

Organisational Decline – Week 8

Developing Strategic Capability



Recap from the Previous Lesson

Strategy

A plan for how a company competes and wins in the market.

Organisational Resources

The assets a company has – money, people, technology, brand reputation, and knowledge.

Strategic Change

How companies adapt their strategy when the market, customers, or competition change.

Competitive Advantage

What makes a company better than its competitors – better products, lower prices, or unique strengths.

Market Position

Where the company stands compared to competitors – strong, weak, or in the middle.

Learning Objectives

Define Decline

Understand that decline is a slow, gradual weakening of a company.

Understand Causes

Learn how external factors, internal weakness, and poor strategy contribute.

Spot Problems Early

Recognise why early detection is essential for recovery and survival.

Identify Symptoms

Spot early warning signs across finance, operations, market, and people.

Know Key Concepts

Understand strategic drift and organisational inertia.



**If an organisation has strong
resources and capabilities, can it
still fail? Why?**

If an organisation has strong resources and capabilities, can it still fail? Why?

— The Answer

YES. Even successful companies can decline when they;

- **Become comfortable and overconfident**
 - **Ignore warning signs**
 - **Resist necessary change**
- **Allow organisational rigidity to block adaption**

Strong resources mean nothing if a company fails to adapt.

What is organisational decline?

Process

Decline happens slowly over time, not suddenly. Problems build up gradually.

Position

The company loses competitive advantage and market share as rivals grow stronger.

Capability

The organisation becomes weaker internally, with declining ability to compete or achieve goals.

Decline as:

A Process

Problems build up gradually over time.

Interconnected

Decline is caused by a mix of external changes, internal weakness, and poor strategy.

Reversible

With the right strategy and decisive action, companies can recover.



A Warning

Early symptoms show the organisation needs to take action.

Preventable

Spotting causes and symptoms early helps stop and decline.

How does decline happen?

Two ways decline develops

Organisational decline can happen slowly or suddenly.

Both require different strategies to manage and recover.

Gradual decline

The company slowly weakens over time.

Problems go unnoticed, and missed early warnings make recovery harder and more expensive.

Sudden decline

Sudden shocks – like market changes, losing a key customer, or new competition – causes rapid problems.

Quick recognition and fast decision are essential for survival.

Symptoms of organisational decline – Financial symptoms



Declining revenues

Sales fall because of fewer customers are buying.

Why would sales be falling?



Falling profit margins

Costs rise or prices drop, leaving less profit per sale.



Cash flow problems

There is not enough money available to pay bills, employees, and suppliers on time.



Increasing debt

The organisation borrows more money just to survive.

Market Symptoms

Loss of market share

Competitors gain customers while the company loses them. Market share decreases.

Increased price competition

Rivals offer lower prices or better deals, forcing the company to cut prices and lose profit.

Reduced customer loyalty

Long-time customers leave because they're unhappy with the product or service.

Customer switching

Customers move to competitors for better value, quality, or service.

Operational Symptoms

1

Rising costs

Production and operations become more expensive. The company spends more money to make the same products, eating into profits.

2

Falling productivity

Workers and machines produce less output than before. More time and effort is needed to complete the same work.

3

Process inefficiencies

Systems and procedures don't work well. Mistakes happen more often, and communication between departments breaks down.

4

Quality problems

The quality of products or services decreases. Customers notice problems, complaints increase, and the company's reputation is damaged.

Organisational / Cultural Symptoms



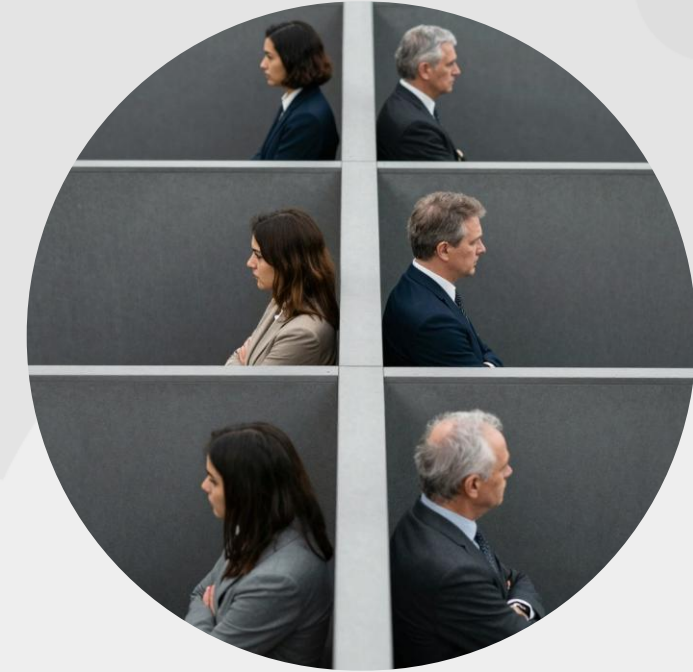
Low morale

Workers feel unhappy, unmotivated, and disengaged.



High staff turnover

Skilled employees leave, increasing costs and reducing experience.



Resistance to change

Employees prefer old methods and refuse new ideas, blocking improvement.

Which symptoms tend to appear first—and which are often ignored?

Financial symptoms like declining revenues appear first and are easy to measure.

Operational and cultural symptoms (falling productivity, low morale, staff leaving) often appear earlier but could be ignored.

Companies may notice one symptom but miss others, losing sight of the full picture of decline.

Causes of organisational decline

External causes

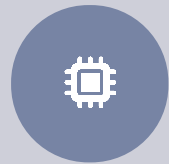
Factors from outside the company that create challenges beyond their control. These external shocks are difficult to control, but companies that prepare and adapt can survive them.



Market changes

Customer needs shift and demand drops.

Can we think of any high profile examples?



New technology

Companies using outdated methods cannot compete with those using modern technology.



Increased competition

Rivals offer better products or lower prices.

Causes of organisational decline

External causes (continued)



Economic problems

Recessions reduce customer spending, so fewer people buy products and services.



Government rules

New laws and regulations force companies to change how they operate, often increasing costs.

Internal Causes

Poor Leadership

Leaders lack clear vision, make poor decisions, or fail to motivate staff.

Weak Employee Skills

Staff are not well trained, and the organisation fails to develop their abilities.

Weak Decision-Making

Managers make poor strategic choices without enough information or planning.

Lack of Innovation

The company stops improving or creating new products, while competitors move ahead.

Organisational Inertia

The company resists change, sticking to old methods and blocking new ideas.

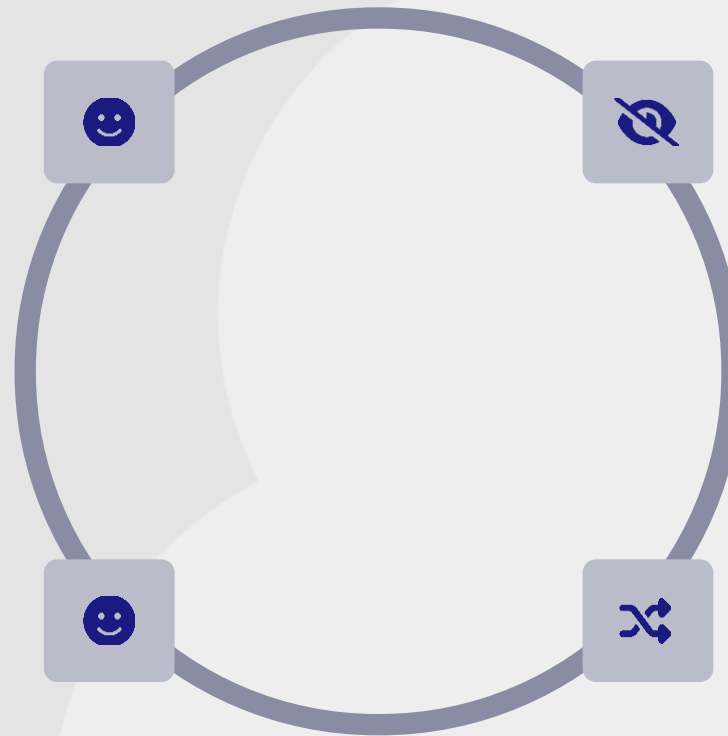
Strategic Causes

Overreliance on Past Success

The company keeps using old successful strategies and fails to adapt when the market changes.

Poor Implementation

The strategy might be good, but it isn't executed well. What could be the causes of this?



Lack of Environmental Scanning

The organisation doesn't monitor customer trends, competitors, or market shifts, so leaders miss important signals.

Failure to Adapt Strategy

Even when change happens, the company doesn't update its strategy, causing a mismatch with customers needs and market reality.

Which do you think is more dangerous: external shocks or internal weaknesses?

Consider two companies facing the same market change.

**One has strong leadership and good planning. The other has weak leadership
and outdated strategy.**

**Which is more likely to survive? Discuss which causes more damage: sudden
external shocks or hidden internal problems.**

Strategic Drift

1

What Is strategic drift?

When a company's strategy no longer matches the market because it keeps using old approaches while the environment changes.

2

How it happens gradually

The organisation continues doing what worked before and doesn't realise the world around it has changed.

3

Market changes, strategy stays same

Technology, competitors, or customer preferences shift, but the company fails to adapt.

Strategic drift (continued)

4

The growing gap

The gap between the company's strategy and market widens as it continues using outdated approaches.

5

Early warning signs

Monitor customer feedback, market trends, and competitor actions to spot strategic drift early.

What does recognising early warning signs give you?

Organisational Inertia

What Is organisational inertia?

Organisational inertia is when a company resists change and continues with old ways of working even when change is necessary.

Why does it happen?

- **People prefer familiar methods and avoid risk.**
- **Systems and processes are rigid, and decisions are slow.**
- **Investment in new technology or training is delayed or blocked.**

What is the impact?

- **The company falls behind competitors who innovate.**
- **It becomes less competitive and loses market position.**

Why do successful organisations often struggle to change?

Success creates comfort

Past success makes leaders and employees feel secure. They assume the current strategy still works, so change feels unnecessary.

Overconfidence in the past

Organisations believe that what worked before will work again. This confidence reduces awareness of new challenges or shifts in the environment.

Resistance to new ideas

Strong cultures and establishes routines make new approaches seem threatening, leading people to defend old methods instead of adapting.



Why do successful organisations often struggle to change? (continued)

Organisational inertia

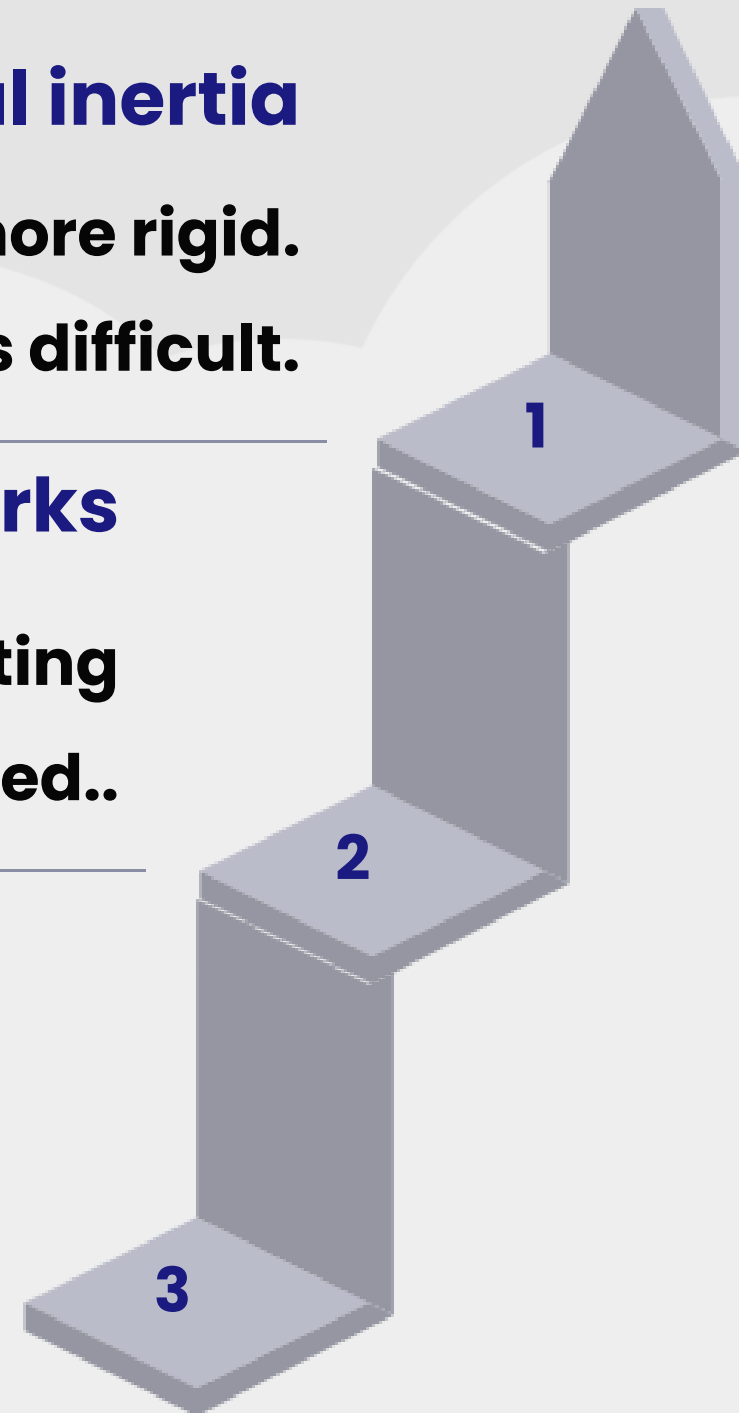
As companies grow, they become slower and more rigid. Decisions take longer, and changing direction becomes difficult.

Fear of losing what works

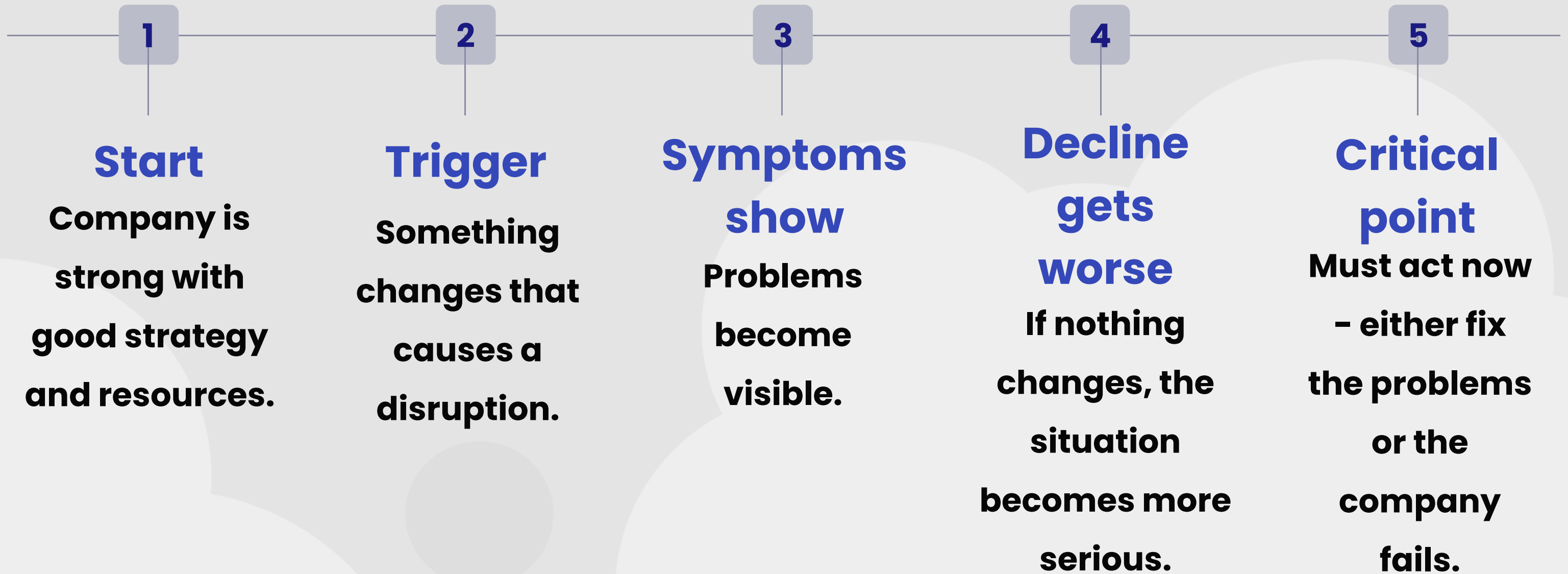
Leaders worry that changing strategy could harm existing success, so risks are avoided..

Missing warning signs

Success can create overconfidence, ignoring early warning signs and responding too late.



The decline process – a journey



Why early diagnosis matters

1

Early detection

Spotting problems early gives a company more time and options to respond.

Fixing issues early is easier, cheaper, and prevents small problems becoming major crises.

2

Better response

Early awareness allows leaders to plan stronger, more effective solutions.

Companies that act early can adjust strategy before damage becomes severe and recovery becomes difficult.

Activity: Diagnosing Decline



Identify symptoms

Find all warning signs in your case study – Further research is welcomed!



Analyse causes

Determine whether symptoms come from external shocks, internal weakness, or strategic mistakes.



Understand concepts

Assess whether strategic drift or organisational inertia contributed to the company's problems.



Propose solutions

Suggest realistic preventative actions or recovery strategies the company could have taken earlier.

Linking decline to strategic capability



Strategic capability defined

Strategic capability is the organisation's ability to compete and achieve long-term goals using its resources, skills, and knowledge.



Decline reduces capability

As decline sets in, this capability weakens – resources are wasted, skilled staff leave, and the organisation struggles to compete.



The broken connection

When strategy no longer matches reduced capabilities, plans fail and performance drops.

Linking decline to strategic capability (continued)



The danger zone

When strategic capability weakened, recovery is difficult because the organisation lacks the resources, skills, and strength needed to turn performance around.



Early intervention

Protecting strategic capability is essential. Organisations must recognize decline early and begin rebuilding their capabilities before they deteriorate beyond repair.

Recap of lesson

Understanding decline

Organisational decline is a gradual weakening that reduces competitive advantage, strategic capability, and market position.

Recognising symptoms

Four types of symptoms show a company is struggling: financial, market, operational, and cultural.

Identifying causes

Decline results from external shocks, internal weaknesses, and strategic mistakes. Strategic drift and inertia prevent adaptation.

Taking action

Early diagnosis is critical. Monitor the environment and adapt strategy before damage becomes irreversible.

What is the biggest barrier to recognising decline early?

- **Consider what we've learned: success creates comfort, organisational inertia prevents change, and companies focus on current profits rather than future threats.**
- **Which barrier is most dangerous? Is it psychological (overconfidence), structural (rigid systems), or cultural (resistance to change)? How can leaders overcome these barriers?**

Next Week

Acquisitions and Diversification

Further Reading

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**If you have any questions, please do
not hesitate to get in touch.**

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