

Second Quarter, 1996



Why Bad Things Happen To Good Companies (Abstract)

By **Benson P. Shapiro, Adrian J. Slywotzky and Richard S. Tedlow**

How much easier it is to be a spectator, high up in the stands with a perfect view, second-guessing a basketball team's coach or the players' ball-handling. On the court, at ground level, the view is not so clear and it takes special skill and judgment to keep a winning strategy. So it goes with many corporations. In "Why Bad Things Happen To Good Companies," the authors explain why companies that at one time were very successful go into decline. In short, they fail to see what's happening.

Short-sightedness is perhaps too simplistic an explanation, although Theodore Levitt coined the phrase "marketing myopia" in 1975, and Messrs. Shapiro, Slywotzky and Tedlow introduce a concept they call "value migration" to illustrate typical life histories of companies who falter. Unless companies are perceptive and take action at critical points along the way, the value they build up over time will eventually migrate as markets change, new competitors arise, and new business models emerge.

In blaming value migration on why such great companies as I.B.M., Digital Equipment Corporation and Pan American Airways went wrong, the authors cite three main phases through which companies proceed: 1) inward migration - the start-up period of heady, exciting growth; 2) dynamic competitive equilibrium - a period of hard-fought, continuous improvement as the company matures and competition increases; and 3) outward migration - the company is challenged as evolving customer needs and technologies migrate value away from its basic business design.

"Outward value migration is inevitable. That is why we can guarantee that your current business design will eventually fail," the authors state bluntly. For companies that don't respond appropriately, the process is painful, even ugly. So why don't all corporations suffer the crises experience by I.B.M. and Digital? The answer: strong leadership. The kind that faces the truth, anticipates the dangers ahead and imbues a sense of urgency well before the warning bells start to ring.

Reprint No. 96202