

How the Mighty Fall (1 of 3)

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Article Overview

Following up on his universally acclaimed Good to Great, Jim Collins recognized that some of the great companies profiled in the book subsequently lost their positions of prominence. With this in mind, Collins asked: How do the mighty fall? Can decline be detected early and avoided? How far can a company fall before the path toward doom becomes inevitable? How can companies reverse course? In How the Mighty Fall, Collins confronts these questions, offering leaders a way to look at their companies in order to reduce their vulnerability to decline.

History shows, repeatedly, that the mighty can fall. The Egyptian Old Kingdom, the Chou Dynasty, the Hittite Empire – all fell. Athens fell. Rome fell. Even Britain, which stood a century before as a global superpower, saw its position erode. Companies are no different.

Some of the great companies profiled in the books Good to Great and Built to Last have subsequently lost their positions of prominence. The question is: How do the mighty fall? If some of the greatest companies in history can go from iconic to irrelevant, what might be learned by studying their demise, and how can others avoid their fate? Might it be possible to detect decline early and reverse course? Or even better, what can be done as a preventative measure?

Institutional decline is like a disease: harder to detect but easier to cure in the early stages; easier to detect but harder to cure in the later stages. An institution can look strong on the outside but already be sick on the inside, dangerously on the cusp of an abrupt fall. Every institution is vulnerable, no matter how great. There is no law of nature that the most powerful will inevitably remain at the top. Anyone can fall, and most eventually do.

But all is not gloom. By understanding the five stages of decline uncovered in the research for How the Mighty Fall, leaders can substantially increase the odds of reversing decline before it is too late – or even better, stave off decline in the first place. Decline can be avoided. The seeds of

decline can be detected early. And decline can be reversed – as has been seen with notable cases such as IBM, Hewlett-Packard, Merck, and Nucor. The mighty can fall, but they can often rise again.

Five Stages of Decline

A comparative and historical analysis yielded a descriptive model of how the mighty fall that consists of five stages that proceed in sequence. Stage 1: Hubris born of success. Stage 2: Undisciplined pursuit of more. Stage 3: Denial of risk and peril. Stage 4: Grasping for salvation. Stage 5: Capitulation to irrelevance or death. And here's the really scary part: You do not visibly fall until Stage 4. Companies can be well into Stage 3 decline and still look and feel great, yet be right on the cusp of a huge fall. Decline can sneak up on you, and – seemingly all of a sudden – you're in big trouble.

Even so, there is well-founded hope. With a road map to decline in hand, institutions heading downhill might be able to apply the brakes early and reverse course. There are some companies that recovered after having crashed down into the depths of Stage 4. The research indicates that organizational decline is largely self-inflicted, and recovery largely within your own control. So long as you never fall all the way to Stage 5, you can rebuild.

Over the next 3 summaries, these stages will be explored to show how to substantially reduce the chances of falling all the way to the bottom.

STAGE 1: Hubris Born of Success

Dating back to ancient Greece, the concept of hubris is defined as excessive pride that brings down a hero, or alternatively, outrageous arrogance that inflicts suffering upon the innocent.

When *Built to Last* was published in 1994, Motorola was one of the companies studied and it was highly admired for being a visionary company. By the mid-90's, however, Motorola's run of success (growing from \$5 billion to \$27 billion in revenue in just a decade) contributed to a cultural shift from humility to arrogance. In 1995, Motorola executives were rolling out the then-smallest cell phone in the world, a clamshell model that designed to be a driver of future growth. There was just one problem: the phone used analog technology, just as wireless carriers began to demand digital. And how did Motorola respond? One of Motorola's senior leaders dismissed the digital threat: "43 million analog customers can't be wrong." Then Motorola tried to strong-arm carrier companies like Bell Atlantic, forcing them to carry a high percentage of Motorola phones (75% of all in-store phones) and mandated promotion through stand-alone displays. The carriers were not pleased. Motorola's arrogance gave competitors an opening, and Motorola fell from being the #1 cell phone maker in the world, at one point attaining 50% market share, to having only 17% share by 1999.

Great enterprises can become insulated by success; accumulated momentum can carry an enterprise forward for a while, even if its leaders make poor decisions or lose discipline. Stage 1 kicks in when people become arrogant, regarding success virtually as an entitlement, and they lose sight of the true underlying factors that created success in the first place. When the rhetoric of success replaces penetrating understanding and insight decline will very likely follow. Luck and chance play a role in many successful outcomes, and those who fail to acknowledge the role luck may have played in their success – and thereby overestimate their own merit and capabilities – have succumbed to hubris.

The best leaders never presume they've reached ultimate understanding of all the factors that brought them success. For one thing, they retain a somewhat irrational fear that perhaps their success stems in large part from fortuitous circumstance. Suppose you discount your own success ("We might have been just really lucky/were in the right place at the right time/have been living off momentum/have been operating without serious competition") and thereby worry incessantly about how to make yourself stronger and better-positioned for the day your good luck runs out. What's the downside if you're wrong? Minimal: If you're wrong, you'll just be that much stronger by virtue of your disciplined approach. But suppose instead you succumb to hubris and attribute success to your own superior qualities ("We deserve success because we're so good/so smart/so innovative/so amazing"). What's the downside if you're wrong? Significant. You just might find yourself surprised and unprepared when you wake up to discover your vulnerabilities too late.

Like inquisitive scientists, the best corporate leaders remain students of their work, relentlessly asking "Why? Why? Why?" To be a *knowing* person ("I already know everything about why this works, and let me tell you") differs fundamentally from being a *learning* person ("We're successful because we *understand why* we do these specific things and under what conditions they would no longer work"). The "knowing people" can set companies on the path to decline in two ways. First, they can be dogmatic about their specific practices ("We're successful because we do these specific things"). Second they can overreach, moving into sectors or growing to a scale at which the original success factors no longer apply ("We've been so successful that we can really go for the big bet, the huge growth, the gigantic leap to exciting new adventures").

To be successful requires your company to keep pushing with as much intensity and curiosity as during growth phases. Even if you're facing the impending demise of a core business, it can't just run on autopilot. Exit definitively or renew obsessively, it's can't just be neglected.