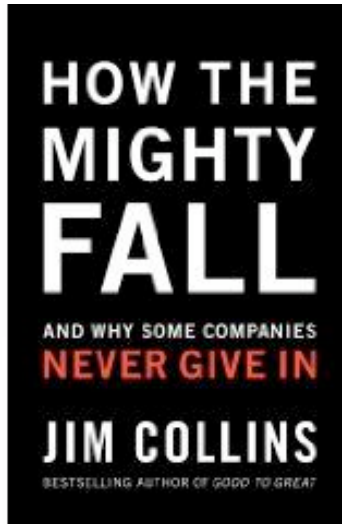


How the Mighty Fall

And why some companies never give in

Jim Collins

Reviewed by David Hanlon.



We have said in the past that Jim's earlier books have been great reads and this one is no exception. Don't be put off by thinking this book is just for business leaders of large organisations: Jim Collins offers sage advice to all of us.

Before I start the review of this book I want to provide you with a small piece from Mario Morino who is little known in Australia and perhaps elsewhere in the world.

Mario Morino is co-founder and chairman of Venture Philanthropy Partners and chairman of the Morino Institute. His career spans more than 40 years as entrepreneur, technologist, and civic and business leader.

He also has a long history of civic engagement and philanthropy in the National Capital Region and more recently in Northeast Ohio.

In the early 1970s, Morino co-founded and helped build the Legent Corporation, a software and services firm that became a market leader and one of the industry's 10 largest firms by the early 1990s. He retired from the private sector in 1992 and since then his focus has been almost exclusively in the not-for-profit sector.

The piece below is from a speech Mario gave back in 1998.

I want to take you back to the fall of 1972, when Bill Witzel, who would become my partner, mentor and still close friend, and I were going through the decision-making involved in starting a business; including decisions like what we would name the company. We tried putting our names together, but one of the choices, MorWit, didn't fly too well.

Anyway, one night in Bill's one-room office in Silver Spring, I asked him a question, although I would not fully grasp the significance of his answer for years to come. I asked, Bill, "What do we have to worry about? Cut through everything else, and what are our biggest concerns?"

He looked at me and said, "If we fail, we won't have anything to worry about. If we succeed, the two things you are going to have to learn to deal with are ego and greed. Those two things are what bring down companies and change people's lives."

We were successful, and the wisdom of his response was prophetic. We had to deal with those traits many times as entrepreneurs, and I have personally seen firms disrupted and lives damaged because of ego and greed. Too many times, they have robbed people of the chance to truly enjoy what they work for and achieve.

Potomac Netpreneur Program Coffee & DoughNets meeting of June 25, 1998

Don't try to come up with the right answers

Like Morino, Collins commences this book by talking about advice he received from his mentor, Stanford Professor Bill Lazier who said: "Don't try to come up with the right answers; focus on coming up with good questions." The book certainly does this. The question of why leading companies, seemingly in possession of every competitive advantage, so often manage to blow it is surely a good one.

It was particularly interesting to see how Collins handled two "great" companies from previous work; Circuit City and Fannie Mae; both of which have gone pear shaped. But, Fannie Mae and current economic issues are not the purpose of the book. In fact, Collins specifically mentions in the Preface that he purposefully avoided the 2008 financial situation. Instead, the book stems from his own "curiosity about why some of the greatest companies in history, including some once-great enterprises we'd researched for *'Built to Last'* and *'Good to Great'*, had fallen."

The structure of the book

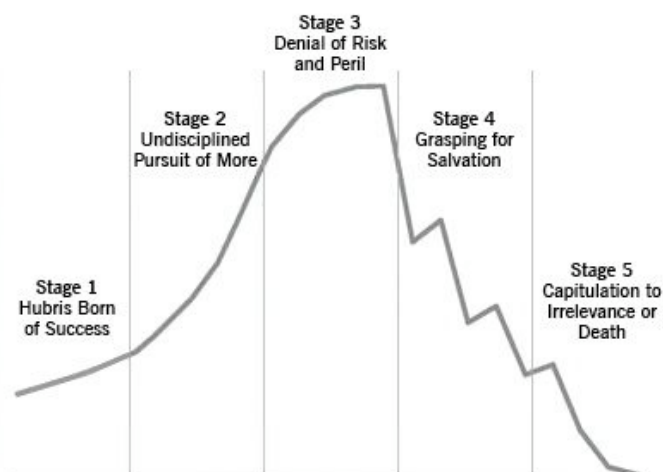
"*How the Mighty Fall*" takes a methodology similar to "*Built to Last*" and "*Good to Great*" and searches for differences among paired companies.

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
Zenith	Motorola

At first, it seems somewhat strange: Motorola is on both sides of the divide and Rubbermaid doesn't have a winning comparison partner, however on reading the book the partnering becomes obvious. As in his work before, the analysis relies on public information from that period (such as annual reports, business journalism articles, and analyst reports).

Collins has asked two related questions: Why do good companies fail? And how does management respond once a company gets into trouble?

To answer these questions he structured the book around a five-stage model, where steps one and two address the roots of corporate failure and steps three through five managements' response to these stresses.



Stage 1: Hubris Born of Success

For many companies, “arrogance” comes with success. Collins termed “arrogance neglect” or the cycle that you built a successful flywheel¹ (aka great business or the organisation per se); you found new opportunities and rushed to them and divert attention from your successful flywheel. The new ventures fail, you came back but your initial flywheel already lost momentum. Moreover, the hubris came when you replace “why” with “what”, instead of trying to understand the reasons behind specific things you do, the company takes it for granted and stops learning.

Examples: Motorola, Circuit City, Ames.

Stage 2: Undisciplined Pursuit of More

Complacency and lack of innovation are not the primary causes of the decline, “catastrophic decline can be brought about by driven, intense, hard-working, and creative people.” It’s when you go too far. Companies going through this stage are “obsessed with growth”. They went outside the “Hedgehog Concept” or the core value of the organisation. The proportion of right people in key seats, are less because they are confusing “big” with “great”. Other symptoms in this stage are bureaucracy, problematic succession of power and easy cash.

Examples: Rubbermaid, Merck, Bank of America.

Stage 3: Denial of Risk and Peril

The obvious signs of the companies in this stage are that they “amplify the positive and discount the negative” and make big bets in the face of mounting evidence of the contrary. They often deny the downsides and blame external factors.

Examples: Motorola, NASA (Challenger), IBM, Scott Paper.

Stage 4: Grasping for Salvation

When the companies begin noticing obvious decline, they were in search of a silver bullet and most of the time, they are trying to find the “savior CEO”, seek game-changing acquisition, bet on new technology or new unproven products. “Companies stuck in Stage 4 try all sorts of new programs, new fads, new strategies, new visions, new cultures, new values, new breakthroughs, new acquisitions, and new saviors.” However Collins continued, “The signature of mediocrity is not an unwillingness to change. The signature of mediocrity is chronic inconsistency.” There will be hypes, panic, haste, confusion and cynicism and without being consistent to their values and “take one shot at a time”, the companies fall into Stage 5.

Examples: HP, Motorola (again), Addressograph.

¹ See “Good to Great” for a more detailed explanation of the flywheel, hedgehog and other terms.
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Stage 5: Capitulation to Irrelevance or Death

The companies that went through Stage 1-4 and fell into Stage 5 often ran out of resources (read: CASH) and lost hope. "The point of the struggle is not just to survive, but to build an enterprise that makes such a distinctive impact on the world it touches, and does so with such superior performance, that it would leave a gaping hole if it ceased to exist."

Example: Zenith.

About the data

Collins has used data from previous research as well as new primary and secondary data. He has in this book taken a lot of what people "sort of knew about" and placed it into a format that is both clear and understandable.

The down-side of the research in this book is, with only eleven pairs of companies, critics quickly point out that he is drawing a pretty long bow in making a strong case with data claims. However most are clear that the advice and structure is sound.

Some of the case studies

In the Motorola example, Collins looks at the reasons how they failed to convert their hot but analog Strata cell phone to emerging digital technology, and fell from 50% market share to 17% in just four years.

On the other hand, the overreaching of a company like Ames Department Stores whose acquisition of Zaire brought it into direct competition with Wal-Mart, who eventually killed Ames with the very same low-price business model that Ames had pioneered. Collins cites this as an example of breaking (Hewlett-Packard's David) Packard's Law: "a great company is more likely to die of indigestion from too much opportunity than starvation from too little." Morton Thiokol and NASA's complicity in the space shuttle Challenger disaster exemplifies what Collins calls "taking risks below the waterline." Stating that while it's okay for great enterprises to take risks, they must "avoid big bets that could blow holes below the waterline," potentially sinking the ship. In "grasping for salvation" Collins shows by hiring the right leader (eg. IBMs Louis Gerstner) brings focus on the task at hand and righting the ship before settling on a vision and strategy while HP's Carly Fiorina is in a hurry and makes too many big missteps.

The messages

The messages can be summarised as:

- Whether you prevail or fail, endure or die, depends more on what you do to yourself than on what the world does to you.
- An institution can look strong on the outside but already be sick on the inside, dangerously on the cusp of a precipitous fall.
- The signature of the truly great versus the merely successful is not the absence of difficulty, but the ability to come back from setbacks, even cataclysmic catastrophes, stronger than before...As long as you never get entirely knocked out of the game, hope always remains.

Is there more to it?

Professor Donald Mitchell² had the advantage of working with some of the companies reviewed by Collins and he suggests there are 5 additional considerations:

1. Capable continual business model innovators (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.

² Chairman, Mitchell and Company; Founder, The 400 Year Project to Advance Global Improvements by 20 Times; Author, *Adventures of an Optimist*; Coauthor, *The 2,000 Percent Solution*, *The Ultimate Competitive Advantage*.
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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.
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.
4. Ignorance about how to do big acquisitions successfully is rampant in large organizations (Ames, Hewlett Packard, Merck, and Motorola). Do a difficult large acquisition without understanding how to succeed, and you will probably fall flat on your face. Your stock will fall flatter than a pancake.
5. Pursuit of seemingly higher-growth markets is an irresistible lure for the portfolio-strategy-focused CEO (these names shall remain unidentified, but they know who they are) regardless of the real opportunity (think of the AOL-Time Warner merger).

In summary

Whilst Mitchell's comments are valid and great considerations as you read the book, it not a reason to ignore the work. If you haven't read "*Good to Great*", you might want to before reading, "*How the Mighty Fall*". It isn't essential though as Collins provides a summary in the appendix. Read Appendix 7 first and you'll be up to speed.

Regardless, this book is a great read for the Christmas break. It is light, well organised and refreshing. As always, Collins offers sage advice for leaders in all walks of life.

"*How the mighty Fall*" is available in good bookstores, Amazon and also in audible form (www.audible.com).

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