Why do successful companies fail?

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Why do successful companies fail? And why do they fail even if they are the leaders in the industry? The Innovator's Dilemma, a book by Clayton M. Christensen, helps us to understand the phenomenon behind this. Sears, a very successful company at one point, missed the trend of discount retailing and home centers. This lead to a huge loss of billions of dollars and they were never able to recover from. While they were being praised for the their success, they ignored all the signs and got too comfortable, which led to the demise of a global powerhouse.

Sears was not the only company that was praised for their success yet later failed. From the outside, it seemed like they were doing everything right. They gathered data before the release of new products. They listened to what the current market wanted and tailored their products based on those needs. They continued to support their sustaining technology while ignoring the disruptive technology because it was not needed in the current market. Disruptive technology does not satisfy current needs but the future needs of the market.

Sustaining innovation are technologies that improve a company's performance based on the feedback that they get from their customers. These innovations help to reduce the defects of the current offerings or improving the overall quality of the product. This terminology believes in the theory that customers are always right and tailors their products to meet those needs.

On the other hand, disruptive innovations are products that have an overall lower quality that don't perform well in comparison to the sustaining

products. These products come to life from a need that is not being met in the current market. They exist in a niche market that is being ignored by the current market offerings. While there might not be a need in the current market for these innovations, disruptive technologies grow to meet the future needs of the customers.

These companies fail because while they are following the same management practices that made them successful, it makes them succumb to disruptive innovation. Christensen introduces the five principles of disruptive technology and how managers can use them to manage the effects of these innovations. It can help them use these principles to their advantage because otherwise they will fail in the long run.

A value network is how a firm recognizes and reacts to their customer needs while striving for profit. This helps a firm to use their competitive advantage and their past choices to find out what the value is for new technology. A firm then allocates their resources based on what they find is the most attractive to their lead customers. That means even if they chose the disruptive innovation, their lead customers might not respond. The first principle is about how the survival of these firms relies on lead customers and investors for resources. Don’t rely on customers current needs to let you know what they might need in the future because it will provide incorrect data that might lead to failure.

The second principle is how small markets do no solve the growth needs of a large organization. If a company wants to be successful, they must maintain their current profit and create new opportunities as they continue to grow.

As they get larger, they need to increase their revenue in order to maintain their overall growth rate. This makes it difficult for them to enter a small market because they would not be able to achieve the same growth rates that they need to survive.

The third principle discusses how markets for the disruptive innovation cannot be analyzed in a market that does not exist. The demand is uncertain for this market, which makes it hard for upper management to consider investing their time and resources. If a market does not guarantee financial return then it’s highly unlikely that a firm would be willing to enter the market. Due to this, new entrants learn by making mistakes and then making revisions.

The fourth principle is how organizations’ capabilities define its disabilities. A lot of managers assume because they have employees that are capable of achieving the task, then the organization is capable as well. That is not completely accurate because the organization has capabilities that are separate from it employees. The capabilities of an organization are its processes and values. While people can be trained and adjust easily when learning new procedures, processes and values are harder to change. So while their values encourage the employees to focus mainly on high margin return projects, they can’t simultaneously focus on low margin products. Therefore, sometimes organizations’ capabilities can also be its disabilities because it prevents them from pursuing disruptive innovation.

The fifth and final principle is how the technology supply might not equal its market demand. In the early stages of disruptive innovation, the demand for

them is only in small markets. As they continue to grow, they evolve to meet customers' future needs. That is because technology advances faster than the demands for them. These innovations only exist in niche markets and meet the needs of early adopters. So while they might not satisfy the current market needs, it will eventually take over the existing market.

Managers that try to fight these principles when dealing with disruptive technology might cause their organization to fail. You can't manage sustaining and disruptive technologies in the same way or that will cause you to miss the future needs of the market. Christensen recommends that managers faced with this dilemma to follow new ways to manage this. He suggests that you create separate division to deal with these innovations that will benefit from these gains. By doing that you are giving the smaller firms the responsibility to meet those customers demands. For example in the book he mentioned how Johnson and Johnson created over 160 different divisions, which allows them to introduce distributive technologies. Due to the fact that its only part of a small division, if the distributive technology fails then they can discard it and move on to the next one because the exit barriers are low.

Rather than waiting to fail at the end, plan to fail while you are still in the early stages. This is because it costs less when you are making mistakes at the early stages of the lifecycle. Not only is it less costly but the exit barriers are still low at that stage. Christensen advices that you treat failures as a trial and error process to help improve the disruptive innovation to meet customers' future needs. Rather than being a follower, be a leader in the disruptive market; don't wait for the breakthroughs in technology. The

current attributes of the disruptive technology might not seem attractive to the current lead customers but it might help to create a new market.

This book was published in 1997 and because of that I feel that the books examples are outdated. The book should be updated with newer examples that will help the author get to his point across much faster. For example for how the IPhones were considered a disruptive technology because it advanced the current needs of the market. Initially, it only served a niche market and then smartphones took over the phone industry. Regular cellphones could not meet the current needs of the lead customers because they had higher expectations.

The book was very dry to read and it was very repetitive; I understand that he was trying to get his point across but I think he could have done it with fewer pages. I thought that the book's principles were very interesting and could see where distributive technologies could have interfered with the current market in the present time. I would suggest this book to others because I have learned a great deal and can see why this book is still being read even though it was written twenty years ago. These issues are still prevalent in today's market and will continue to do so in the future as technology continues to evolve.

Reference

Christensen, C. M. (2016). *The innovator's dilemma: When new technologies cause great firms to fail* . Boston, MA: Harvard Business Review Press.