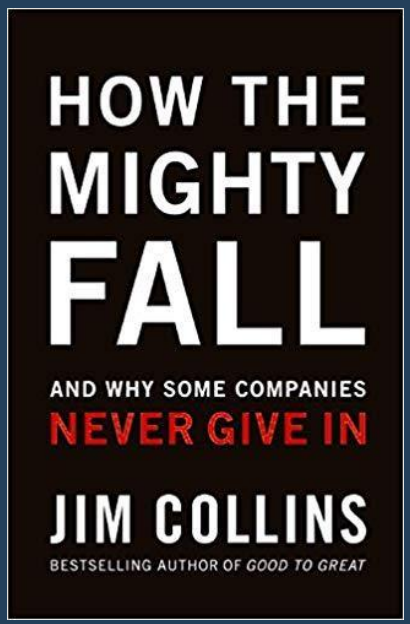

How the Mighty Fall

Year of publication: 2009
Author: Jim Collins
222 pages
Link for purchase: https://amzn.to/2S2Hho6

In the book How the Mighty Fall (2010), the author explores how even the largest companies can collapse suddenly, especially when they make the wrong decisions. He also advises ways to avoid such mistakes .

Score

8

8 Aplicability
8 Inspiration
9 Innovation
8 Impact on results
7 Structure

Main ideias of the book

The highlights of the book are:

- Overconfidence is one of the main causes of the decline of successful companies;
- There are no miracle solutions for decadent companies;
- We gain little by studying success, it is better to analyze the failures to learn from mistakes;
- It is possible to recover from the more advanced stages of decline;
- Companies can take advantage of the decline to catapult a booming growth.

In this summary we are going to explain the 5 stages of a company's decline: overconfidence built from success, undisciplined pursuit for more, denial of risks and dangers, desperate struggle for salvation, and surrender to irrelevance or death.

For whom is this book suitable?

This book is suitable for students seeking to specialize in business, for investors who do not know which companies to invest in, and CEOs of startups who want to grow their business in the long run.

Overview of the book

Stage 1 - Overconfidence built from success

Pride comes before destruction. The first stage begins when people become complacent about success and see this as a right reserved for their company. With that, they forget what was initially responsible for their success.
Overconfidence is present in many forms during a company's bankruptcy. And one of the most dangerous faces of this feeling is what the author calls "arrogant contempt", which can occur from the following steps:

> *Bad decisions made with good intentions, are still bad decisions*

1 - You build a main business that is very successful.
2 - You succumb to the notion that new opportunities will be able to sustain your success better than your primary business.
3 - Your creative attention is diverted to the new adventures and you leave the main business aside.
4 - New ventures fail, drain your creative ability, or take more time to succeed than you imagined.
5 - You return your creative attention to your primary business and discover that it is faltering and losing momentum.

It is important to note that not all indicators are evident in all cases of decline, or the presence of an indicator does not necessarily mean that your company is at risk.
The characteristics of each stage can be used for self-diagnosis. In this way, the indicators of stage 1 are:

- Arrogance: success is seen as something "deserved" and not conquered. People begin to believe that success will hold regardless of what the organization decides or does not do.

- Scorn for your core business: neglect of the primary product caused by distraction about threats or new opportunities. This causes the primary steering wheel to no longer be updated to the same creative intensity that was responsible for the excellence of the company.

- Falling into learning orientation: Employees lose the questioning spirit and impetus for new knowledge, characteristic of excellent people, who maintain a steep learning curve independent of success.

- Minimizing the Role of Luck: Instead of recognizing that luck and chance events may have played a relevant role, people are beginning to assume that success is entirely due to the superior qualities of the company and its leadership.

Stage 2 - The undisciplined pursuit for more

Overconfidence is also present in stage 2. It can produce an euphoria that makes leaders want to deploy ever more - more scale, more growth, more applause.
At this stage, companies make nonsense incursions into areas that are not very interesting to the company. It also happens that people in power want to grow very fast, which makes unsustainable the guarantee of excellence.
This thought led the author to create the so-called "Packard Law" (after David Packard, co-founder of HP). He argued that an excellent company is more likely to die of indigestion by grabbing too many opportunities than starving to find fewer opportunities.
In this way, the following indicators can be visualized:

Unsustainable search for growth: success creates pressure for more growth, paving the way for a vicious cycle of expectations. This can force people to a breaking point. Unable to generate consistent tactical excellence, the institution goes wearing thin.
Discontinuous and undisciplined jumps: performing maneuvers that fail to respond to at least one of three tests:

1. Do they generate passion and fit into the core values of the company?
2. Can the organization be the best in the world in these activities or in these areas?
3. Will these activities help boost the organization's economic or resource engine?

Low proportion of right people in key positions: it may occur due to loss of right people and / or growth beyond organizational capacity (violation of Packard's Law).

An easy box erodes cost discipline: the organization reacts to higher costs by raising prices and billing, rather than stepping up discipline.

The bureaucracy subverts discipline: people increasingly think of "positions" instead of "responsibilities."

Problematic succession of power: difficulties in the transition of leadership, failure in the internal development of excellent leaders, political turbulence or even chance in the selection of successors can cause this characteristic.

Personal interests over organizational ones: people in power allocate more to themselves or their followers - more money, more privileges, more fame, more stewardship - seeking to capitalize as much as possible in the short run rather than investing primarily in the development of excellence decades in the future.

> *I've come to see institutional decline like a staged disease: harder to detect but easier to cure in the early stages, easier to detect but harder to cure in the later stages. An institution can look strong on the outside but already be sick on the inside*

People in power become arrogant and detached; luxurious lounges and offices can disconnect executives from everyday life.

Stage 3 - Deniel Risks and Dangers

At this stage, several internal signals continue to accumulate, but external results remain strong enough to cause disturbing data to be ignored. Leaders neglect negative data, emphasizing positive outcomes and giving a positive bias to ambiguous data.
Another obvious problem is that people in power begin to blame external factors for the difficulties, rather than taking responsibility for them. The fact-based dialogue is virtually extinct.
In this sense, the following characteristics indicate a fall:

- Big bets and daring goals without empirical validation: leaders set bold goals and / or make big bets that are not based on accumulated experience, or worse, that do not stand up to the facts.

- Wear healthy team dynamics: there is a noticeable drop in quality and in the amount of dialogue and discussion; there is a shift towards consensus or dictatorial management, rather than a process of argumentation and disagreement followed by a joint effort to execute decisions.

- Outsourcing guilt: Instead of taking full responsibility for the difficulties and failures, leaders look guilty at external factors or other people.

- Obsessive Reorganizations: Instead of facing the harsh reality, the company constantly reorganizes itself; people are increasingly concerned about internal politics rather than external conditions.

- Arrogant detachment: people in power become arrogant and detached; luxurious lounges and offices can disconnect executives from everyday life.

Stage 4 - The Desperate Struggle for Salvation

In stage 4, leaders try to resort to quick salvation or retake the discipline that has produced the company's success in the past. The initial results of desperate actions may seem positive but there is lack of durability.
These life-saving measures include a new charismatic visionary leader, a daring strategy that has not been proven, a radical transformation, a drastic cultural revolution, a new product, a takeover game, or other "genius" solutions.
When we are in difficulties, it is the moment that we must act with tranquility and caution. However, through our fear, we run the risk of doing the opposite and provoking the results we fear most.
The following points are indicative of stage 4:

A series of silver bullets: tendency to promote great and drastic actions in an attempt to catalyze a revolutionary breakthrough rapidly - and then repeat the feat several times, jumping from one program to the other, from a goal to another, from one strategy to another, in a pattern of chronic inconsistency.

Clinging to a Savior: The Board of Directors reacts to threats and difficulties by seeking a charismatic leader and / or savior from outside the company.

Panic and bustle: instead of maintaining calm, caution and discipline, people assume a hurried and reactive behavior, which approaches panic;

Happiness precedes the results: instead of setting low expectations - emphasizing the duration and difficulty of revitalization, leaders make a big publicity of their visions.

An initial improvement followed by disappointments: there is an initial spurt of positive results, but that does not last, leading to a series of frustrated hopes.

Confusion and skepticism: the company's core values have been worn down to the point of becoming irrelevant; the organization has become "just another place to work", a place to earn a salary; people lose belief in their ability to succeed and win.

Chronic Restructuring and Weakening of Financial Strength: Every failed initiative drains resources; cash flow and financial liquidity are beginning to decline; the organization undergoes several restructurings; options are increasingly restricted and strategic decisions are increasingly dictated by circumstances.

Stage 5 - Surrender to irrelevance or death

At this stage, cumulative defeats and costly stumbling wear people's financial strength and morale to the point where leaders lose all hope of building a good future.
In some cases, leaders simply sell stocks; in others, the institution atrophies until it becomes insignificant; and, in more extreme cases, the enterprise dies.

Is there a way out?

All companies face ups and downs, and many show signs of the early stages, even stages 3 or 4. But that does not mean that every organization experiencing stage 1 reaches stage 5, for example.
There are cases of companies that have fallen deeply into stage 4 and have been able to recover. Disney, IBM and Nordstrom are examples of cases that near-destruction was used as a way to catapult even greater growth than the successes achieved.
So while your company does not reach the depths of Stage 5, there is still hope. For this, you can not give up. Be willing to change tactics, but never forget your fundamental purpose.
It may be necessary to cancel new business ideas that have failed, and even turn off large operations that took a lot of time and effort. But never give up on the initial idea of building a big company.
Success comes when you fall and rise, again and again, without end. If you prevail or fail, endure or die, it depends more on what you do to yourself than what the world does to you.

What other authors say about it?

In the book The Wisdom of Failure, by authors Laurence G. Weinzimmer and Jim McConoughey, it is explained the concept of the destructive path of disengagement. In it the authors reaffirm the importance of leadership and the approach of employees as a way to keep the company growing. In the book is quoted the example of Carly Fiorina from Hewlett-Packard and the consequences of the actions of a celebrity leader.

She forced the merger of 87 divisions into four - a step that the corporation later had to reverse. She went against HP's open communication model and tried to create a topdown culture. Carly Fiorina bought an executive jet and gave herself and other bonus executives, while 18,000 employees lost their jobs.

In the book The Hard Thing about Hard Things by author Ben Horowitz, he makes clear the importance of managing crises and, when necessary, dismissing employees in the right way. Horowitz's company has seen three mass layoffs involving 400 employees. Few startups recover from layoffs of this magnitude, because they break the trust of those who stay.

Horowitz believes that Loudcloud was able to keep its best employees after several layoffs because they dismissed people the right way. So if you need to cut staff, start layoffs as soon as possible after you decide to do them, as news of layoff spills can cause additional problems and even bigger ones.

Get managers to deliver the news to their own people, never outsource it to human resources. Managers should explain that layoffs result from company failures, not personal failures of employees.

Okay, but how can I apply this in my life?

- Take small steps: no matter where you want to go, never try to go too far at once.
- Your failure is yours, not someone else's: if something went wrong do not ignore, or blame other people, find out what is going to solve.

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