The Icarus Paradox: How Exceptional Companies Bring About Their Own Downfall

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The old story of Icarus can still teach us new lessons in the dynamics of corporate success, decline, and renewal.

The fabled Icarus of Greek mythology is said to have flown so high, so close to the sun, that his artificial wax wings melted and he plunged to his death in the Aegean Sea. The power of Icarus's wings gave rise to the abandon that so doomed him. The paradox, of course, is that his greatest asset led to his demise. And that same paradox applies to many outstanding companies: their victories and their strengths so often seduce them into the excesses that cause their downfall. Success leads to specialization and exaggeration, to confidence and complacency, to dogma and ritual. This general tendency, its causes, and how to manage it are what this article is all about.

It is ironic that many of the most dramatically successful organizations are so prone to failure. The histories of outstanding companies demonstrate this time and again. In fact, it appears that when taken to excess the same things that drive success—focused, tried-and-true strategies, confident leadership, galvanized corporate cultures, and especially the interplay of all these elements—also cause decline. Robust, superior organizations evolve into flawed purebreds; they move from rich character to exaggerated caricature as all subtlety, all nuance, is gradually lost.

Many outstanding organizations follow such paths of deadly momentum—time-bomb trajectories of attitudes, policies, and events that lead to falling sales, plummeting profits, even bankruptcy. These companies extend and amplify the strategies to which they credit their success. Productive attention to detail, for instance, turns into an obsession with minutiae; rewarding innovation escalates into gratuitous invention; and measured growth becomes unbridled expansion. In contrast, activities that were merely de-emphasized—not viewed as integral to the recipe for success—are virtually extinguished. Modest marketing deteriorates into lackluster promotion and inadequate distribution; tolerable engineering becomes shoddy design. The result: strategies become less balanced. They center more and more around a single core strength that is amplified unduly while other aspects are forgotten almost entirely.

Such changes are not limited to strategy. The heroes who shaped the winning formula gain adulation and absolute authority, while others drop to third-class citizenship. An increasingly monolithic culture impels firms to focus on an ever smaller set of considerations and to rally around a narrowing path to victory. Reporting relationships, roles, programs, decision-making processes—even target markets—come to reflect and serve the central strategy and nothing else. And policies are converted into rigid laws and rituals by avidly embraced credos and ideologies. By then, organizational learning has ceased, tunnel vision rules, and flexibility is lost.

This riches-to-rags scenario seduces some of our most acclaimed corporations; and in our research on outstanding companies we have found four principal examples of it, four very common "trajectories" of decline (see **Figure 1**):

• The *focusing* trajectory takes punctilious, quality-driven CRAFTSMEN organizations with their masterful engineers and airtight operations, and turns them into rigidly controlled, detail-obsessed TINKERERS—firms whose insular, tech-

nocratic monocultures alienate customers with perfect, but irrelevant, offerings.

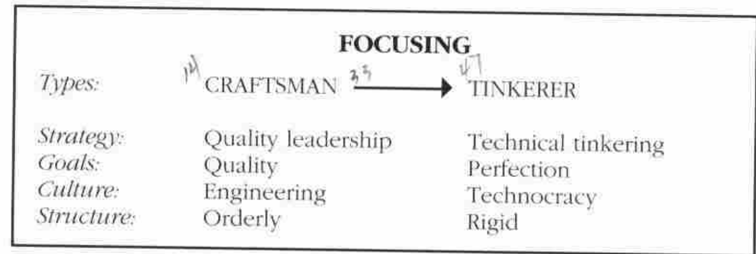
• The *venturing* trajectory converts growth-driven, entrepreneurial BUILDERS—companies managed by imaginative leaders and creative planning and financial staffs—into impulsive, greedy IMPERIALISTS who severely overtax their resources by expanding helter-skelter into businesses they know nothing about.

• The *inventing* trajectory takes PIONEERS with unexcelled R&D departments, flexible think tank operations, and state-of-the-art products, and transforms them into utopian ESCAPISTS run by a cult of chaos-loving scientists who squander resources in the pursuit of hopelessly grand and futuristic inventions.

• Finally, the *decoupling* trajectory transforms SALESMEN—organizations with unparalleled marketing skills, prominent brand names, and broad markets—into aimless, bureaucratic DRIFTERS whose sales fetish obscures design issues, and who produce a stale and disjointed line of "me too" offerings.

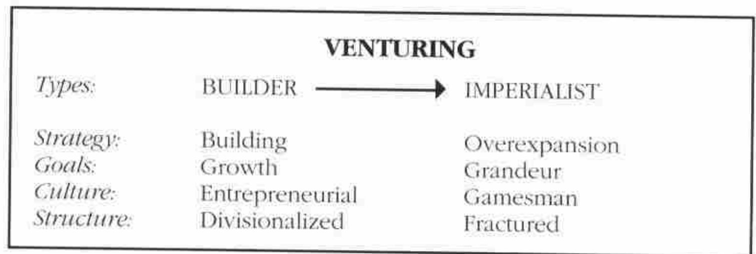
These four illustrarive trajectories have trapped many of the firms we studied, including IBM, Polaroid, Procter & Gamble, Texas Instruments, ITT, Chrysler, Dome Petroleum, Apple Computer, A&P, General Motors, Sears, Digital Equipment, Caterpillar Tractor, Montgomery Ward, Eastern Airlines, Litton Industries, and Disney.

Figure 1
The Four Trajectories



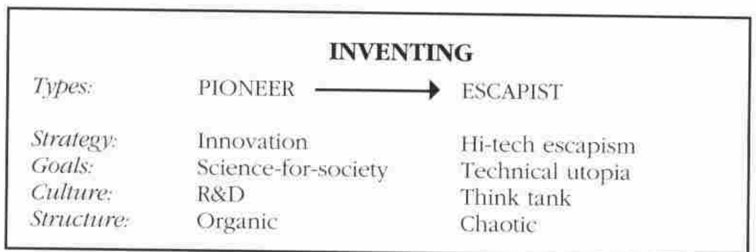
FOCUSING

Types:	CRAFTSMAN →	TINKERER
Strategy:	Quality leadership	Technical tinkering
Goals:	Quality	Perfection
Culture:	Engineering	Technocracy
Structure:	Orderly	Rigid



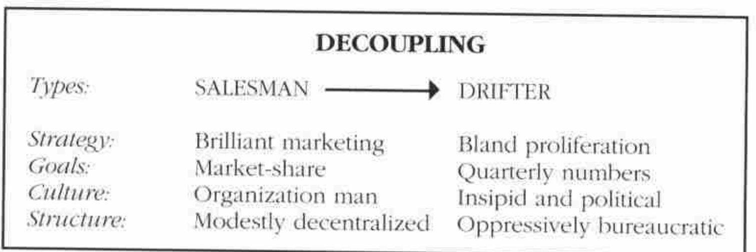
VENTURING

Types:	BUILDER →	IMPERIALIST
Strategy:	Building	Overexpansion
Goals:	Growth	Grandeur
Culture:	Entrepreneurial	Gamesman
Structure:	Divisionalized	Fractured



INVENTING

Types:	PIONEER →	ESCAPIST
Strategy:	Innovation	Hi-tech escapism
Goals:	Science-for-society	Technical utopia
Culture:	R&D	Think tank
Structure:	Organic	Chaotic



DECOUPLING

Types:	SALESMAN →	DRIFTER
Strategy:	Brilliant marketing	Bland proliferation
Goals:	Market-share	Quarterly numbers
Culture:	Organization man	Insipid and political
Structure:	Modestly decentralized	Oppressively bureaucratic

A Case History

The glorious but ultimately tragic history of ITT demonstrates well the course of the *venturing* trajectory. Harold Geneen was a manager's manager, a universally acclaimed financial wizard of unsurpassed energy, and the CEO and grand inquisitor of the diversified mega-conglomerate ITT. It was Geneen, the entrepreneurial accountant, who took a ragtag set of stale, mostly European telecommunications operations and forged them into a cohesive corporate entity. With his accountant's scalpel, he weeded out weak operations; and with his entrepreneur's wand he revived the most promising ones. He installed state-of-the-art management information systems to monitor the burgeoning businesses on an ongoing basis. And he built a head office corps of young managers to help him control his growing empire and identify opportunities for creative diversification.

At first, this diversification paid off handsomely as it so aptly exploited the financial, organizational, and turnaround talents of Geneen and his crack staff. Many acquisitions were purchased at bargain prices and most beautifully complemented ITT's existing operations. Moreover, a divisional structure in which managers were responsible for the profitability of their units provided incentive for local initiative. Geneen's legendary control and information systems—with frequent appraisal meetings and divisional accountants reporting directly to the head office—ensured that most problems would be detected early and corrected.

Unfortunately, ITT's success at diversification and controlled decentralization led to too much more of the same. Their skills at acquisition and control made Geneen and his staff ever more confident that they could master complexity. So diversification went from a selective tactic to an ingrained strategy to a fanatical religion; decentralization and head office control were trans-

formed from managerial tools into an all-consuming, lock-step way of life. The corporate *culture* worshipped growth, and it celebrated, lavishly paid, and quickly promoted only those who could attain it. The venturing trajectory had gotten under way, and the momentum behind it was awesome.

To achieve rapid growth, Geneen pursued ever more ambitious acquisitions that were further afield from existing operations. From 1967 to 1970, just six of ITT's larger acquisitions—Sheraton, Levitt, Rayonier, Continental Baking, Grinnell and Canteen—brought in combined sales of $1.8 billion; a seventh, Hartford Fire, one of the largest property and casualty insurers in the U.S., was about to be added. Loads of debt had to be issued to fund these acquisitions. In less than 10 years, Geneen the imperialist bought a staggering 100 companies, a proliferation so vast it exceeded the complexity and scope of many nation states—250 profit centers in all were set up. Geneen, quite simply, had created the biggest conglomerate on earth, encompassing 375,000 employees in 80 countries by 1977.

Even Geneen and his sophisticated staff troops, with all their mastery of detail and their status as information system gurus, could not manage, control, or even understand so vast an empire. But they tried, meddling in the details of their divisions, and pressing home the need to meet abstract and often irrelevant financial standards. Political games took place in which head office controllers would try to impress Geneen by making the divisions look bad. Divisional executives, in turn, would try to fool the controllers. It got to where more than 75 percent of divisional managers' schedules were taken up preparing budgets and going to meetings at the head office, leaving them little time to direct their own units.

This obsession with acquisitions and financial control detracted from the substance of divisional strategies. The product lines of many units were neglected and became stale. Return on capital fell, and by the late 1970s many of the divisions were experiencing major operating problems. A subsequent CEO, Rand Araskog, had to sell off more than 100 units in an attempt to revive the company, which shrunk the workforce by more than 60 percent. The great ITT had become a flabby agglomeration of gangrenous parts.

The general pattern is clear. Over time, ITT's success—or more specifically, its manager's reactions to success—caused it to amplify its winning strategy and to forget about everything else. It moved from sensible and measured expansion to prolific and groundless diversification; from sound accounting and financial control to oppressive dominance by head office hit men; and from invigorating divisionalization to destructive factionalism. The substance of basic businesses—their product lines and markets—was lost in a sea of financial abstractions. By concentrating exclusively upon what it did best, ITT pushed strategies, cultures, and structures to dangerous extremes, and failed to develop in other areas. Greatness had paved the way to excess and decline as ITT the BUILDER became ITT the IMPERIALIST.

Configuration and Momentum

The example of ITT reveals two notions that surfaced again and again when we looked at outstanding companies. We call these notions *configuration* and *momentum*.

Outstanding corporations are a bit like beautiful poems or sonatas—their parts or elements fit together harmoniously to express a theme. They are perhaps even more akin to living systems whose organs are intimately linked and tightly coordinated. Although organizations are less unified than organisms, they too constitute *configurations*: complex, evolving systems of mutually supportive elements organized around stable central themes. We found that once a theme emerges—a core mission or a central strategy, for example—a whole slew of routines, policies, tasks, and structures develop to implement and reinforce it. It is like seeding a crystal in a supersaturated solution: once a thematic particle is dropped into solution, the crystal begins to form naturally around it. Themes may derive from leaders' visions, the values and concerns of powerful departments, even common industry practices.

ITT's configuration, like all others, had a central theme and a "cast of players"—human, ideological, strategic, and structural—that completed the scenario. The theme was "rapid growth through expansion"; the cast of players included an entrepreneurial, ambitious CEO with a strategy of diversification and acquisition, a powerful financial staff who dominated because they could best implement this strategy, elaborate information systems and sophisticated controls, and even decentralized profit centers that infused expertise into the far-flung divisions amassed by diversification. All these "players" complemented each other and were essential to the enactment of the play. And as with all configurations, the parts only make sense with reference to the whole BUILDER constellation.

Our research uncovered a number of exceptionally common but quite different configurations associated with stellar performance: BUILDERS, CRAFTSMEN, PIONEERS, and SALESMEN, each subject to its own evolutionary trajectory.

Our second finding showed that organizations keep extending their themes and configurations until something earthshaking stops them: a

Figure 2
The Configurations Compared

	CRAFTSMEN	BUILDERS	PIONEERS	SALESMEN
Strategies	Quality Leadership	Expansion, Diversification, Acquisition	Differentiation via Innovation	Marketing Differentiation
Product-Market Scope	Focused	Broad	Focused	Broad
Strategic Change	Stable	Dynamic	Dynamic	Stable
Key Goals	Quality	Growth	Technical Progress	Market Share
Dominant Depts.	Operations, Production, & Engineering	Planning & Control; Finance	R&D	Marketing
Structure	Bureaucracy; Many controls	Divisional Profit Centers	Organic, Flexible	Divisional Bureaucracy
Trajectory	Focusing	Venturing	Inventing	Decoupling
Destination	TINKERER	IMPERIALIST	ESCAPIST	DRIFTER

process we call *momentum*. Firms perpetuate and amplify one particular motif above all others as they suppress its variants. They choose one set of goals, values, and champions and focus more and more tightly around them. The powerful get more powerful; others become disenfranchised as firms move first toward consistency, and then toward obsession and excess. Organizations turn into their "evil twins"—extreme versions or caricatures of their former selves.

Once ITT began to diversify, for example, it accelerated its policy because it seemed successful; because it was very much in line with the dreams and visions of what leaders and their powerful financial staffs wanted; and because it was undergirded by a vast set of policies and programs. Similarly, having implemented their financial control systems, ITT continued to hone and develop them. After all, these systems were demanded by the expanding and diverse operations; they were favored by the growing staff of accountants; and they were the only way top managers could exert control over existing operations and still have time to scout out new acquisitions.

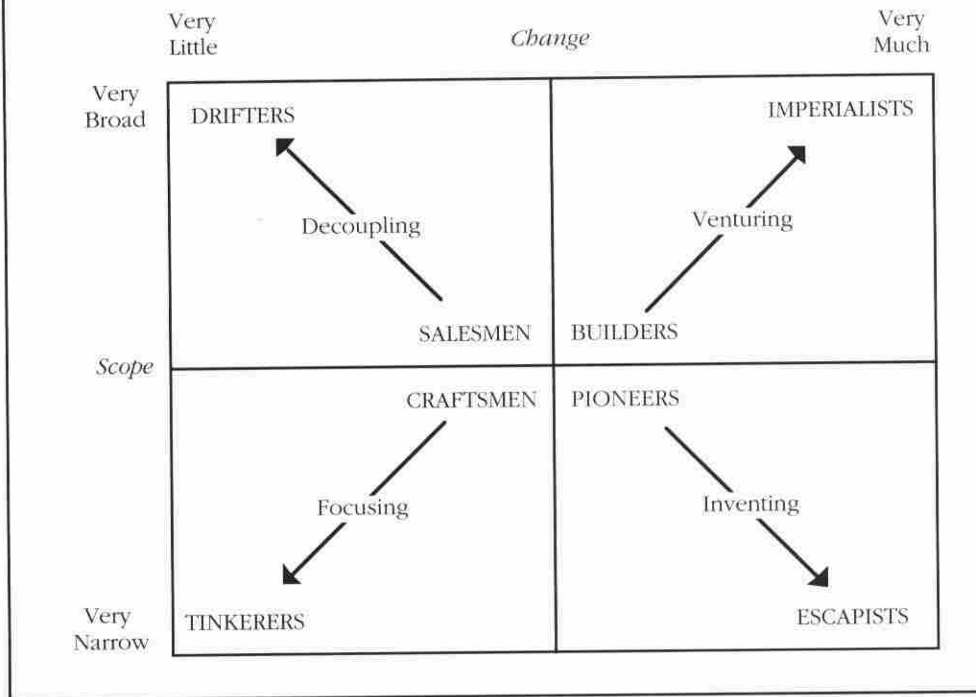
Momentum is also contagious and leads to a vicious cycle of escalation. As diversification increased at ITT, so did the size of the head office staff and the time spent on divisional meetings. The staff's role was to generate still more attractive candidates for diversification, and that's what they did. Diversification increased still further, requiring even larger legions of accountants and financial staff. And so the spiral continued. In short, momentum, by extending the BUILDER configuration, led to the dangerous excesses of IMPERIALISM.

Outstanding organization, it seems, extend their orientations until they reach dangerous extremes; their momentum issues in common trajectories of decline. And because successful types differ so much from one another, so will their trajectories.

THE TRAJECTORIES

Our four trajectories emerged in a study we conducted of outstanding companies. Our earlier research identified four very common, wonderfully coherent configurations possessing powerful strategic advantages. We studied the long-term evolution of outstanding firms conforming to each of these types by tracking them for many years. The types are described in **Figures** 1 and 2.

CRAFTSMEN, BUILDERS, PIONEERS, and SALESMEN were all susceptible to their own trajectories, and firms of a given type followed remarkably parallel paths, albeit at differing speeds. For purposes of simple comparison, our four



strategies are classified in **Figure 3** along two dimensions: *scope* is the range of products and target markets; *change* is the variability of methods and offerings. Excellent businesses are driven toward extremes along both of these dimensions (among others). Take scope. Firms that excel by focusing on one product or on a precisely targeted market ultimately come to rely on too narrow a set of customers, products, and issues. Conversely, firms that thrive by aggressively diversifying often become too complex, fragmented, and thinly spread to be effective. The same tendencies apply to strategic change as dynamic firms move toward hyperactivity, and conservative ones inch toward stagnation.

CRAFTSMEN to TINKERERS: The Focusing Trajectory

Digital Equipment Corporation made the highest quality computers in the world. Founder Ken Olsen and his brilliant team of design engineers invented the minicomputer, a cheaper, more flexible alternative to its mainframe cousins. Olsen and his staff honed their minis until they absolutely could not be beat for quality and durability. Their VAX series gave birth to an industry legend in reliability, and the profits poured in.

But DEC turned into an engineering monoculture. Its engineers became idols, while its marketers and accountants were barely tolerated. Component specs and design standards were all managers understood. In fact, technological fine-tuning became such an all-consuming obsession that customers' needs for smaller machines, more economical products, and more user-friendly systems were ignored. The DEC PC, for example, bombed because it was so out of sync with the budgets, preferences, and shopping habits of potential users. Performance began to slip.

CRAFTSMEN are passionate about doing one thing incredibly well: Their leaders insist on producing the best products for the market, their engineers lose sleep over micrometers, and their quality control staff rules with an iron and unforgiving hand. Details count. Quality is the primary source of corporate pride; it gets rewarded and recognized and is by far the paramount competitive advantage. Indeed, it is what the whole corporate culture is based on. Shoddiness is a capital offense. (There is also a cost leader variant of the CRAFTSMAN).

But in becoming TINKERERS, many CRAFTSMEN become parodies of themselves. They get so wrapped up in tiny technical details that they forget the purpose of quality is to attract and satisfy buyers. Products become over-engineered but also over-priced; durable, but stale. Yesterday's excellent designs become today's sacrosanct anachronisms. And an ascendent engineering monoculture so engrosses itself in the minutiae of design and manufacture that it loses sight of the customer. Before long, marketing and R&D become the dull stepchildren, departments to be seen but not heard. Unfortunately, the bureaucratic strictures that grew up to enforce quality end up perpetuating the past and suppressing initiative.

BUILDERS to IMPERIALISTS: The Venturing Trajectory

Charles "Tex" Thornton was a young Texas entrepreneur when he expanded a tiny microwave company into Litton Industries, one of the most successful high technology conglomerates of the 1960s. Sales mushroomed from $3 million to $1.8 billion in 12 years. By making selective and related acquisitions, Litton achieved an explosive rate of growth. Its excellent track record helped the company amass the resources needed to accelerate expansion still further.

But Litton began to stray too far from familiar areas, buying larger and more troubled firms in industries it barely understood. Administrative officers and control systems became overtaxed, debt became unwieldy, and a wide range of problems sprang up in the proliferating divisions. The downward spiral at Litton was no less dramatic than its ascent.

BUILDERS are growth-driven, entrepreneurial companies with a zeal for expansion, merger, and acquisition. They are dominated by aggressive managers with ambitious goals, immense energy, and an uncanny knack for spotting lucrative niches of the market. These leaders have the promotional skills to raise capital, the imagination and initiative to exploit magnificent growth opportunities, and the courage to take substantial risks. They are also master controllers who craft acute, sensitive information and incentive systems to rein in their burgeoning operations.

But many BUILDERS become IMPERIALISTS, addicted to careless expansion and greedy acquisition. In the headlong rush for growth they assume hair-raising risks, decimate resources, and incur scads of debt. They bite off more than they can chew, buying sick companies in businesses they do not understand. Structures and control systems become hopelessly overburdened. And a dominant culture of financial, legal, and accounting specialists further rivets managerial attention on expansion and diversification, while stealing time away from the production, marketing, and R&D matters that so desperately need to be addressed.

PIONEERS to ESCAPISTS:
The Inventing Trajectory

By the mid-1960s, Control Data Corporation of Minneapolis had become the paramount designer of supercomputers. Chief engineer Seymour Cray, the preeminent genius in a field of masters, had several times fulfilled his ambition to build the world's most powerful computer. He secluded himself in his lab in Chippewa Falls, working closely with a small and trusted band of brilliant designers. Cray's state-of-the-art 6600 supercomputer was so advanced it caused wholesale firing at IBM, whose engineers had been taken completely off guard by their diminutive competitor.

CDC's early successes emboldened it to undertake new computer development projects that were increasingly futuristic, complex, and expensive. Substantial lead times, major investments, and high risks were entailed, and many bugs had to be purged from the systems. Long delays in delivery occurred and costs mushroomed. Science and invention had triumphed over an understanding of competition, customers, and production and capital requirements.

PIONEERS are R&D stars. Their chief goal is to be the first out with new products and new technology. Consistently at the vanguard of their industry, PIONEERS are, above all, inventors. Their major strengths are the scientific and technological capacities that reside within their brilliant R&D departments. Typically, PIONEERS are run by missionary leaders-in-lab-coats: Ph.D.s with a desire to change the world. These executives assemble and empower superb research and design teams, and create a fertile, flexible structure for them to work in that promotes intensive collaboration and the free play of ideas.

Unfortunately, many PIONEERS get carried away by their coups of invention and become ESCAPISTS—firms in hot pursuit of technological nirvana. They introduce impractical, futuristic products that are too far ahead of their time, too expensive to develop, and too costly to buy. They also become their own toughest competitors, antiquating prematurely many of their offerings. Worse, marketing and production come to be viewed as necessary evils, and clients as unsophisticated nuisances. ESCAPISTS, it seems, become victims of a utopian culture forged by their domineering R&D *wunderkinder*. Their goals, which soar to hopelessly lofty heights, are expressed in technological terms, rather than market or economic terms. And their loose "adhocracy" structures might suffice to organize a few engineers working in a basement, but only serve to breed chaos in complex organizations.

SALESMEN to DRIFTERS:
The Decoupling Trajectory

Lynn Townsend ascended to the presidency of Chrysler at the youthful age of 42. He was known to be a financial wizard and a master marketer. "Sales aren't just made; sales are pushed," Townsend would say. In his first five years as president, he doubled Chrysler's U.S. market share and tripled its international one. He also conceived the five-year, 50,000-mile warranty. But Townsend made very few radical changes in Chrysler's products. Mostly he just marketed aggressively with forceful selling and promotion, and sporty styling.

Chrysler's success with its image-over-substance strategy resulted in increasing neglect of engineering and production. It prompted a proliferation of new models that could capitalize on the marketing program. But this made operations very complex and uneconomical. It also contributed to remote management-by-numbers, bureaucracy, and turf battles. Soon strategies lost focus and direction, and profits began to plummet.

SALESMEN are marketers par excellence. That is their core strength. Using intensive advertising, attractive styling and packaging, attentive

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service, and penetrating distribution channels, they create and nurture high-profile brand names that make them major players within their industries. To place managers in especially close contact with their broad markets, SALESMEN are partitioned into manageable profit centers, each one of which is responsible for a major product line.

Unfortunately, SALESMEN tend to become unresponsive DRIFTERS. They begin to substitute packaging, advertising, and aggressive distribution for good design and competent manufacturing. Managers begin to believe they can sell anything as they concoct a mushrooming proliferation of bland, copycat offerings. This growing diversity of product lines and divisions makes it tough for top managers to master the substance of all their businesses. So they rely increasingly on elaborate bureaucracy to replace the hands-on management of products and manufacturing. Gradually DRIFTERS become unwieldy, sluggish behemoths whose turf battles and factionalism impede adaptation. In scenarios that come straight from Kafka, the simplest problems take months, even years to address. Ultimately, the leader is decoupled from his company, the company from its market, and product lines and divisions from each other.

"Failure teaches leaders valuable lessons, but good results only reinforce their preconceptions and tether them more firmly to their 'tried and true' recipes."

FORCES TO WATCH

In considering these four trajectories, you might want to keep in mind some of the "subtexts": the hidden causes at work behind the scenes that drive every one of them.

Sources of Momentum

Leadership Traps. Failure teaches leaders valuable lessons, but good results only reinforce their preconceptions and tether them more firmly to their "tried and true" recipes. Success also makes managers overconfident, more prone to excess and neglect, and more given to shaping strategies to reflect their own preferences rather than those of the customers. Some leaders may even be *spoilt* by success—taking too much to heart their litany of conquests and the praise of their idolizing subordinates. They become conceited and obstinate, resenting challenges and ultimately isolating themselves from reality.

Monolithic Cultures and Skills. The culture of the exceptional organization often becomes dominated by a few star departments and their ideologies. For example, because CRAFTSMEN see quality as the source of success, the engineering departments who create it and are its guarantors acquire ever more influence. This erodes the prominence of other departments and concerns, making the corporate culture more monolithic, more intolerant, and more avid in its pursuit of one single goal.

To make matters worse, attractive rewards pull talented managers toward rich, dominant departments, and bleed them away from less august units. The organization's skill set soon becomes spotty and unbalanced, compromising versatility and the capacity for reorientation.

Power and Politics. Dominant managers and departments resist redirecting the strategies and policies that have given them so much power. Change, they reason, would erode their status, their resources, and their influence over rival executives and departments. The powerful, then, are more likely to reinforce and amplify prevailing strategies than to change them.

Structural Memories. Organizations, like people, have memories. They implement successful strategies using systems, routines, and programs. The more established and successful the strategy, the more deeply embedded it will be in such programs, and the more it will be implemented routinely, automatically, and unquestioningly. Indeed, even the premises for decision making—the cues that elicit attention and the standards used to evaluate events and actions—will be controlled by routines. Yesterday's programs will shape today's perceptions and give rise to tomorrow's actions. Again, continuity triumphs.

Configuration and Momentum

The qualities of leadership, culture, skills, power, and structure are by no means independent. They configure and interact to play out a central theme. Over time, organizations gradually adhere more consistently to that theme—so much so that an adaptable, intelligent company can turn into a specialized, monolithic machine.

Take the PIONEER. Successful innovations reward and empower their creators, who will recruit and promote in their own images. The resulting horde of "R&D types" then set up the flexible structures and design projects they find so invigorating. This further encourages innovation and the search for clients who value it. Meanwhile, other departments begin to lose influence and resources, and their skills diminish. So cultures become monolithic, strategies more focused, skills more uneven and specialized, and

blind spots more common. The firm has embarked on the inventing trajectory.

"Chain reactions" such as this make an organization more focused and cohesive. At first, this greatly benefits the firm. But ultimately, concentration becomes obsession. All prominent features become exaggerated, while everything else—auxiliary skills, supplementary values, essential substrategies, and constructive debate—vanishes.

THE PARADOX OF ICARUS

This brings us to the Icarus paradox that traps so many outstanding firms: Overconfident, complacent executives extend the very factors that contributed to success to the point where they cause decline. There are really two aspects to the paradox.The first is that *success can lead to failure.* It may engender overconfidence, carelessness, and other bad habits that produce excesses in strategies, leadership, culture, and structures. Icarus flew so well that he got cocky and overambitious.

The second aspect of the paradox is that many of the preceding causes of decline—galvanized cultures, efficient routines and programs, and orchestrated configurations—were also initially the causes of success. Or conversely, *the very causes of success, when extended, may become the causes of failure.* It is simply a case of "too much of a good thing." For example, a focused strategy can produce wonderful competitive advantages as it mobilizes resources so efficiently; but when taken too far, it becomes narrow obsession. Favoring certain departments and skills creates distinctive competencies and galvanizes effort, but it can also produce intolerant monocultures. Programs and routines promote efficiency and simplify coordination, but they can also blind managers and mire the organization in its past. Above all, cohesive, orchestrated configurations are indispensable for companies to operate effectively, but they also create myopia. Icarus's wings and his courage were strengths, but when pushed to the limit they became deadly. Unfortunately, it is very hard sometimes to distinguish between the focus, harmony, and passionate dedication necessary for outstanding performance, and the excesses and extremes that lead to decline.

COMBATING THE PERILS OF SUCCESS

It is time now to turn from problems to cures—to suggest ways of avoiding the trajectories, of fending off the myopia induced by cohesive configurations. We will describe the "mirrors" managers can develop: the capacities for self-reflection and intelligence gathering that may help guard against excess and irrelevance.

Managers must confront a poignant paradox: Excellence demands focus, dedication, and cohesive configuration. But these are precisely the things that give rise to momentum, narrowness, complacency, and excess. So what to do?

Some successful organizations have adopted a few potentially powerful methods for avoiding problems. They:

- build thematic, cohesive configurations;

but they also

- encourage their managers to reflect broadly and deeply about the direction of the company.

In other words, they act telescopically, but reflect using mirrors. Moreover, they:

- scan widely and monitor performance assiduously; and,
- where possible, they temporarily de-couple renewal activities from established operations, at least for a while.

Thematic Configurations

It is tempting to use the sources of momentum discussed above to derive the prescriptions for avoidance. Are worldviews too confining? Then dismantle them. Are cultures too monolithic? Then open them up. Are configurations too cohesive to allow meaningful adaptation? Then throw them into question, inject noise into the system, and make disruptive changes. Unfortunately, employing these remedies too freely might destroy the concentration and synergy so necessary for success.

> *"It is very hard sometimes to distinguish between the focus, harmony, and passionate dedication necessary for outstanding performance, and the excesses and extremes that lead to decline."*

In humans, greatness demands dedication and focus—a "living on the edge" quality. Prodigies in the arts are not known for their well-rounded lives. Brilliant scientists and entrepreneurs give up much of their family life. And superb college athletes are too preoccupied with training to excel at their studies. To do anything really well requires giving some things up. Because there is within us all only so much talent and energy, it must be focused for maximum effect.

The same logic holds for organizations. Concentration and synergy—not middle-of-the-road flexibility—are the hallmarks of greatness. Successful organizations zealously align their strategies, structures, and cultures around a central theme to create powerful, cohesive, brilliantly orchestrated configurations.

> *"Stellar performers view the world through narrowing telescopes. One point of view takes over; one set of assumptions comes to dominate. The result is complacency and overconfidence."*

Conversely, middle-of-the-road strategies may be anathema to competitive advantage—the jack-of-all-trades is too often master of none. The same is true of culture and structure. Equality among marketing, production, and R&D departments might slow down decision making and prevent a coherent strategic theme from emerging. Similarly, organizational cultures that nurture too many dissidents might be stymied by conflict.

Managers, therefore, should reap the benefits of a well-tuned configuration without regret. They should take care not to kill their competitive edge by prematurely watering things down, introducing too much noise into the system, or permitting too many discordant practices.

I wish to amend Peters and Waterman's thesis: It is not just the pieces of a configuration—closeness to customers, innovation, high quality, differentiated products, loose-tight structures, or skunkworks—that create excellence. Stardom is attained also *through* configuration, the way the pieces fit together—their complementarity, their organization. To achieve success, *form* or configuration must animate and orchestrate the *substance* of individual elements.

Liberating Self-Reflection

Unfortunately, configuration and synergy are usually attained at the cost of myopia. Stellar performers view the world through narrowing telescopes. One point of view takes over; one set of assumptions comes to dominate. The result is complacency and overconfidence.

The only way to avoid myopia and the resulting excesses of the trajectories is for managers to reflect on their own basic assumptions about customers, competitors, and what they deem good or bad about strategy, structure, and culture. They must search for the underlying values, presumptions, and attributions that drive their organization. Only after they become conscious of the various inbred premises for action can they begin to question them.

Managers need to buy mirrors. They have to engage in more self-reflection and be less self-centered. They must audit themselves and solicit the views of objective third parties to discover their own blind spots. They can start by asking themselves the following questions:

1. What kinds of customers do we prefer? Why?
2. What assumptions are we making about our customers and competitors? How have our views of clients changed in the last few years?
3. Which aspects of strategy have not changed in many years? Why?
4. To whom do we pay the most attention, both inside and outside the organization? Whom do we ignore and why?
5. What are our most cherished goals and values? How have they evolved?
6. Which of our strengths are declining? Which are on the rise?
7. How will we find out if our strategies are wrong? How quickly?
8. Which departments and types of employees do we treasure and reward the most? Why?
9. What biases might filter our views? Who might tell us about these biases?
10. How do others in the industry see us?

It might be useful for managers individually to answer these deliberately general questions, to then circulate their written responses to colleagues, and finally, to come together to frankly discuss the answers.

Gathering Information

Self-knowledge cannot be attained in a vacuum. Many of the best sources of such knowledge can be found outside the organization. To discover whether momentum is driving organizations toward dangerous excesses, managers must test their assumptions against reality—against evolving customer needs, new technologies, and competitive threats.

The whole point of gathering information is to create uneasiness, to combat complacency. Information must serve as the clarion call that awakens a somnolent system, the brakes that slow down a runaway trajectory. Combined with self-knowledge, it can prevent many of the excesses that have plagued our firms. What follows are some general maxims for corporate information gathering, written in the more lively prescriptive tone.

Dedication and Commitment. Information gathering should not be viewed as a routine accounting function; it is the sentinel that guards the fort. Gather and analyze information as if your company's life depends on it. It often does. Look at what happened to Sears when it ignored K mart and Wal-Mart, or to Caterpillar when it missed the shift away from heavy equipment.

Managers at many levels and from a variety of departments must religiously watch and analyze their customers, suppliers, and competitors. Such devotion may take lots of time and money, but it is usually worth it. Xerox, for example,

trained 200 of its most astute line managers to look diligently and systematically for any changes in its rivals' pricing, products, and technologies.

Counterintuitive Scanning. Look for trends in soft data you *do not* normally think are of central importance, then try to interpret them in a manner least favorable to the company. For example, SALESMEN should supplement the sales and market reports to which they are so addicted with indicators of product quality and manufacturing efficiency. CRAFTSMEN should listen to what customers are saying about their products as well as looking at cost figures. PIONEERS should cost out their innovation projects and try to establish how well their competitors are doing with much less advanced offerings. Finally, BUILDERS should look for which operations to sell, what to cut back on, and how to get more out of existing operations.

Getting Through to the Top. Make sure information goes to the powerful and is gathered by the bold. Don't ever shoot a messenger. Get people at high levels involved in the collection and analysis of information—like the executives at Apple who listen in on customer complaint lines both to find out what is wrong with their products and to see how those complaints are being addressed. Members of the board must also play a role in monitoring performance. Because they have the power to make a difference, they should become as familiar as possible with products and markets.

Keep the game honest and reliable by using multiple sources of information. Leaders such as President Franklin Roosevelt would make themselves very well informed about an issue using one set of sources before they were formally briefed by another. They would then make their expertise obvious during the briefing, exuding an aura of super-competence that would discourage any subsequent attempts at concealment.

Sources of Good Information: Operations. If you are a senior manager in particular, make sure you tour your operations. You could pretend to be a customer or try to buy your own products or services incognito. Talk to lots of employees at all levels. Get your teenage nephew hired and listen to his reports. Find out what people in plants, warehouses, and branches are saying. Sam Walton of the super successful Wal-Mart stores visited every one of his 700 stores every year, hitchhiked with Wal-Mart trucks across the country, and frequented distribution centers to chat with the rank and file. Peters and Austin (1985) call this "management by wandering around" (MBWA). It keeps managers in touch with "the first vibrations of the new."

Sources of Good Information: Customers. Visit customers and have them visit you. Work on some projects together, and benefit from their free advice. Find out what they need, like, and dislike. Allergan, a successful subsidiary of drug giant SmithKline Beckman, supplied ointments for ophthalmology patients such as contact lens users. In discussions with consumers—with whom most drug companies never deal directly—they heard repeated complaints about dry, itchy eyes, a problem never detailed in formal prescriptions compiled in their data bank. This qualitative symptom was the source of one of Allergan's most successful new products (Peters and Austin 1985).

Sources of Good Information: Competitors. Find out how the firm stacks up against its competitors in the minds of industry financial analysts. Buy and benchmark rivals' products. Determine what customers think of the competition's offerings and what new products your rivals are introducing. Discover how well competitors are faring with their new products. Xerox purchased the machines of rivals such as Canon and tore them apart to discover how to economize on or improve their own offerings (Dumaine 1988). The powerful Komatsu, once an upstart Japanese heavy equipment manufacturer, eventually overtook rival Caterpillar by benchmarking Cat's machines and finding ways to produce equivalent quality at a fraction of the cost.

> *"There are no hard and fast rules. It is all a matter of judgment. The only imperative is that all leaders must operate with the firm assumption that one day they will have to go to war with the past."*

Sources of Good Information: Performance Trends. A static statistic tells us much less than a trend, so monitor everything over time. Plot graphs of information so that trends become apparent. For example, try to determine what is happening to the prices, margins, and growth rates of your various products, to their market share, and to your outlets according to geographic region and store type. Creative aggregation and disaggregation of information is critical. For example, to find out where to expand, monitor results by region; to find out what kinds of new products to introduce, look at your lines on a product by product basis.

Go Beyond the Formal Information System. Things change, but formal information systems reflect only the kind of news—mostly quantitative—that was important yesterday. Many acute challenges will not be captured. So use these systems creatively and go beyond them. Look for "unobtrusive indicators" of potential problems by finding out such things as:

• Which offices make the most photocopies, write the longest and the most memos, and order the most stationery per capita? (Is this the locus of too much bureaucracy or overstaffing?)

• How many days are salespeople out of the office? Are they traveling more? What percentage of calls are made to new clients? Is this increasing or decreasing? (Are we reaching out or closing up?)

• Which departments have the highest absentee rates? The most turnover? The greatest loss of highly rated employees? The smallest loss of poorly rated employees?

• From which departments are all (or none) of the promotions coming? What is the background and profile of those promoted, those left behind, and those leaving the firm? (What kind of culture do we have? What are its values?)

Almost everything done in an organization leaves traces of information. These potential "watchdogs" should be tapped regularly.

Pattern Recognition. Use your ability to recognize patterns to discover what the mountain of data is saying. Are ominous trends developing that have a common and dangerous cause? Are symptoms intensifying? Is there a vicious cycle that explains this? Ask which configuration is emerging, which trajectory applies. Generate questions that would complete the picture and gather new data accordingly.

Enlist managers from the different functions in these tasks of probing and interpretation. Meet with them regularly, not to plug numbers into a pro forma budget, but solely to spot important threats and opportunities. This is the only way of finding out when it is time to change. No bells will ring when that happens. There are no hard and fast rules. It is all a matter of judgment. The only imperative is that all leaders must operate with the firm assumption that one day they will have to go to war with the past.

Learning and Innovating at the Boundaries

Concentrated, orchestrated configurations produce wonderful results but can slow learning and renewal. One way for a large organization to have its cake and eat it too is to establish small independent units to experiment and do new things outside of—that is, without disturbing—the configuration of existing operations. Firms might, for example, set up small-scale development teams that have the flexibility to get things done quickly and economically. Companies such as 3M give such teams much independence but limited resources, killing projects that remain unsuccessful after five years or so. Hewlett Packard's small, agile teams collectively introduced products at the rate of eight per week in the mid-1980s. Some items went from conception to debugged prototype in just 17 weeks.

Many Japanese companies also use such small development teams to increase the number of new product experiments. These teams always work outside the normal structure. They are populated by young turks with tremendous energy (the average age at Honda was 27), and are fast tracks for advancement. Most teams fail, but the ones that succeed go on to become very significant business units.

In his monumental *A Study of History,* Arnold Toynbee has painstakingly traced the rise and fall of 21 civilizations. All of these once great cultures, except perhaps our own, have collapsed or stagnated. Toynbee argued that their declines came not from natural disasters or barbarian invasions, but from internal rigidity, complacency, and oppression. He saw that some of the very institutions and practices responsible for ascendence ultimately evolved into the perverse idolatries that caused decline: "When the road to destruction has perforce to be trodden on the quest of life, it is perhaps no wonder that the quest should often end in disaster."

Organizations too are built into greatness and then launched toward decline by similar factors: focused strategies, galvanized cultures, specialized skills, efficient programs, and the harmonious configuration of all these things. When used with intelligence and sensitivity, these factors can make for tremendous success. But when taken to extremes, they spawn disaster. Ironically, success itself often induces the myopia and carelessness that lead to such excesses. It turns inspired innovation into blind invention, acute controls into imprisoning regulations, cohesive cultures into monolithic cabals. In the process, rich, nuanced firms become distended caricatures of their former selves, transformed from intelligent, adaptive systems into programmed, insular machines.

Paradoxically, the power of a tool increases both its potential benefits and its dangers. Icarus could not have flown without the wings so deftly crafted by his loving father Dædalus; but at the same time the wings placed a terrible onus upon Icarus's mastery and his discipline. Similarly, focused cultures and strategies and orchestrated configurations contribute mightily to outstanding performance. But they carry with them daunting risks of rigidity and isolation. To compound the problem, it is terribly hard to distinguish between the concentration needed for success and the narrowness that guarantees irrelevance. Managers of thriving organizations must forever remain alert to such "perils of excellence." ❐

References

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