

Excerpts from Jim Collin's Book "How The Mighty Fall"

Five Stages of Decline:

1. Hubris Born of Success
2. Undisciplined Pursuit of More
3. Denial of Risk and Peril
4. Grasping for Salvation
5. Capitulation to Irreverence or Death

"The concept of hubris is defined as excessive pride that brings down a hero, or alternatively, outrageous arrogance that inflicts suffering upon the innocent."

Cycle of Arrogant Neglect:

1. You build a successful flywheel
2. You succumb to the notion that new opportunities will sustain your success better than your primary flywheel, either because you face an impending threat or because you find other opportunities more exciting (or perhaps you are just bored).
3. You divert your attention to new adventures and fail to improve your primary flywheel as if your life depended on it.
4. The new ventures fail outright, siphon off your best creative energy, or take longer to succeed than expected.
5. You turn your creative attention back to your primary flywheel only to find it wobbling and losing momentum

"A core business that meets a fundamental human need – and one at which you've become the best in the world – rarely becomes obsolete."

"Like an artist who pursues both enduring excellence and shocking creativity, great companies foster a productive tension between continuity and change. On the one hand they adhere to the principles that produced success in the first place, yet on the other hand, they continually evolve, modifying their approach with creative improvements and intelligent adaptation."

"The best leaders we've studied never presume they've reached ultimate understanding of all the factors that brought them success. For one thing, they retain a somewhat irrational fear that perhaps their success stems in large part from luck or fortuitous circumstances."

"Like inquisitive scientists, the best corporate leaders 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."

“You either do the acquisition or you don’t, one or zero, no in between. And if the acquisition turns out to be a mistake, you cannot undo the decision. Big mergers or acquisitions that do not fit with your core values or that undermine your culture or that run counter to that at which you’ve proven to be best in the world or that defy economic logic – big acquisitions taken out of bravado rather than penetrating insight and understanding – can bring you down.”

‘...the companies in our analysis showed little evidence of complacency when they fell. Overreaching much better 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.”

“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.”

“Discontinuous leaps into arenas where you have no burning passion is undisciplined. Taking action inconsistent with your core values is undisciplined. Investing heavily in new areas where you cannot attain distinctive capability, better than your competitors is undisciplined. Launching headlong into activities that do not fit with your economic or resource engine is undisciplined. Addition to scale is undisciplined. To neglect your core business while you leap after exciting new ventures is undisciplined. To use your organization primarily as a vehicle to increase your own personal success—more wealth, more fame, more power—at the expense of long term success is undisciplined. To compromise your values or lose sight of your core purpose in pursuit of growth and expansion is undisciplined.”

“A great company is more likely to die of indigestion from too much opportunity than starvation from too little.” – David Packard

“Packard’s 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.”

“Any great exceptional enterprise depends first and foremost upon having self-managed and self-motivated people – the #1 ingredient for a culture of discipline.”

“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.”

Signs of Problematic Succession of Power

- A domineering leader fails to develop strong successors (or drives strong successors away) and thereby creates a leadership vacuum when he or she steps away.
- An able executive dies or departs unexpectedly, with no strong replacement to step smoothly into the role
- Strong successor candidates turn down the opportunity to become CEO
- Strong successor candidates unexpectedly leave the company

- The board of directors is acrimoniously divided on the designation of a leader, creating an adversarial “we” and “they” dynamic at the top
- Leaders stay in power as long as they can and then pass the company to leaders who are late in their careers and assume a caretaker role.
- Monarchy style family dynamics favor family members over non-family members, regardless of who would be the best leader.”
- The board brings in a leader from the outside who doesn’t fit the core values, and the leader is ejected by the culture like a virus.”
- The company chronically fails at getting CEO selection right

“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 on a single heroic leader.”

“...the greatest danger comes not in ignoring clear and unassailable facts, but in misinterpreting ambiguous data in situations when you face severe or catastrophic consequences if the ambiguity resolves itself in a way that’s not in your favor.”

“When facing irreversible decisions that have significant, negative consequences if they go awry – what we might call “launch” decisions – the case for launch should require a preponderance of empirical evidence that it is safe to do so.”

When making risky bets and decisions in the face of ambiguous or conflict data ask three questions:

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?

“For businesses, our analysis suggests that any deterioration in gross margins, current ratio or debt-to-equity ratio indicates an impending storm...Customer loyalty and stakeholder engagement also deserve attention.”

“Stage 4 (Grasping for Salvation) begins when an organization reacts to a downturn by lurching for a sliver bullet...The key point is that they go for a quick, big solution or bold stroke to jump start a recovery, rather than embark on the more pedestrian, arduous process of rebuilding long-term momentum.”

“Our research across multiple studies shows a distinct negative correlation between building great companies and going outside for a CEO.”

“...leaders atop companies in the late stages of decline need to get back to a calm, clear headed, and focused approach. If you want to reverse decline, be rigorous about what NOT TO DO.”

“Never forget, you pay your bills with cash. You can be profitable and bankrupt...organizations do not die from lack of earnings. They die from lack of cash.” – Bill Lazier (Stanford Business School)

“Hope alone is not enough; you need enough resources to continue to fight. If you lose the ability to make strategic choices, forced into short-term survival decisions that cripple the enterprise, then the odds of full recovery become increasingly remote.”

“If you cannot marshal a compelling answer to the question, “What would be lost, and how would the world be worse off if we ceased to exist?” then perhaps capitulation is a wise path. But if you have a clear and inspired purpose built on strong core values, then the noble course may be to fight on, to reverse decline, and try to rekindle greatness... 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 – a hole that could not be easily filled by any other institution – if it ceased to exist.”

“...The right leaders feel a sense of urgency in good times and bad, whether facing threat or opportunity, no matter what. They’re obsessed, afflicted with a creative compulsion and inner drive for progress – burning hot coals in the stomach – that remain constant whether facing threat or not...the right people will drive improvement, whether standing on a burning platform or not, and they never take well to manipulation” – Lou Gerstner

“The path to recovery lies first and foremost in returning to sound management practices and rigorous strategic thinking... Of course, you have to stop the bleeding first and make sure you don’t run out of cash, but that is simply emergency surgery, not full recovery. The point being, however you slice it, lack of management discipline correlates with decline, and passionate adherence to management discipline correlates with recovery and ascent.”

“...our research shows that if you’ve been practicing the principles of greatness all the way along, you should get down on your knees and pray for sever turbulence, for that’s when you can pull even further ahead of those who lack your relentless intensity.”

“...circumstances alone do not determine outcomes...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.”

“Never give in. Be willing to change tactics, but never give up your core purpose. Be willing to kill failed business ideas, even to shutter big operations you’ve been in for a long time, but never give up on the idea of building a great company. Be willing to evolve into an entirely different portfolio of activities, even to the point of zero overlap with what you do today, but never give up on the principles that define your culture. Be willing to embrace the inevitability of creative destruction, but never give up on the discipline to create your own future. Be willing to embrace loss, to endure pain, to temporarily lose freedoms, but never give up faith in the ability to prevail. Be willing to form alliances with former adversaries, to accept necessary compromise, but never—ever—give up on your core values.”

“The path out of darkness begins with those exasperatingly persistent individuals who are constitutionally incapable of capitulation...Failure is not so much a physical state of mind; success is falling down, and getting up one more time without end.”