It's a Trap!

Professor Brian D Smith explores how success traps companies and makes them vulnerable to competition

Firms vary greatly in their capacity to change and, surprisingly, the stereotypes of big, slow corporations and small, nimble challengers seem to be poor predictors of reality. More significant is recent performance; successful firms almost always demonstrate much less change capacity when compared to firms that are failing to achieve their goals, even though the former usually have more time and resources to enable change.

These observations are examples of "The Competency Trap", a phenomenon first discussed in the academic literature by Levinthal and March in 1993 but anecdotally mentioned for decades before that. This trap threatens the most successful companies and allows their less successful followers to overtake them, so it is worth understanding its mechanism and how to avoid it or exploit it.

When we look at companies caught in the competency trap, the first thing we observe is that they can be caught by the head or by the tail. The first is characterised by an inability of a firm to see that they need to change and, because this is primarily a failing of firms' leadership, we often refer to it as trapped by the head. The second, perhaps more perplexing, is when a firm's leadership seems to see the need for change but is thwarted by organisational inertia. The tail traps such firms.

So how does the competency trap work? The clues lie in the observation with which we opened this article – it is successful firms who are trapped most often and who find it hardest to escape. Investigating further, the competency trap seems to have three separate mechanisms: short-sightedness, specialness and skewed-ness, each of which is amplified by success.

Short-sightedness is the failure to see that the future may not be like the present. In head-trapped companies, this is seen in refusal to acknowledge long-term trends that don't agree with short-term trends. In tail-trapped firms, it is seen in when middle-managers demand quantitative evidence to justify change but because of current success, do not apply the same burden of proof to the status quo. In both cases, change is stifled. Ironically, the ubiquity of IT and data systems makes this worse, as historical data easily outweighs sparse data about the future. Short-sightedness then is the disease that kills successful companies in changing markets, when the future is never like the past.

Specialness is the discounting of information that comes from a situation that is not identical to the firm's own. In both head-trapped and tail-trapped companies, successful firms regard themselves as special in some way and, when they receive information they don't want to hear, they filter it out on the grounds that their firm is not the same as any other. Specialness then is the disease that kills successful companies that work in complex markets, where analogues are always imperfect.

Skewed-ness is the unconscious attribution of false meaning to observed reality. Success seems to breed a persistent bias in which successful outcomes are always attributed to deliberate decisions whilst failures are often attributed to chance or exceptional events. In head-trapped companies, leaders use successes to support their strategy and attribute failure to "irrational". In tail-trapped

companies, success is attributed to hard work and failure to lack of resources. In neither case are the facts objectively assessed for what lessons they might hold. Skewed-ness is the disease that kills successful companies when, as is usually the case, data is imperfect and objective judgement is essential.

So the 3-mechanism competency trap is highly effective at capturing successful companies but the same mechanisms can work in reverse for less successful firms. The short-sightedness mechanism, for example, has its origins in a desire for the future to be like the past, which of course is not true for unsuccessful or less successful firms. So less successful firms look at market trends with an open mind and hope to see something new. Struggling firms are also more likely to look for parallels in other markets or firms that they can learn from and build upon, reversing the specialness mechanism. And, skewed-ness is less of an issue because both leaders and middle managers have few successes that they can attribute to their own brilliant strategies and too many failures to believably blame others.

And so the competency trap ultimately leads creates a kind of self-correcting market mechanism in which successful firms suffer a relative disadvantage to those they look down upon. Over time, this allows firms once viewed as failures to move up the league table by a combination of their own success and the leaders' failure.

Perhaps the most important lesson to come out of research was that the competency trap, effective as it is, could be beaten. Some firms– P&G, GE, Johnson and Johnson to name but three – have stayed at the top for more than a century tells us that. Truly great firms have understood the three mechanisms already and look to the future, see themselves as unexceptional and try to make balanced assessments of successes and failures. Avoiding the competency trap is at least part of the reason for their success.

ABOUT THE AUTHOR

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