



Creative Destruction: Why Companies That Are Built to Last Underperform the Market--And How to Successfully Transform Them

By Richard Foster, Sarah Kaplan

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Turning conventional wisdom on its head, a Senior Partner and an Innovation Specialist from McKinsey & Company debunk the myth that high-octane, built-to-last companies can continue to excel year after year and reveal the dynamic strategies of *discontinuity* and creative destruction these corporations *must* adopt in order to maintain excellence and remain competitive.

In striking contrast to such bibles of business literature as **In Search of Excellence** and **Built to Last**, Richard N. Foster and Sarah Kaplan draw on research they conducted at McKinsey & Company of more than one thousand corporations in fifteen industries over a thirty-six-year period. The industries they examined included old-economy industries such as pulp and paper and chemicals, and new-economy industries like semiconductors and software. Using this enormous fact base, Foster and Kaplan show that even the best-run and most widely admired companies included in their sample are unable to sustain their market-beating levels of performance for more than ten to fifteen years. Foster and Kaplan's long-term studies of corporate birth, survival, and death in America show that the corporate equivalent of El Dorado, the golden company that continually outperforms the market, has never existed. It is a myth.

Corporations operate with management philosophies based on the assumption of continuity; as a result, in the long term, they cannot change or create value at the pace and scale of the markets. Their control processes, the very processes that enable them to survive over the long haul, deaden them to the vital and constant need for change. Proposing a radical new business paradigm, Foster and Kaplan argue that redesigning the corporation to change at the pace and scale of the capital markets rather than merely operate well will require more than simple adjustments. They explain how companies like Johnson and Johnson, Enron, Corning, and GE are overcoming cultural "lock-in" by *transforming* rather than incrementally improving their companies. They are doing this by creating new businesses, selling off or closing down businesses or divisions whose growth is slowing down, as well as abandoning outdated, ingrown structures and rules and

adopting new decision-making processes, control systems, and mental models. Corporations, they argue, must learn to be as dynamic and responsive as the market itself if they are to sustain superior returns and thrive over the long term.

In a book that is sure to shake the business world to its foundations, **Creative Destruction**, like **Re-Engineering the Corporation** before it, offers a new paradigm that will change the way we think about business.

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Editorial Review

Amazon.com Review

Striving for excellence or building to last is one thing. Sustaining superior performance over the long haul is another matter entirely, as longtime McKinsey & Company executives Richard Foster and Sarah Kaplan persuasively point out in *Creative Destruction*. Based on a concept first advanced some 70 years ago by economist Joseph Alois Schumpeter, Foster and Kaplan propose that corporations can outperform capital markets and maintain their leadership positions only if they creatively and continuously reconstruct themselves. In doing so, they can stay ahead of the upstart challengers constantly waiting in the wings. The decidedly radical paradigm that they champion has been urged in one form or another by others since Schumpeter, but this effort is particularly convincing because of the massive research the authors cite to back it up: McKinsey studies of more than 1,000 corporations in 15 industries over 36 years.

Citing the specific reasons behind ups and downs at firms such as Storage Technology, Intel, Johnson & Johnson, and Corning, Foster and Kaplan claim that the process of creative destruction must become an integral part of today's corporations from top to bottom if they truly hope to attain lasting excellence (and beat Wall Street's primary indices for more than a few fleeting years). Firms that have mastered elements of this practice have done so by innovatively shedding detrimental processes and operations while cleverly spotting and appending those that add new value. The authors write that the "key to their success is the balance they have struck between creativity and destruction--between continuity and change." Their book offers impressive insight into the acts of both breaking down and building up. If its analyses of past performance mean anything, it should prove very interesting to savvy managers as well as long-term investors. --*Howard Rothman*

From Publishers Weekly

In this painstakingly researched, well-documented work, Foster (*Innovation: The Attacker's Advantage*, 1986) and Kaplan argue that one of the fundamental tenets of American business that a company must be designed to stand the test of time is seriously flawed. Building off the ideas of economist Joseph Schumpeter, who argued in the 1930s and 1940s that capital markets weed out underperformers so that new firms can take their place, Foster and Kaplan contend that once they are successful, companies tend to institutionalize the thinking that allowed them to thrive. However, they say, markets now change too quickly for traditional management structures to keep up. Rather than aiming for continuity, companies should embrace discontinuity, they argue, constructively destroying and re-creating themselves as needed. Aspects of this idea have been proposed for nearly 15 years by authors like Tom Peters and Andy Grove, but Foster and Kaplan's extensive research, drawing on analysis of more than 1,000 companies over four decades, have moved the argument beyond rhetoric. Their prescriptions for forward-looking management increase the pace of change within organizations, open up the decision-making process and relax conventional notions of control are not as fresh as the rest of their argument. But there is no doubt that Foster, a senior partner and director at the consulting firm McKinsey & Co., and Kaplan, a former McKinsey employee who is now a doctoral student at M.I.T., have raised significant questions about how organizations should define long-term success. (May)Forecast: A four-city author tour and print advertising campaign may help attract attention to this book, but it's more likely to be talked about than bought or read.

From Library Journal

In this new book by two McKinsey consultants, the central question is a very simple one: why do good companies fail? The focus of the book is not so much on corporate continuity as "discontinuity," or companies' constant need to destroy and re-create themselves in order to adapt to changing business conditions. Reflecting a "corporate Darwinism," the authors feel that "destruction is a mechanism that allows the market to maintain freshness by eliminating those elements that are no longer needed." From their research of over 1000 American companies, they show that even successful corporations over time invariably underperform. Examples of companies that chose to "destroy" themselves and reemerge phoenixlike include such well-known names as General Electric, Intel, and Enron. The authors are certainly onto something, but the conclusions aren't all that new. The book comes across as a slick client presentation loaded with graphs, charts, and plenty of business jargon that is often numbing to read. A more satisfying book on this subject is Clayton Christensen's *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*. (Harvard Business, 1997). Not recommended. Richard Drezen, Washington Post/NYC Bureau, New York

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Users Review

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