

HOW THE MIGHTY FALL

BY JIM COLLINS

Since his previous books, Jim Collins, author of *Good to Great*, co-author of *Built to Last*, has been challenged on whether companies can really be built to last. Why do some organisations become great? Why do some never transcend mediocrity? Why do some great enterprises fall as they have in the last year? And how, even when confronted with rapid and unpredictable change and risk, can certain companies seize opportunities and sustain their greatness? Greatness, Jim Collins teaches, then is not primarily a function of circumstance, but of conscious choice and discipline.

Collins believes that, whatever its history, a company does need to decline. Products and services may become obsolete but that doesn't mean that the companies that make / supply them need to become obsolete and irrelevant. And its future – whether it prevails or fails, endures or dies - is largely in its own hands. Companies decline not because of broader changes in the world or competition but because of what they do to themselves.

In *Good to Great* and *Built to Last*, Collins looked at great companies. He believes that the starting point for any truly great organisation is to get the right people and that good is the enemy of great. And great comes from conscious choice and discipline. In *How the Mighty Fall*, Collins looks at the process of decline. There is a 5 stage process:

1. **Hubris born of success** – great enterprises become insulated by success and accumulated momentum can carry an enterprise forward even if its leaders make poor decisions or lose discipline. This stage kicks in when people become arrogant and they lose sight of the true underlying factors that created success in the first place. Those who underestimate or fail to acknowledge the role luck may have played in their success – and thereby overestimate their own merit and capabilities – have succumbed to hubris.
2. **Undisciplined pursuit of more** – Hubris from Stage 1 leads straight to Stage 2. Companies here stray from the disciplined creativity that led them to greatness, making undisciplined leaps into areas where they cannot be great. When an organisation grows beyond its ability to fill its key seats with the right people, it has set itself up for a fall.
3. **Denial of risk and peril** - 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. 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
4. **Grasping for salvation** – The cumulative peril of Stage 3 throws the enterprise into sharp decline visible to all. Common 'saviours' include a charismatic visionary leader, a dramatic cultural revolution, a bold but untested strategy or other silver-bullet solutions. Initial results from taking dramatic action may appear positive but they do not last.
5. **Capitulation to irrelevance and death** – The longer a company remains in Stage 4, grasping for silver bullets, the more likely it will spiral downward. In this final stage. Accumulated setbacks and expensive false starts erode financial strength and individual spirit that leaders abandon hope of building a great future. In some cases, their leaders just sell out or in most extreme cases, the enterprise simply dies outright. The collapse of financial companies like Lehman Brothers and Bear Stearns highlights the terrifying speed at which some companies can fall.]

By understanding these stages of decline, leaders can substantially reduce their chances of falling all the way to the bottom. Any enterprise can fall and most eventually do however Collins' research suggests that some companies do recover (such as IBM, Nordstrom and Disney) – in some cases, coming back even stronger – even after having crashed to the depths of Stage 4. The answer is not to think of yourself as great (the minute you do, you're not). You need to execute well - most companies fall not because they fail to take advantage of new innovations but because they fail to execute. The main attribute here is humility, built on ambition for the organisation rather than themselves, and the determination to do what is needed to succeed. The main action you can take to avoid decline is to take responsibility for your results, rather than taking personal credit for good times or blaming external events for the bad. Both decline and ascent are self inflicted and so largely within our own control.

Collins continues to stress that great leaders can make a company great on their own only when they get the best people into the key seats – and it's this team that makes the company great. For this you need to keep great leaders onboard – it takes at least seven years to become great. Poor leaders, on the other hand, can ruin a company completely on their own! So he ends by saying failure is not so much a physical state as it is a state of mind; success is falling down, and getting up one more time, without end.

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