Preface

I trace this book's origins to one of the most insightful questions I have ever been asked by a corporate executive: *Why do good companies fail?* The CEO who posed this riddle had been a great fan of the 1980s business best seller *In Search of Excellence* by Tom Peters and Robert Waterman. However, as time went by, he was struck by how many of the companies cited as exemplars of world-class corporations were either struggling or no longer in existence. This included such icons of U.S. business as Sears, Dana Corporation, AT&T, Xerox, IBM, and Kodak.

The more I pondered the CEO's question, the more curious I became as to why companies that seem to be doing so well and that are at the top of their industry, can almost overnight spiral downward into survival mode. The companies I'm talking about are not government-protected monopolies that have suddenly been cast into the churning seas of competition. I'm referring to world-class businesses that appear to have top managers, a proven track record of success, inventive products, and a seemingly unassailable competitive position. Why do *these* companies go bad?

My journey toward an answer began with archival research to identify companies that were great in their time and that had subsequently faded away. During this process I tried to understand the reasons for their downfall. The message that came out of the research was simple: Good companies fail when they are unable or, more curiously, unwilling to change when their external environment changes significantly.

Underlying this inability or unwillingness to change, I discovered the self-destructive habits successful companies acquire on their way to greatness. As my research progressed, I began to give presentations to professional managers and MBA students on my findings, and I would talk about self-destructive habits such as denial, complacency, or cost-inefficiency. I would often joke that I should write a book called *The Self-Destructive Habits of Good Companies*. Instead of making a joke of it, more and more people suggested that I write the book.

I have written about seven self-destructive habits in this book. Although I could have included an eighth or ninth habit, my purpose is not to present an exhaustive list of self-destructive habits but to identify those that are the most crucial to avoid. And if forced to narrow down this list even further, I would have to say that denial of the new reality (Chapter 2) and the territorial impulse, or internal turf wars (Chapter 8), are the two most dangerous habits.

There are three conflicting theories as to why companies die. One is population ecology or "survival of the fittest" theory: Companies die because bigger and better companies will come along and take away their business. In other words, you die by being systemically weeded out by the competition.

The second is the inevitability or "birth and death" theory. Just like the human life cycle, this theory suggests that a cycle of birth and death is inevitable for all companies. There is nothing you can do about your company's eventual demise—it's just a matter of time before fate runs its course.

My view, however, is that most companies can survive forever if they recognize and take steps to counter self-destructive habits or set up processes to keep them from arising in the first place. I felt this was possible because habits are learned behaviors, not inevitabilities. Therefore, it is important that I not only show you how to identify self-destructive habits, but also suggest prescriptive measures for curing them, and I have done so in each chapter. And while curing self-destructive habits is an admirable achievement for the afflicted, an even more sound approach is to devise preventive programs to avoid them in the first place (Chapter 9).

An underlying theme of this book is that great leadership is crucial for helping a company avoid or break self-destructive habits. Good leaders provide vision for the company. However, great leaders, in addition to being visionaries, must be grounded in the reality of current and potential vulnerabilities posed by a hostile and constantly changing external environment. Great leaders are constantly looking out for self-destructive habits that will get in the way of the exciting vision.

I hope to generate dialog from the readers of this book. I encourage you to provide stories you have encountered about any of the self-destructive habits. The Web site www.destructivehabits.com has been set up for you to post examples of companies that have been afflicted with self-destructive habits, as well as companies that have done a good job of correcting or avoiding them. I also plan to have a blog that will provide updates and commentary about the companies mentioned in this book and the companies suggested by readers. With your help, I might be able to offer a revised version of this book in the near future.