



## How the Mighty Fall – Jim Collins

### Key Notes

The following are the 'key learnings' from the research that Jim Collins and his team assessed, in examining why once mighty organizations declined. Of particular note is the fact that the path to recovery was very possible, if the decline was caught prior to Stage 4.

#### Stage 1: Hubris born of Success

- 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. They overstate their own merit and capabilities.
- *Hubris – excessive pride that brings down a hero*
- Past accomplishments guarantee nothing about future success
- A core business that meets a fundamental human need – and one at which you've become best in the world at – rarely becomes obsolete
- Does your primary flywheel (business end result) face inevitable demise within the next five to ten years, due to forces outside your control?
- Great company's build a never ending creative renewal of the primary business
- The leadership team fosters a productive tension between continuity (leave things as is) and change
- What are your fundamental reasons for past success – specific practices and strategies – understand *why* we do these specific things.
- Sophisticated information systems & cultivating a performance-driven culture, with weekly score card meetings – a solid leadership principle for monitoring success
- Leaders lose the inquisitiveness and learning orientation
- Discounting the role of luck and fortuitous events that might have played a helpful role
- Hubris can lead to making brash commitments for more and more and more

#### Stage 2: Undisciplined Pursuit of More

- More scale, more growth, more acclaim, more of whatever those in power see as 'success'.
- Expanding and increasing scale NOT as an end goal, but as a residual result, an inevitable outcome, or pursuing their core purpose
- Research showed that those who resisted the pressures to succumb to unsustainable short-term growth delivered better long-term results (measured by cumulative returns to investors)

- A clear differentiation between share *value* and share *price* & shareholders and shareflippers
- Effective growth pursued: performance / distinctive impact / creativity / people
- Making undisciplined leaps
  - Into arenas for which you have no passion
  - Action inconsistent with your core values
  - Into arenas where you cannot attain distinctive capabilities (better than competition)
  - Addition to scale
  - Utilizing the organization as a vehicle to increase our own person success (at the expense of long term success)
  - Compromising your values or lose sight of your core purpose
  - 1. Do they ignite passion and fit with the company's core values?
  - 2. Can the organization be the best in the world at these activities / arenas?
  - 3. Will these activities help drive the organization's economic or resource engine?
- When an organization grows beyond its ability to fill key seats with the right people
  - Self managed and self motivated people - #1 ingredient for a culture of discipline
  - What are the key seats in your organization?
  - **Dramatic leaps in performance came when an executive team of exceptional leaders coalesced and made a series of outstanding, supremely well executed decisions**
  - Succession of power – in place
- Overreaching better captures how the mighty fall (versus complacency)
- Substantial innovation was often found in this stage – frenetic innovation – that which erodes consistent tactical excellence
- Catastrophic decline can be brought about by driven, intense, hard-working and creative people
- Easy cash erodes cost discipline – responding to increasing costs by increasing prices and revenues, rather than increasing discipline
- Power – more money / privileges / fame / spoils of success – trying to capitalize as much as possible in the short term

### Stage 3: Denial of Risk and Peril

- Leaders discount or explain the negative data, rather than presume something is wrong
  - amplifying positive data and put a positive spin on ambiguous data
- The data were highly ambiguous (or conflicting) and the decision criteria had changed
  - From proving that it was *safe* to launch to prove that it is *unsafe* to launch
- Avoid big bets that could blow holes below the waterline
  1. What is the upside, if events turn out well?
  2. What's the downside, if events go very badly?
  3. Can you line with the downside? Truly?
- *Analysis suggests that any deterioration in gross margins, current ratio or debt-to-equity ratio indicates an impending storm*

- *Plus - Customer loyalty and stakeholder engagement*
- Marked decline in the quality and amount of dialogue and debate – within the leadership team
- Externalizing blame
- Obsessive reorganization
- Detachment of the leaders – to symbols and perks of executive status, which amplifies detachment

#### Stage 4: Grasping for Salvation

- Stage 4 begins when an organization reacts to a downturn by lurching for a silver bullet
  - Quick big solution or bold stroke to jump-start recovery, rather than embark on a more pedestrian, arduous process of rebuilding long-term momentum
  - Gain clarity about what is core and should be held firm and what needs to change – build upon strengths and improve weaknesses
- Grasping about in a fearful, frantic reaction accelerates decline
  - Calm, clear-headed and focused approach (aim and then take one shot at a time)
- Common saviours include a charismatic visionary leader; a bold untested strategy; a radical transformation; a game changing acquisition; or other silver bullet solutions
- Most overnight success stories and 20 years in the making
- Over 90% of the CEO's that led companies from good to great came from inside
- Radical change with fanfare
- Hype precedes results – setting expectations low – too much selling the future for lack of current results
- Confusion and cynicism – people cannot easily articulate what the organization stands for

#### Stage 5: Capitulation to Irrelevance or Death

- Never forget – “You pay your bills with cash. You can be profitable and bankrupt”
- If you lose the ability to make strategic choices, forced into short-term survival decisions that cripple the enterprise, then the odds of full recovery become increasingly remote
- What would be lost, and how would the world be worse off, if we ceased to exist?
- Lack of management discipline correlates with decline and passionate adherence to management discipline correlates with recovery and ascent
- If you are still strong, be vigilant for early markers of decline
- Circumstances alone do not determine outcomes
- Never give up the idea of building a great company
- **Failure is not so much a physical state as a state of mind; success is falling down, and getting up one more time, without end**