*Strategic Management*, 9e: Chapter 1 study guide

Why do companies fail?

There are no simple answers to this question but numerous strategy studies over the years suggest at least six reasons:

1. *Inertia*: Markets change, tastes change, customers change and companies observe these changes but fail to act smartly upon them. Their culture has become bureaucratic, large, formalised and lacking in flexibility. They recognise the need to change but respond too slowly while their competitors are moving faster. For example, wine in the UK was sold through chains of small shops with brand names like Threshers and Oddbins. These companies recognised the threat from cheap wine sold through the large supermarket chains. But the wine shop chains did not act fast enough. The wine shop chains have now largely disappeared from UK high streets or been made bankrupt.

2. *Legacy issues*: Some companies have made major commitments on health costs, pension costs and other areas to their managers, current and past employees – often over many years. These have added an immense additional cost burden to the current costs of such companies in spite of being entered into in good faith at the time of negotiation. For example, the US car companies have had major additional legacy costs which have made their costs higher than their Japanese competitors.

3. *Focus on past success*: some companies become satisfied with their present business and fail to understand that they need to renew aspects of the business over time. For example, many of the main companies identified by Peters and Waterman as providing examples of good business in the 1980s are no longer around today. [Peters, T and Waterman, R (1982) *In Search of Excellence*, HarperCollins, New York.]

4. *Technology change*: New technology can totally undermine the cost structure and the market demand for existing companies. For example, you do not see much demand for logarithm tables and slide rules that were widely used in schools in the 1950s in the UK. Companies making these items have disappeared.

5. *Poor leadership and culture*: Strategic decisions are made by people, especially the leaders of companies. Such leaders also influence the culture of the companies because they are at the top of such organisations and company culture is defined by its leadership. It may support new initiatives, new strategies and new ideas or it may oppose them. Some company cultures make strategic change difficult leading to the failure of the organisation over time. For example, the series of safety failures at British Petroleum over several years up to 2010 were arguably both a failure of leadership and a failure of a company culture that did not put sufficient emphasis on such matters.

6. *Unlucky*: We need to recognise that some companies can occasionally be lucky with their strategies and others unlucky. Strategy is not an exact science. It involves judgement and risk. Not all risks have a positive outcome. For example, News Corporation acquired MySpace in 2008 for US$ 580 million. It is reported to be trying to sell the company in 2011 for US$ 30 million. News Corporation took a risk on MySpace that turned out, at least in part, to be unlucky.