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How the mighty fall - Jim Collins' book on the risk of decline facing all large, successful organisations from hubris, the undisciplined pursuit of more, and the denial of peril

The dark side of *Built to Last* is about decline that can happen at any time

How the Mighty Fall does exactly what it says on the cover. It analyses and describes five stages that 'mighty' companies go through as they fall.

Collins is quite defensive about his approach. He apologises, after the pursuit of positive case studies in *Good to Great* and *Built to Last*, for "going on the dark side". The work is based on a re-analysis of the research data from his previous books. That meant looking at the cases of sixty companies and in particular the eleven "mighty who have fallen". So this book is mainly based on those eleven and the ways in which they contrast with the rest.

It mainly focuses on analysing the decline, and he promises more on what to do to reverse decline in a later book – but there is no sign yet of when he is likely to publish the next installment.

Successful companies are alike. Each unsuccessful one is unsuccessful in its own way

He says he sees organisational decline like a disease - harder to detect but easier to cure in the early stages, and easier to detect but harder to cure in the later stages. He goes on to demonstrate that, deliberately or otherwise, throughout the book. He quotes Tolstoy's Anna Karenina "All happy families are alike; each unhappy family is unhappy in its own way".

He finds that creating a data-driven framework for descent is harder than that for success. He explains that while his analysis is based on clear correlations of data, he has not identified the root causes of failure. As he says, the book will help tell you if your company is in decline, it will not tell you why, or what to do about it.

The five stages of decline

Collins' conclusion is that companies can be continuing to grow - and have the outward metrics of financial success - through the first two or three of these stages. Like a cancer in the early stages, the causes of future decline may remain hidden until stages 3, 4 and 5.

Stage 1: Hubris born of success

This is where a company stops understanding what is driving its success and starts behaving as if it is guaranteed, or as if it is due to *everything* the company does. Leaders also underestimate how much is market driven or due to competitive context. An example is Motorola, following its initial great success with the clamshell mobile phones in the 1990s.

The markers for Stage 1:

- Success entitlement, arrogance
- Neglect of the core value-creating business
- "What" replaces "Why"
- Decline in learning orientation.

Stage 2: Undisciplined pursuit of more

This is where - in the pursuit of success - companies over-reach themselves by doing more of what they see as the successful things, at the expense of the disciplined creativity and execution that underpinned previous growth. Collins says a characteristic is the abandonment of deeper, long-term purposes to solely focus on short-term financial performance.

He reminds us of 'Packard's Law' (named after the HP co-founder who first said this): no company can consistently grow revenues faster than its ability to get enough of the right people. Collins believes this over-reaching is a greater risk than complacency or lack of innovation. He suggests that the banks did this in the lead up to their crash.

Markers for Stage 2:

- Unsustainable quest for growth, confusing big with great
- Undisciplined discontinuous leaps
- Declining proportion of the right people in key seats
- Easy cash eroding cost discipline
- Bureaucracy subverting discipline
- Problematic succession of power.

Stage 3: Denial of risk and peril

This is where the warning signs start to mount, but there are still enough successful results to 'explain away' problems or blame external factors (seven of the eleven failed organisations in Collins' sample started blaming external factors at this stage).

Leaders start to ignore negative data and spin ambiguous data. Big bets are made without enough evidence (or in the face of opposing evidence). Using the example of the NASA Challenger disaster, Collins explains that risk frameworks can become reversed ("Prove to me it is unsafe to launch, otherwise we will" instead of "Prove to me it is safe to launch, and unless you do we won't").

Markers for stage 3:

- Amplifying the positive, discounting the negative
- Big bets and bold goals without empirical evidence
- Incurring huge downside risk based on ambiguous data
- Erosion of healthy team dynamics
- Externalising blame
- Obsessive reorganisations
- Imperious detachment (new HQ buildings, corporate jets, and so on).

Stage 4: Grasping for salvation

This is where CEOs are sacked and replaced with charismatic outside saviours, where 'transformational' acquisitions are made without fixing the underlying problems or other silver bullets are pursued and touted.

Markers for stage 4:

- Panic and haste
- Radical change and 'revolution with fanfare'
- Hype preceded results
- Initial upswing followed by disappointments
- Confusion and disappointment
- Chronic restructuring and erosion of financial strength.

Stage 5: Capitulation to irrelevance or death

This is where the cash runs out, the debts crush the assets and hope for recovery is abandoned. The end is normally via a fire sale to a competitor, or Chapter 11. At the time of demise, the company is usually a fraction of the size and value it has been previously. Collins has little to say about stage 5 - it appears to be a full stop (like death) rather than a stage.

Collins says that in the worst cases, stages can be skipped, and in most cases the stages overlap.

How to recover

He claims that it is possible to come back to success from as late as stage 4 - and cites Disney, IBM and HP as examples. He cites the example of Anne Mulcahy's rescue of Xerox (and points out that her favourite story is of Shackleton's miraculous escape against all odds in 1916). He then explains that he is in the middle of researching how companies go from being vulnerable to strong again - and that more will be published in due course.

How the Mighty Fall reinforces a number of important points from Collins' previous books about what is essential to being a high-performance company. He points out that his sample of failed companies started going wrong when they stopped:

- being evidence-based in decision-making
- being constantly open to feedback, especially leading indicators from customers and employees
- growing their own leaders from within
- making incremental rather than revolutionary changes
- ensuring that there is enough diversity of perspective on the top team to constructively challenge CEO views
- regularly checking and adjusting the business model to work best against the changing context.

Stonecourt view: The strength of this book is the compelling analysis of the stages of decline – all businesses can learn from this.

But the tantalising and essential question about how to pull a mighty business back from permanent decline is left as a cliffhanger, with Collins saying that he is the middle of researching this and will have more to say at a later date. His view is that decline is self-inflicted, avoidable, and can be reversed. However he has not shared the detailed steps to do that.

