A Book Report on

How The Mighty Fall

(And Why Some Companies Never Give In)

By Jim Collins

(Book Report by Gary Tomlinson)

Preface:

Decline Can Be Avoided. Decline Can Be Detected. Decline Can Be Reversed.

Amidst the desolate landscape of fallen great companies, Jim Collins began to wonder: 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 and unshakeable? How can companies reverse course?

In *How the Mighty Fall*, Collins confronts these questions, offering leaders the well-founded hope that they can learn how to stave off decline and, if they find themselves falling, reverse their course. Collins' research project – more than four years in duration – uncovered five step-wise stages of decline:

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

By understanding these stages of decline, leaders can substantially reduce their chances of falling all the way to the bottom.

Great Companies Can Stumble, Badly, and Recover.

Every institution, no matter how great, is vulnerable to decline. There is no law of nature that the most powerful will inevitably remain at the top. Anyone can fall and most eventually do. But, as Collins' research emphasizes, some companies do indeed recover – in some cases, coming back even stronger – even after having crashed into the depths of Stage 4.

Decline, it turns out, is largely self-inflicted, and the path to recovery lies largely within our own hands. We are not imprisoned by our circumstance, our history, or even our staggering defeats along the way. As long as we never get entirely knocked out of the game, hope always remains. The mighty can fall, but they can often rise again.

Introduction:

When you are at the top of the world, the most powerful nation on Earth, the most successful company in your industry, the best player in your game, your very power and success might cover up the fact that you're already on the path to decline. So, *how would you know?* The question – *How would you know?* captured my imagination and became part of the inspiration for this book. How do the mighty fall? If some of the greatest companies in history can collapse from iconic to irrelevant, what might we learn 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, might we be able to practice preventive medicine? I began to think of decline as analogous to a disease, perhaps like cancer, that can grow on the inside while you still look strong and healthy on the outside. It's not a perfect analogy because organizational decline, unlike cancer, is largely self-inflicted. Still, the disease analogy might be helpful. Allow me to share a personal story to illustrate.

On a cloudless August day in 2002, my wife, Joanne, and I set out to run the long uphill haul to Electric Pass, outside Aspen, Colorado, which starts at an altitude of about 9,800 feet and ends above 13,000 feet. At about 11,000 feet, I capitulated to the thin air and slowed to a walk, while Joanne continued her uphill assault. As I emerged from tree line, where thin air limits vegetation to scruffy shrubs and hardy mountain flowers, I spotted her far ahead in a bright-red sweatshirt, running from switchback to switchback toward the summit ridge. Two months later, she received a diagnosis that would lead to two mastectomies. I realized, in retrospect, that at the very moment she looked like the picture of health pounding her way up Electric Pass, she must have already been carrying the carcinoma. That image of Joanne, looking healthy yet already sick, stuck in my mind and gave me a metaphor.

I've come to see institutional decline like a staged 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 a precipitous fall.

Five Stages of Decline:

Having studied both sides of the coin, how companies become great and how companies fall, I've concluded that there are more ways to fall than to become great. Assembling a data-driven framework of decline proved harder than constructing a data-driven framework of ascent. Even so, a staged framework of how the mighty fall did emerge from our data.

The model consists of five stages that proceed in sequence. At the end of each of the first four stages, I'll summarize the stage with a series of markers. Not every marker shows up in every case of decline, and the presence of a marker does not necessarily mean that you have a disease, but it does indicate an increased possibility that you're in that stage of decline. You can use these markers as a self-diagnostic checklist.

Stage 1: Hubris Born of Success.

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 ("We're successful because we do these specific things") replaces penetrating understanding and insight ("Where successful because we *understand why* we do these specific things and under what conditions they would no longer work"), 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.

Markers for Stage 1:

- **Success Entitlement, Arrogance:** Success is viewed as "deserved," rather than fortuitous, fleeting or even hard earned in the face of daunting odds; people begin to believe that success will continue almost no matter what the organization decides to do, or not do.
- **Neglect of a Primary Flywheel:** Distracted by extraneous threats, adventures, and opportunities, leaders neglect a primary flywheel, failing to renew it with the same creative intensity that made it great in the first place.
- **"What" Replaces "Why":** The rhetoric of success (We're successful because we do these specific things') replaces understanding and insight ("We're successful because we understand why we do these specific things and under what conditions they would no longer work").
- **Decline in Learning Orientation:** Leaders lose the inquisitiveness and learning orientation that mark those truly great individuals who, no matter how successful they become, maintain a learning curve as steep as when they first began their careers.
- **Discounting the Role of Luck:** Instead of acknowledging that luck and fortuitous events might have played a helpful role, people begin to presume that success is due entirely to the superior qualities of the enterprise and its leadership.

Stage 2: Undisciplined Pursuit of More.

Hubris from Stage 1 ("We're so great, we can do anything!") leads right into 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. When an organization grows beyond its ability to fill its key seats with the right people, it has set itself up for a fall. Although complacency and resistance to change remain dangers to any successful enterprise, *overreaching* better captures how the mighty fall.

Markers for Stage 2:

- **Unsustainable Quest for Growth, Confusing Big with Great:** Success creates pressure for more growth, setting up a vicious cycle of expectations; this strains people, the culture, and systems to the breaking point; unable to deliver consistent tactical excellence, the institution frays at the edges.
- **Undisciplined Discontinuous Leaps:** The enterprise makes dramatic moves that fail at least one of the following tests:
  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 or in these arenas?
  3. Will these activities help drive the organization's economic or resource engine?
- **Declining Proportion of Right People in Key Seats:** There is a declining proportion of right people in key seats, because of losing the right people and/or growing beyond the organization's ability to get enough people to execute on that growth with excellence (e.g., breaking Packard's Law).
- **Easy Cash Erodes Cost Discipline:** The organization responds to increasing costs by increasing prices and revenues rather than increasing discipline.
- **Bureaucracy Subverts Discipline:** A system of bureaucratic rules subverts the ethic of freedom and responsibility that marks a culture of discipline; people increasingly think in terms of "jobs" rather than responsibilities.
- **Problematic Succession of Power:** The organization experiences leadership-transition difficulties, be they in the form of poor succession planning, failure to groom excellent leaders from within, political turmoil, bad luck, or an unwise selection of successors.
- **Personal Interests Placed Above Organizational Interests:** People in power allocate more for themselves or their constituents – more money, more privileges, more fame, more of the spoils of success – seeking to capitalize as much as possible in the short term, rather than investing primarily in building for greatness decades into the future.

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 outsized risks and acting in a way that denies the consequences of those risks, they are headed straight for Stage 4.

Leadership-Team Dynamics:
On the Way Down versus On the Way UP

Teams on the Way Down	Teams on the Way Up
People shield those in power from grim facts, fearful of penalty and criticism for shining light on the harsh realities.	People bring forth unpleasant facts – "Come here, look, man, this is ugly" – to be discussed; leaders never criticize those who bring forth harsh realities.
People assert strong opinions without providing data, evidence, or a solid argument.	People bring data, evidence, logic and solid arguments to the discussion.
The team leader has a very low questions-to-statements ratio, avoiding critical input and/or allowing sloppy reasoning and unsupported opinions.	The team leader employs a Socratic style, using a high questions-to-statements ratio, challenging people, and pushing for penetrating insight.
Team members acquiesce to a decision yet do not unify to make the decision successful, or worse, undermine the decision after the fact.	Team members unify behind a decision once made and work to make the decision succeed, even if they vigorously disagreed with the decision.
Team members seek as much credit as possible for themselves yet do no enjoy the confidence and admiration of their peers.	Each team member credits other people for success yet enjoys the confidence and admiration of his or her peers.
Team members argue to look smart or to improve their own interests rather than argue to find the best answers to support the overall cause.	Team members argue and debate, not to improve their personal position, but to find the best answers to support the overall cause.
The team conducts "autopsies with blame" seeking culprits rather than wisdom.	The team conducts "autopsies without blame," mining wisdom from painful experiences.
Team members often fail to deliver exceptional results, and blame other people or outside factors for setbacks, mistakes, and failures.	Each team member delivers exceptional results, yet in the event of a setback, each accepts full responsibility and learns from mistakes.

Markers for Stage 3:

- **Amplify the Positive, Discount the Negative:** There is a tendency to discount or explain away negative data rather than presume that something is wrong with the company; leaders highlight and amplify external praise and publicity.
- **Big Bets and Bold Goals without Empirical Validation:** Leaders set audacious goals and/or make big bets that aren't based on accumulated experience, or worse, that fly in the face of the facts.

- **Incurring Huge Downside Risk Based on Ambiguous Data:** When faced with ambiguous data and decisions that have a potentially severe or catastrophic downside, leaders take a positive view of the data and run the risk of blowing a hole "below the waterline."
- **Erosion of Healthy Team Dynamics:** There is a marked decline in the quality and amount of dialogue and debate; there is a shift toward either consensus or dictatorial management rather than a process of argument and disagreement followed by unified commitment to execute decisions.
- **Externalizing Blame:** Rather than accept full responsibility for setbacks and failures, leaders point to external factors or other people to affix blame.
- **Obsessive Reorganizations:** Rather than confront the brutal realities, the enterprise chronically reorganizes; people are increasingly preoccupied with internal politics rather than external conditions.
- **Imperious Detachment:** Those in power become more imperious and detached; symbols and perks of executive-class status amplify detachment; plus new office buildings may disconnect executives from daily life.

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 in 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. Initial results from taking dramatic action may appear positive, but they do not last.

Behaviors That Exemplify and Perpetuate Stage 4	Behaviors That Can Help Reverse the Downward Spiral of Stage 4
Pin hopes on unproven strategies – discontinue leaps into new technologies, new markets, new businesses – often with much hype and fanfare.	Formulate strategic changes based on empirical evidence, and extensive strategic and quantitative analysis rather than make bold, untested leaps.
Seek a big, "game changing" acquisition (often based on hoped-for, but as yet unproven, "synergies") to transform the company in a single stroke.	Understand that combining two struggling companies never makes one great company; only consider strategic acquisitions that amplify proven strengths.
Make panicky, desperate moves in reaction to threats that can imperil the company even more, draining cash and further eroding financial strength.	Get the facts, think, and then act (or not) with calm determination; never take actions that will imperil the company long-term.
Embark on a program of radical change, a	Gain clarity about what is core and should be

revolution, to transform or upend nearly every aspect of the company, jeopardizing or abandoning core strengths.	held firm, and what needs to change, building upon proven strengths and eliminating weaknesses.
Sell people on the promises of a brighter future to compensate for poor results.	Focus on performance, letting tangible results provide the strongest case for a new direction.
Destroy momentum with chronic restructuring and/or a series of inconsistent big decisions.	Create momentum with a series of good decisions, supremely well executed, that build on one upon another.
Search for a leader-as-savior, with a bias for selecting a visionary from the outside who'll ride in and galvanize the company.	Search for a disciplined executive, with a bias for selecting a proven performer from the inside.

Marker for Stage 4:

- **A Series of Silver Bullets:** There is a tendency to make dramatic, big moves, such as a "game-changing" acquisition or a discontinuous leap into a new strategy or an exciting innovation, in an attempt to quickly catalyze a breakthrough – and the do it again and again, lurching about from program to program, goal to goal, strategy to strategy, in a pattern of chronic inconsistency.
- **Grasping for a Leader-As-Savior:** The board responds to threats and setbacks by searching for a charismatic leader and/or outside savior.
- **Panic and Haste:** Instead of being calm, deliberate, and disciplined, people exhibit hasty, reactive behavior, bordering on panic.
- **Radical Change and "Revolution" with Fanfare:** The language of "revolution" and "radical" change characterizes the new era: New Programs! New Cultures! New Strategies! Leaders engage in hoopla, spending a lot of energy trying to align and "motivate" people engaging in buzzwords and taglines.
- **Hype Precedes Results:** Instead of setting expectations low – underscoring the duration and difficulty of the turnaround – leaders hype their visions, they "sell the future" to compensate for the lack of current results, initiating a pattern of overpromising and underdelivering.
- **Initial Upswing Followed by Disappointments:** There is an initial burst of positive results, but they do not last; dashed hope follows dashed hope; the organization achieves no buildup, no cumulative momentum.
- **Confusion and Cynicism:** People cannot easily articulate what the organization stands for; core values have eroded to the point of irrelevance; the organization has become "just another place to work," a place to get a paycheck; people lose faith in their ability to triumph and prevail. Instead of passionately believing in the organization's core values and purpose, people become distrustful, regarding visions and values as little more that PR and rhetoric.
- **Chronic Restructuring and Erosion of Financial Strength:** Each failed initiative drains resources; cash flow and financial liquidity begin to decline; the organization undergoes multiple restructurings; options narrow and strategic decisions are increasingly dictated by circumstance.

Stage 5: Capitulation to Irrelevance or Death.

The longer a company remains in Stage 4, repeatedly grasping for silver bullets, the more likely it will spiral downward. In Stage 5, accumulated setbacks and expensive false starts erode financial strength and individual spirit to such an extent that leaders abandon all hope of building a great future. In some cases, their leaders just sell out; in other cases, the institution atrophies into utter insignificance; and in the most extreme cases, the enterprise simply dies outright.

It is possible to skip a stage, although our research suggests that companies are likely to move through them in sequence.

Is There a Way Out? First, we do ourselves a disservice by studying only success. We learn more by examining why a great company fell into mediocrity (or worse) and comparing it to a company that sustained its success than we do by merely studying a successful enterprise. Furthermore, one of the key to sustained performance lies in understanding how greatness can be lost. Better to learn from how others fell than to repeat their mistakes out of ignorance.

Second, I ultimately see this as a work of well-founded hope. For one thing, with a roadmap of decline in hand, institutions heading downhill might be able to apply the breaks early and reverse course. For another, we've found companies that recovered – in some cases, coming back even stronger – after having crashed down into the depths of Stage 4. Companies like Nucor, Nordstrom, Disney, and IBM fell in the gloom at some point in their histories yet came back.

All companies go through ups and downs, and many show signs of Stage 1 or 2, or even Stage 3 or 4, at some point in their histories. Yet Stage 1 does not inevitably lead to Stage 5. Just because you may have made mistakes and fallen into the stages of decline does not seal your fate. So long as you never fall all the way to Stage 5, you can rebuild a great enterprise worthy of lasting.

Never give in. Be willing to change tactics, but never give up your core purpose. Be willing to kill failed business ideas, even to shutter big operations you've been in for a long time, but never give up on the idea of building a great company. Be willing to evolve into an entirely different portfolio of activities, even to the point of zero overlap with what you do today, but never give up on the principles that define your culture. Be willing to embrace the inevitability of creative destruction, but never give up on the discipline to create your own future. Be willing to embrace loss, to endure pain, to temporarily lose freedoms, but never give up faith in the ability to prevail. Be willing to form alliances with former adversaries, to accept necessary compromise, but never-ever-give up your core values.

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. Whether you prevail or fail, endure or die, depends more on what you do to yourself than on what the world does to you.

Good-To-Great Framework – Concept Summary: (The principles in Stages 1-3 derive from the book *Good to Great;* the principles in Stage 4 derive from the book *Built to Last).*

Stage 1: Disciplined People

Level 5 Leadership: Level 5 leaders are ambitious first and foremost for the cause, the organization, the work – not themselves – and they have the fierce resolve to do whatever it takes to make good on that ambition. A Level 5 leader displays a paradoxical blend of personal humility and professional will.
First Who, Then What: Those who build great organizations make sure they have the right people on the bus, the wrong people off the bus, and the right people in the key seats before they figure out where to drive the bus. They always think first about "who" and then about "what."

Stage 2: Disciplined Thought

Confront the Brutal Facts – The Stockdale Paradox: Retain unwavering faith that you can and will prevail in the end, regardless of the difficulties, and at the same time have the discipline to confront the most brutal facts of your current reality, whatever they might be.

The Hedgehog Concept: Greatness comes about by a series of good decisions consistent with a simple, coherent concept – a "hedgehog concept." The hedgehog concept is an operating model that reflects understanding of three intersecting circles: what you can be best in the world at, what you are deeply passionate about, and what best drives your economic or resource engine.

Stage 3: Disciplined Action

Culture of Discipline: Disciplined people who engage in disciplined thought and who take disciplined action – operating with freedom within a framework of responsibilities: this is the cornerstone of a culture that creates greatness. People do not have jobs; they have responsibilities.

The Flywheel: There is no defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembles relentlessly pushing a giant heavy flywheel, turn upon turn, building momentum until a point of breakthrough and beyond.

Stage 4: Building Greatness to Last

Clock Building, Not Time Telling: Truly great organizations prosper through multiple generations of leaders, the exact opposite of being built around a single great leader, great idea, or specific program. Leaders in great organizations build catalytic mechanisms to stimulate progress and do not depend upon having a charismatic personality to get things done; indeed, many have had a "charisma bypass."

Preserve the Core/Stimulate Progress: Enduring great organizations are characterized by a fundament duality. On the one hand, they have a set of timeless core values and core reason for being that remain constant over long periods of time. On the other hand, they have a relentless drive for change and progress – a creative compulsion that often manifests in BHAGs (Big Hairy Audacious Goals). Great organizations keep clear the difference between their core values (which never change) and operating strategies and cultural practices (which endlessly adapt to a changing world).

Message from Gary Tomlinson:

I hope you enjoyed this book report. When I read a book that has great wisdom I take the time to write down the author's essential messages (Gary's Cliff Notes). This is how I learn. Then from time to time I reread my book report to refresh my memory.

However, this document should not take the place of you reading *How The Mighty Fall.* The book is filled with numerous examples, stories and illustrations that I've not included in this book report. This is a must read for any business executive who wants to identify and/or avoid the five stages of decline!

Enjoy the education and feel free to share it with others!