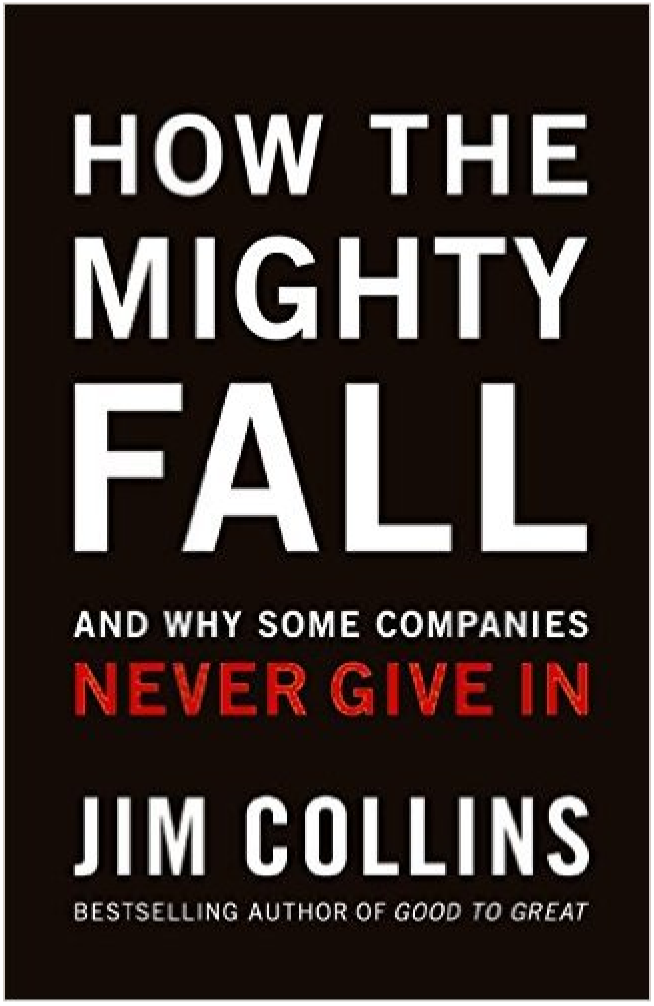
How The Mighty Fall: And Why Some Companies Never Give In



Synopsis

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 unshakable? 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 projectâ ”more than four years in durationâ ”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 recoverâ ”in some cases, coming back even strongerâ ”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 circumstances, 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.

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Customer Reviews

Let me preface this review by saying that I am a fan of Collins’ earlier work. Built to Last was a great book, and Good to Great was very good. How the Mighty Fall, however, is neither. The issue of corporate failure is critical, particularly in the current downturn. Unfortunately, the core of Collins’ analysis in this book is flawed.How the Mighty Fall addresses two related questions: Why do good companies fail? and how does management respond once a company gets into trouble? Collins introduces a five stage model to answer these questions, where steps one and two address the roots of corporate failure and steps three through five 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. This analysis here is solid, the writing clear, and the tempo brisk. Collins does a particularly good job of describing dysfunctional leadership behaviors of companies is in decline.Collins’ analysis of why companies get into trouble in the first place is much less compelling. Companies fail, according to Collins, when success breeds managerial hubris, which leads to overreach and ultimately failure. Like many of Collins’ findings, this makes intuitive sense. Unfortunately in this case, his core argument runs counter to research on hundreds of companies, conducted over decades by dozens of scholars. There are two major flaws in Collins argument.First, he claims that companies get into trouble because they overreach and expand beyond their core. This is consistent with data showing that diversified companies trade at a discount to focused rivals.

One thing that strikes me about Jim Collins’ work is that he is passionate about what he does. He and his researchers dig down deep into companies and examine them from different perspectives over a period of time. As he says, "We do not decide which companies we ’want’ to study... we lay out the criteria for the study-set selection before we see the data and systematically eliminate companies from consideration based on whether they meet the criteria." This has given him great insight into what success is, not just for corporations, but for any institution.What comes through in his recent book, along with passionate study, 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 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 once great enterprises have fallen. Collins does this with the same attention to detail and passion as in his previous works.There are a couple of parts that I found most interesting from the book. First is the chapter entitled "The Undisciplined Pursuit of More." The examples of Ames and Rubbermaid, along with the other ideas presented in this chapter, really hit home in light of recent developments in our financial markets.

"Come, let us build ourselves a city, and a tower whose top is in the heavens; let us make a name for ourselves, lest we be scattered abroad over the face of the whole earth." -- Genesis 11:4How the Mighty Fall takes a methodology similar to Built to Last and Good to Great and searches for differences among paired companies (Loser--Winner; A&P--Kroger; Addressograph--Pitney Bowes; Ames--Wal-Mart; Bank of America--Wells Fargo; Circuit City--Best Buy; Hewlett Packard--IBM; Merck--Johnson & Johnson; Motorola--Texas Instruments; Rubbermaid--None qualified; Scott Paper--Kimberly-Clark; and Zenith--Motorola) As you can see, it all makes for strange bedfellows (Motorola is on both sides of the divide and Rubbermaid doesn’t have a winning comparison partner). As before, the analysis relies on public information from that period (such as annual reports, business journalism articles, and analyst reports).From these data, Jim Collins discerns the following taxonomy of stages:1. Hubris (excess pride) due to prior success2. Undisciplined pursuit of more3. Denial of risk and peril4. Grasping for salvation5. Capitulation to irrelevance or deathReaching any one of these stages doesn’t mean that stage 5 is inevitable in Collins’ view.The result is more like a monograph than a full business book with limited examples and observations. Many readers will find themselves hungering for more.I was grateful to Mr. Collins for the excellent way that he defined and described his cases. As a result, I was able to look into what he was measuring to see what else might be there.I had the good fortune to work with most of these companies as a consultant either just before or during the measurement period.

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