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How the Mighty Fall: And Why Some Companies Never Give In

By Jim Collins - Harper Collins 2009

Good news- Written by the same guy who wrote Built to Last and Good to Great, this book takes a look at companies that have either not lasted or attained greatness, and is written very well. It is loaded with engaging stories and solid comparative examples to learn from.

Bad news- A little lighter on the research side than his other two books and a bit redundant to them, but not overly redundant, repetitive, or similar. Get it!!??

Good news- It has some very practical lessons for companies, organizations, departments and individuals that I have turned into applications and tactics! As usual, I hope you can put them to use right away.

Summary:

Jim Collins'research method in his previous books,
Good to Great and Built to Last, relied on examining "matched pairs" of successful and less successful companies. The point was to highlight what distinguished the winners from the also-rans. In How the Mighty Fall, he revisits the corporate histories compiled for those studies and looks for the seeds of destruction in the periods preceding serious performance stumbles, in both the exemplars and the comparison companies.

This book addresses two related questions:
1. Why do good companies fail?
2. And how does management respond once a company gets into trouble?

Collins introduces a five stage model to answer these questions
His stages are:
1. Hubris born of success
2. Undisciplined pursuit of more
3. Denial of risk and peril
4. Grasping for salvation
5. Capitulation to irrelevance or death

Stages one and two address the roots of corporate failure and stages three through five address managements' response. Collins' analysis of management response to decline (denial of risk, grasping for salvation, and capitulation to irrelevance or death) accurately describe how leaders respond to deterioration in their business.

In stage four, (grasping for salvation), for example, Collins states that it's a bad idea to "make panicky, desperate moves" or "destroy momentum with chronic restructuring," or "search for a leader-as-savior, with a bias for selecting a visionary from the outside who'll ride in and galvanize the company", and I agree! His analysis is solid and he does a particularly good job of describing dysfunctional leadership behaviors of companies in decline.

Collins' analysis of why companies get into trouble in the first place is less intellectually compelling but very intuitive. Companies fail, according to Collins, when success breeds managerial hubris (overbearing pride, presumption or arrogance) where executives think they know it all which leads them to overreach and ultimately fail.

What comes through in this book is honesty. Collins previously chose Fannie Mae as a "Good to Great" institution. Recently, they have demonstrated anything but greatness in facing economic and marketplace changes. There are other companies he chose, like Circuit City, that have gone the same path. Collins discusses why these enterprises were chosen in his previous book and why they fell on hard times after once being great. Because a great company stumbles into mediocrity does not mean the criteria is flawed or the framework is wrong. Rather, as the study shows, somewhere along the way these companies strayed away from what once made them great. How the Mighty Fall uses the same criteria from Good to Great, only in reverse, to show how and why these once great enterprises have fallen.

Applications:

So...the obvious applications are to avoid these stages or do the opposite:

Hubris born of success.... Be humble, no one knows it all

Undisciplined pursuit of more.... Have discipline and a tested process

Denial of risk and peril.... Do risk and potential problem analyses

Grasping for salvation.... Don't panic and constantly restructure

Capitulation to irrelevance or death.... Avoid stages 1-4 and don't capitulate!

And there were some other lessons:

1. Capable continual business model innovators like Kroger, Pitney Bowes, Wal-Mart, Wells Fargo, Best Buy, IBM, TI, and J & J outperform those who mostly try to make old business models more efficient and effective, so be innovative!

2. Companies are more likely to try to do too much and swerve off in weird directions because the CEO feels insecure (Addressograph, Ames, Bank of America, Merck, Motorola, Scott, and Zenith) compared to a predecessor and the predecessor's track record (or a competitor CEO and that CEO's track record) rather than because of excess pride, so be confident!

3. Denial of risk and peril arrives long before the company's performance peaks (Addressograph, Ames, Bank of America, Circuit City, Motorola, Scott, and Zenith). It just shows up as a problem later after a change in the environment causes the company to be exposed to worse results because of risk than before, so weigh your risks!

4. Ignorance about how to do big acquisitions successfully is rampant in large organizations (Ames, Hewlett Packard, Merck, and Motorola). If you do a difficult large acquisition without understanding how to succeed you will probably fall flat on your face. And your stock will fall flatter than a pancake, so be smart!

5. Pursuit of seemingly higher-growth markets is an irresistible lure for the portfolio-strategy-focused CEO regardless of the real opportunity (think of the AOL-Time Warner merger), so use a rational, objective process in your decision making!

And Finally:

I work with many clients on Decision Making, Communication, Team Building, Conflict, Executive Coaching and Organization Change issues and have already put aspects of this book to use with some of them. I intend to continue using what I learn about this topic with more clients in the future. If you want more thoughts about this book, or want to add your own, check out my blog. You can visit it at http://richsteel.blogspot.com/ This opinion and others are posted on my web site: www.rsbvc.com To talk more about this and other topics, e-mail me (Rich Steel) at rsbvc@aol.com or call me at my office on 610 388 3680 or on my cell at 610 324 8466.