Creativity, Meet Destruction

The Decade Rewrote the Corporate Handbook, Thanks to the Web, Globalization and the Collapse of Two Bubbles

By Scott Thurm

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To understand the challenges that faced businesses the past 10 years, consider the household names that *didn't* make it through the decade: Anheuser-Busch, Compaq, Gillette, Enron, Lehman Brothers, Merrill Lynch, WorldCom.

Companies always fail or get acquired. But the past decade was unusually tumultuous: Two investment bubbles grew, then burst, each followed by a recession. The Internet matured into a crucial cog of commerce and spawned innovative upstarts while ravaging one traditional industry after another. Global players from emerging economies muscled their way into business's top ranks. Wall Street was remade almost overnight by the financial crisis. And governments reversed a decades-long retreat to lay a more forceful hand on the global economy.

Companies found themselves in a wired, instantaneous, hypercompetitive and shrinking world, where a single misstep can be fatal and executives can plunge from heroes to outcasts in weeks.

"Both the exuberance and the depression -- the rise and the fall -- seem bigger and more widespread," says Rosabeth Moss Kanter, a professor at Harvard Business School.

**Rise and Collapse**

The decade began amid euphoria that the Internet would change the world. It did -- but not always in the ways expected.

On the decade's 11th day, Time Warner Inc. and America Online Inc., two icons in their industries, said they would merge, in a deal then valued at $156 billion that was seen as the herald of new era. But the marriage of old media and new media quickly foundered. The companies, each substantially shrunken, completed a divorce this year.

Other tech and telecom titans suffered even more. Lucent Technologies Inc., the world's ninth-most-valuable company at the decade's start, was swallowed by France's Alcatel SA in 2006. WorldCom Inc., also in the top 25, collapsed in an accounting scandal.

As the decade rolled on, the Internet came to be known for destroying businesses. It upended decades-old business models in fields such as media, advertising, travel and entertainment, as consumers and advertisers migrated to the digital world.

But that same shift created opportunity. No one epitomized that better than Google Inc. A mere 15 months old at the beginning of the decade, it morphed from a startup technology company into an advertising and media powerhouse and is now plotting a move into communications. There, it will clash with Apple Inc., which was reborn following the return of co-founder Steve Jobs in 1997. Apple's iPod and iTunes reshaped the music industry; its iPhone revolutionized communications by opening itself to independent innovators.

"This is what [Austrian economist Joseph] Schumpeter had in mind with his term 'creative destruction,'" says Paul David, an economic historian at Stanford University. Industrial collapse is a "messy, messy process," Mr. David says. "It's a great drama, and watching it play out in this decade has been very interesting."

The pace of business accelerated as well, with whipsaw changes in strategic fashion. Ten years ago, business stalwarts raced to develop dot-com strategies, until the dot-coms themselves went bust. From the rubble emerged a credit bubble, symbolized by the private-equity shops that took companies such as Chrysler and utility TXU Corp. private, loaded with debt. When funding evaporated during the credit crisis, cash became king and conservative stewardship was again rewarded.

**Sharing the Spotlight**

This was also the decade when the U.S. saw its singular pre-eminence on the world business stage substantially lessen. Ten years ago, seven of the world's 10 most valuable companies were based in the U.S. Today, only four are; three are based in China, and one each in Brazil, Australia and the U.K.

Both small retailers and industrial behemoths such as General Electric Co. now view their suppliers, their markets and their rivals globally. GE in 2007 for the first time recorded more revenue from outside the U.S. than inside, joining consumer brands such as Coca-Cola Co. and Procter & Gamble Co.

Other U.S. mainstays succumbed to international rivals, most notably in the auto industry. In 2008, Japan's Toyota Motor Corp. knocked General Motors Corp. from its 77-year reign as the world's leading auto maker by units sold. This year, there will be more cars sold in China than in the U.S.

The financial crisis and recession forced GM into a government-supervised bankruptcy and aid package. Among the prospective buyers for its parts are several Chinese companies.

U.S. companies that had viewed emerging countries as markets now "also have to look at them as competitors," says Ms. Kanter, the Harvard professor.

Surging demand from emerging economies contributed to an upward trend in commodity prices. Oil, selling for $25 a barrel 10 years ago, topped $140 in mid-2008, before retreating. That propelled seven oil companies into the ranks of the world's 25 most valuable companies, up from two a decade ago.

The march to an integrated global economy has not been smooth. Post-9/11 political opposition in the U.S. stymied plans by China's Cnooc Ltd. to buy Unocal Corp., and by a Dubai company to manage U.S. ports. A sweeping effort to lower global trade barriers -- known as the Doha round of talks -- has stalled.

Resistance grew as the economy soured. The U.S. economic-stimulus package included several "Buy American" provisions; numerous countries restricted immigration and sent once-welcome foreigners packing. The World Trade Organization projects global trade will fall 9% this year, the biggest drop since World War II.

Strengthened national boundaries mirrored the growing role of government in the economy, in the wake of the financial crisis. For three decades, government had been in retreat, disassembling regulatory structures perceived as stifling innovation and growth. But the financial crisis and recession often made the government the lender, and investor, of first and last resort. At decade's close, the U.S. government owns about 60% of GM, 38% of Citigroup Inc. and 80% of American International Group Inc.

In that light, Edward Whitacre Jr. may just be the executive of the decade. Ten years ago, Mr. Whitacre was smashing government barriers to reassemble much of the old AT&T Corp. Today, he is effectively a government servant, as chairman and interim chief executive of GM.

—Erin White contributed to this article.

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