

## How the Mighty Fall

And Why Some Companies Never Give In

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## Reading Notes

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### The Silent Creep of Impending Doom

- Danger of Success: the very power and success of the situation might cover up the fact that you're already on the path to decline. Question: **How Would You Know?** Pg 2
- Organizational decline is largely self-inflicted – not something “done” to us... something we do to ourselves. Pg 3

### Five Stages of Decline

- There seem to be few ways to become great and multitudes of ways to fall... pg 19. First line of Tolstoy's Anna Karenina: “All happy families are alike; each unhappy family is unhappy in its own way.”
- Collins' five stages might not be perfect, but the model is useful. “All models are wrong; some models are useful,” from George E. P. Box
- The five stages overlap and do not happen in a clearly consecutive and orderly pattern.

### 1) Stage 1: Hubris Born of Success

- a) Hubris is “excessive pride which brings down a hero.” Also, “outrageous arrogance that inflicts suffering upon the innocent.”
- b) Signs of Hubris:
  - i) Undisciplined leaps into unfamiliar areas where the company cannot be the best
  - ii) Pursuit of growth beyond what it can deliver with excellence
  - iii) Bold risky decisions which fly in the face of conflicting or negative evidence
  - iv) Denial that the enterprise might be at risk
  - v) Arrogant Neglect
- c) Cycle of Arrogant Neglect
  - i) You build a successful flywheel #1, and you then pursue Flywheel #2 (because you feel Flywheel #1 is threatened; or because you find #2 more exciting; or are simply bored.) Should Flywheel #2 fail outright, siphon off creative energies, or take longer to succeed than expected you turn creative attention back to Flywheel #1 only to find it has slowed and lost momentum... and you're in a fall from greatness.
  - ii) Either exit definitively from a Flywheel or renew it obsessively – never neglect a primary Flywheel. Pg 35
- d) Markers for Stage 1:
  - i) Success Entitlement – Arrogance
  - ii) Neglect of the Primary Flywheel
  - iii) “What” Replacing “Why?”
  - iv) Decline in being a Learning Organization
  - v) Discounting the role of Luck

### 2) Stage 2: Undisciplined Pursuit of More

- a) Complacency is not usually what kills the companies... but overreaching. The companies that struggled and fell exhibited substantial innovation. Pg 46-47
- b) “Packard's Law” – a great company is more likely to die of indigestion from too much opportunity than starvation from too little. Pg 55
- c) Markers for Stage 2:
  - i) Unsustainable Quest for Growth – Confusing Big with Great
  - ii) Undisciplined Discontinuous Leaps (not in line with values, with organizational abilities, with their economic engine)
  - iii) Declining Proportion of Right People in right Seats
  - iv) Easy Cash Erodes Cost Discipline (increasing costs rather than discipline)
  - v) Bureaucracy subverts Discipline
  - vi) Problematic Success of Power
  - vii) Personal Interests Place Above Organizational Interests

### 3) Stage 3: Denial of Risk and Peril

- a) The danger is not that of ignoring obvious facts as much as misinterpreting ambiguous data in situations that could result in catastrophic consequences...
- b) The Waterline: successful ventures don't take Risks below the Ship's Waterline!!! You can blow holes in the ship above the waterline and survive... but not below! Pg 74
  - i) Evaluating Risks: (1) Ask – What's the upside if things turn out well? (2) Ask – What's the downside if things turn out badly? (3) Ask – Can I live with the Downside? Truly? (4) Seek healthy risks with big upsides and minimal downsides.
- c) Cultures of Denial: shield leaders from negative information; asserting strong opinions without support; feature leaders who have low questions-to-statements ratios; followers acquiesce to leader's decisions and yet do not support it; team members seek credit for selves and not for others; obsessively reorganize. pg 76
- d) Markers for Stage 3
  - i) Amplification of the Positive and Discounting of the Negative
  - ii) Big Bets and Bold Goals without Empirical Validation
  - iii) Huge downside risks based on ambiguous data
  - iv) Erosion of healthy team dynamics
  - v) Externalizing blame: it's never our fault...
  - vi) Obsessive reorganizations
  - vii) Imperious detachment by senior leaders

### 4) Stage 4: Grasping for Salvation

- a) The organization looks for a silver bullet... going for a quick fix rather than a return to discipline.
- b) Examples: Pinning hopes on unproven strategies – products, etc; Making panicky or desperate moves; Embarking on a program of radical change; Selling promises to compensate for poor performance; Chronic restructuring and track record of poor decisions; Searching for the Leader-as-Savior
- c) NOTE: succumbing to Stage 4 behaviors actually worsen the situation! Leaders must stop seeking to simply find a quick solution and get back to the discipline of calm, clear-headed – and focused thinking... be focused on what "not" to do.
- d) Markers of Stage 4:
  - i) Series of "silver bullet" solutions
  - ii) Grasping for a "leader-as-savior"
  - iii) Panic and Haste
  - iv) Radical change and "revolution" with fanfare
  - v) Hype precedes results
  - vi) Initial upswing followed by disappointment
  - vii) Confusion and cynicism
  - viii) Chronic restructuring and erosion of financial strength

### 5) Stage 5: Capitulation to Irrelevance or Death

- a) Two versions of Stage 5:
  - i) Decision to Capitulate – giving up the fight
  - ii) Decision to continue to fight – but running out of options
- b) "Not all companies deserve to last. Perhaps society is better off getting rid of organizations that have fallen from great to terrible rather than continuing to let them inflict their massive inadequacies on their stakeholders." Pg 111
- c) Ask – what would be lost if we cease to exist? If you don't have a clear answer, it is time to shut it down?

#### Well-Founded Hope

- You can use Decline as a catalyst for growth... "A crisis is a terrible thing to waste." Pg 116
- The solution lies in a return to sound management practices and rigorous strategic thinking. Pg 117
- If you are practicing healthy discipline you should pray for severe turbulence – it will destroy your competition... you can pull ahead while they flounder... But if you've fallen into lack of discipline it can also kill you.