rely upon the tried and tested policies and strategies that brought them past success “don't worry - the old ways will win through”.
- *Risk taking.* There is the possibility that success can cause organisations to operate at one of two extremes - rash overly confident risk taking or alternatively strict conservatism. Both carry obvious issues for the future longevity of the organisation.

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- *Lose touch with themselves.* It's a sad fact that success, research would suggest, may lead to a decline in communication and control systems - quite simply success may reduce the incentive to search for a better way of doing things. Additionally, the focal point of communication and control systems may be on those processes and actions that led to the organisation's past success. But sources of past success may not be the same as sources of future success or, indeed, failure.
 - *Lose touch with the outside world.* Past excellent performance can create a degree of over-confidence and inertia – managers may not be as alert to changes in the external environment as they were when the organisation was struggling to grow.

The whole issue of organisational success and failure has recently been re-examined in a study of the 100 largest organisational crises of the last 5 years undertaken at the Universities of Geneva and St. Gallen. All the organisations studied had been successful – but their crashes destroyed a total corporate worth of over \$2,500 billion.

Surprisingly, all the crashes were “home made” and were not inevitable.

There are two failure syndromes – rather like “medical conditions” that can give rise to problems in successful organisations – these are the “Burnout” and “Premature Aging” syndromes. We will look more closely at the symptoms of each syndrome in a moment. But before proceeding, I would like to make the observation that whilst this research was conducted from the perspective of the top-level holding company, the findings, in my view, can be used to predict potential problems in subsidiary companies and indeed even within individual business units or departments.

So, let's look at each syndrome.

The Burnout Syndrome

Organisations suffering from this syndrome quite simply burnt out. A period of frantic activity literally left the organisations exhausted.

In their heydays these organisations possessed in abundance all the qualities of successful organisations - high growth rates, the ability to continuously change, visionary leadership and a highly focused organisational culture. All features that we are taught to aspire to. But things went wrong.

The factors driving failure are:

1. *Excessive Growth:* Quite simply these organisations grew at an unsustainable rate. Primarily, growth pressurised the balance sheet, forcing organisations to take on worrying debt burdens. Achieving these growth levels also meant that management attention was diverted from their core tasks to the challenges of venturing into new markets and assimilating acquisitions. No one was there to manage the “bread and butter” business.
2. *Uncontrolled Change:* Very closely linked to the side effects of excessive growth – here, growth and acquisitions stimulate internal reorganization and restructuring. Such structural changes bring with them risks of loss of control and even loss of identity. The enlarged business starts to wonder what its core activities really are.
3. *Leadership:* Any organisation that relies on the abilities of a single person at the top is living dangerously. Powerful, autocratic top-level leaders that operate unchallenged by either their fellow managers or the board are frequently associated with failure. The characteristic of a successful organisation is a strong challenging team of directors.
4. *Success Focused Culture:* What is wrong with this you may ask? Nothing, if there is a sound culture of trust and supportive working. But rivalry and destructive competition between individuals and business units must be avoided.

The Premature Aging Syndrome

The second syndrome – *Premature Aging* – is subtly different. Here, once successful organisations went into a period of accelerated decline, almost rushing blindly into their graves.

Again we can observe four driving factors:

1. *Stagnating Growth* Quite simply, these organisations seem to have lost the will to grow, failing to keep pace with market growth rates. It's as if the organisation has run out of energy and exhausted its capability to generate new ideas.
2. *Change Avoidance:* Here we have an undying belief that the “old ways will win through”. New ideas are shunned.

3. *Transaction Focused Leadership*: A leadership style that focuses upon embedding current practices rather than encouraging reinvention.
4. *Absence of Success Focused Culture*: There is no encouragement to “push the boundaries”. It’s an easy life culture as opposed to a delivery-focused culture.

In summary, organisations suffering from the premature aging system are living in yesterday – following rigidly the routines and practices that delivered their past glory.

Conclusions: What does all this mean for managers?

There are tell-tale warning signs that you should be aware of and these apply at the corporate, divisional, business unit and department levels. Look out for:

- § A powerful leader who is unchallenged.
- § The “leave it to me – it will be alright” message. A good leader in times of crisis will deliver to you turnaround objectives so you can track his/her performance.
- § Rapid growth. Do calculate your organisation’s maximum sustainable growth rate.
- § Scarcity of information. Good organisations/divisions/business units have strong performance tracking systems and are willing to share the findings.
- § In times of major change – such as acquisition – remember to keep control of the core “bread and butter” business.
- § Remuneration systems that don’t reward employees for performance and delivery.
- § Silence. Silence is usually bad news. Either things are going wrong or people don’t want to change and improve.

This briefing is based upon:

Miller, D (1994) *What Happens After Success: The Perils of Excellence. Journal of Management Studies* 31:3 325-349
 Probst, G and Raisch, S (2005) *Organizational Crisis: The Logic of Failure. Academy of Executive* 19:1 90-105

Finally

I hope that you have enjoyed this short read. You can find more on the website or alternatively, please e-mail me using the link below. I enjoy personally helping businesses develop and implement their strategies. Some of the work I undertake includes:

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| § Market research to identify the product performance and service needs of B2B customers | § Competency definition, development and assessment |
| § Facilitating board level strategic reviews, with a particular emphasis upon the definition of tomorrow’s competitive environment | § Product portfolio assessment. Helping the business to define the optimal product portfolio – balancing future competitive conditions with the probability of achieving future planned performance |
| § Design and implementation of Balanced Scorecard performance tracking systems | § Communication programmes |
| § Research to help identify what potential capital providers will look for in your business plan | § Organisational audits – assessing the innovative capability of your organisation |

Best regards,

Robert Davies