

“How the Mighty Fall”

Jim Collins

Notes by Dave Kraft

I remember what one of my mentors, Bill Lazier told me about effective teaching; don't try to come up with the right answers, focus on coming up with the right questions. In the first line of Tolstoy's novel, *Anna Karenina*, it reads, “All happy families are alike; each unhappy family is unhappy in its own way. I've concluded that there are more ways to fall than to become great. One of the keys to sustained performance lies in understanding how greatness can be lost. Our research indicates that organizational decline is largely self-inflicted, and recovery largely within our own control.

Stage 1-Hubris born of success

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. There can be a cultural shift from humility to arrogance. Dating back to ancient Greece, the concept of hubris is defined as excessive pride that brings down a hero, or alternatively, outrageous arrogance that inflicts suffering upon the innocent.

When institutions fail to distinguish between current practices and the enduring principles of their success, and mistakenly fossilize around their practices, they've set themselves up for a decline. Like inquisitive scientists, the best corporate leaders we've researched remain students of their work, relentlessly asking questions—why, why, why?—and have an incurable compulsion to vacuum the brains of people they meet. To be a *knowing* person (“I already know everything about why this works and let me tell you”) differs fundamentally from being a *learning* person.

Over the next few days, Sam Walton barraged the Brazilians with question after question about their country, retailing in Latin America, and so on, often while standing at the kitchen sink washing and drying dishes after dinner. Finally the Brazilians realized, Sam Walton—the founder of what may become the world's first trillion-dollar per year corporation—sought first and foremost to learn from them, not the other way around.

Stage 2-Undisciplined pursuit of more

Overreaching explains how the once-invincible self-destruct. Innovation can fuel growth, but frenetic innovation—growth that erodes consistent tactical excellence—can just as easily send a company cascading through the stages of decline. Catastrophic decline can be brought about by driven, intense, hard-working, and creative people. Hubris can lead to making brash commitments for more and more and more. The greatest leaders do seek growth—growth in performance, growth in distinctive impact, growth in creativity, growth in people—but they do not succumb to growth that undermines long-term value. And they certainly do not confuse growth with excellence.

Big does not equal great, and great does not equal big. To use the organization primarily as a vehicle to increase your own personal success—more wealth, more fame, more power—at the expense of its long term success is undisciplined. Packard (HP) Law states that no company can consistently grow revenues faster than its ability to get enough of the right people to implement that growth and still become a great company.

A stage 2 company can fall into the vicious spiral. You break Packard’s Law and begin to fill key seats with the wrong people; to compensate for the wrong people’s inadequacies, you institute bureaucratic procedures; this, in turn, drives away the right people. When bureaucratic rules erode an ethic of freedom and responsibility within a framework of core values and demanding standards, you’ve become infected with the disease of mediocrity.

If I were to pick one marker about all others to use as a warning sign, it would be a declining proportion of key seats filled with the right people. One of the great tragedies of this company, commented a Bank of America executive at the time (the nationwide economical meltdown), is that it lost a lot of good people because we weren’t a meritocracy. The best leaders we’ve studied had a peculiar genius for seeing themselves as not all that important, recognizing the need to build an executive team and to craft a culture based on core values that do not depend upon a single heroic leader.

Stage 3 –Denial of risk and peril

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. Audacious goals stimulate progress, but big bets without empirical validation, or that fly in the face of mounting evidence, can bring companies down, unless they’re blessed with unusual luck. And luck is not a reliable strategy,

Three questions to ask:

1. What’s the upside, if events turn out well?
2. What’s the downside, if events go very badly?
3. Can you live with the downside? Truly?

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; leader 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	The team leader employs a Socratic style, using a high questions-to-statements ratio,

Questions-to-statements ratio, avoiding critical input, and/or allowing sloppy reasoning and unsupported opinions.	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 not 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 answer 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.

Stage 4-Grasping for salvation

Stage 5-Capitulation to irrelevance or death

Institutional mediocrity should be terminated, or transformed into excellence

As Dick Clark, the quiet, longtime head of Merck manufacturing who became CEO after Gilmartin, put it, “A crisis is a terrible thing to waste.” Recall the Gerstner philosophy: the right leaders feel a sense of urgency in good times and bad. We are not imprisoned by our circumstances, our setbacks, our history, our mistakes, or even staggering defeats along the way. We are freed by our choices.