

How the Mighty Fall (2 of 3)

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Written By: Jim Collins

Prepared By Greg Tamasi: For Doug Clark's Office

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. 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. Decline is not inevitable, it can be avoided. 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. 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 also rise again.

STAGE 2: Undisciplined Pursuit of More

Hubris from Stage 1 ("We're so great, we can do anything!") leads right to Stage 2, the Undisciplined Pursuit of More – more scale, more growth, more acclaim, more of whatever those in power see as "success." Companies in Stage 2 stray from the disciplined creativity that led them to greatness in the first place, making undisciplined leaps into areas where they cannot be great or growing faster than they can achieve with excellence – or both. Although complacency and resistance to change remain dangers to any successful enterprise, overreaching better captures how the mighty fall. To be clear, the problems of Stage 2 stems not from growth per se, but from the undisciplined pursuit of more.

Discontinuous leaps into areas in which you have

no burning passion is undisciplined. Taking action inconsistent with your core values is undisciplined. Investing heavily in new arenas where you cannot attain distinctive capability, better than your competitors, is undisciplined. Launching headlong into activities that do not fit with your economic or resource engine is undisciplined. Addiction to scale is undisciplined. To neglect your core business while you leap after exciting new adventures is undisciplined. To use the organization primarily as a vehicle to increase your own personal success – more wealth, more fame, more power – at the expense of its long-term success is undisciplined.

One of the most damaging manifestations of Stage 2 comes in breaking "Packard's Law" – named after David Packard, cofounder of HP, who had pushed the idea that a great company is more likely to die of indigestion from too much opportunity than starvation from too little. Packard's Law states that no company can consistently grow revenues faster than its ability to get enough of the right people to implement that growth and still be a good company. Any great company depends upon having self-managed and self-motivated people. This doesn't require a bureaucratic structure of rules and rigidity, rather the opposite. If you have the right people, who accept the responsibility, you don't need to have a lot of senseless rules and mindless bureaucracy.

STAGE 3: Denial of Risk and Peril

As companies move into Stage 3, internal warning

signs begin to mount, yet external results remain strong enough to "explain away" disturbing data or to suggest that the difficulties are "temporary" or "cyclic" or "not that bad," and "nothing is fundamentally wrong." In Stage 3, leaders discount negative data, amplify positive data, and put a positive spin on ambiguous data. Those in power start to blame external factors for setbacks rather than accept responsibility. The vigorous, fact-based dialogue that characterizes high-performance teams dwindles or disappears altogether. When those in power begin to imperil the enterprise by taking oversized risks and acting in a way that denies the consequences of those risks, they are headed straight for Stage 4.

Bill Gore, founder of W.L. Gore & Associates, articulated a helpful concept for decision-making and risk-taking, what he called the "waterline" principle. Think of being on a ship, and imagine that any decision gone bad will blow a hole in the side of the ship. If you blow a hole above the waterline (where the ship won't take on water and possibly sink), you can patch the hole, learn from the experience, and sail on. But if you blow a hole below the waterline, you can find yourself facing gushers of water pouring in, pulling you toward the ocean floor. And if it's a big enough hole, you might go down really fast, just like some of the financial firm catastrophes of 2008. To be clear, great enterprises do make big bets, but they avoid big bets that could blow holes below the waterline.

When making risky bets and decisions in the face of ambiguous or conflicting data, ask three questions:

- 1) What's the upside, if events turn out well?
- 2) What's the downside, if events go very badly?
- 3) Can you live with the downside? Truly?

STAGE 4: Grasping for Salvation

The cumulative peril and/or risks gone bad of Stage 3 assert themselves, throwing the enterprise into a sharp decline visible to all. The critical question is: How does its leadership respond? By

lurching for a quick salvation or by getting back to the disciplines that brought about greatness in the first place? Those who grasp for salvation have fallen into Stage 4. Common "saviors" include a charismatic visionary leader, a bold but untested strategy, a radical transformation, a dramatic cultural revolution, a hoped-for blockbuster product, a "game-changing" acquisition, or any number of other silver-bullet solutions. The key point is that Stage 4 companies go for a quick, big solution or bold stroke to jump start a recovery, rather than embark on the more pedestrian, arduous process of building long-term momentum. Initial results from taking dramatic action may appear positive, but they do not last.

When we find ourselves in trouble, when we find ourselves on the cusp of falling, our survival instinct and our fear can prompt lurching – reactive behavior absolutely contrary to survival. The very moment when we need to take calm, deliberate action, we run the risk of doing the exact opposite and bringing about the very outcomes we most fear. By grasping about in fearful, frantic reaction, late Stage 4 companies accelerate their own demise. Of course, their leaders can later claim: "But look at everything we did. We changed everything. We tried everything we could think of. We fired every shot we had, and we still fell. You can't blame us for *not* trying." They fail to see that leaders atop companies in the late stages of decline need to get back to a calm, clear-headed and focused approach.

If you want to reverse decline, be rigorous about what not to do. A former Marine, turned entrepreneur, who'd done multiple tours of jungle combat in Vietnam, was asked what lessons he carried over to his civilian life as an entrepreneur. He responded: "When you have just a few people, and there is enemy all around you, the best thing is to say, 'You take this section from here to here, and you take this section from here to here, and *do not* fire on automatic. Take one shot at a time.'"

Breathe. Calm yourself. Think. Focus. Take one shot at a time.