

An Overview

- *How the Mighty Fall* offers a compelling exploration into the prospect of leaders acquiring the knowledge necessary to thwart organizational decline. It not only provides a well-founded sense of optimism but also equips leaders with insights to identify the stages of decline and take corrective measures. Rooted in a four-year research project, this book unveils the five stages of decline, empowering leaders to comprehend their position and proactively reverse any downward trajectory.
- The central tenet of the book underscores the vulnerability of every institution, regardless of its historical eminence. While decline is an inevitable reality for many, the revelation here is that it is often a consequence of self-inflicted wounds. However, the silver lining is that the path to recovery is, to a large extent, within our control. Neither circumstances, nor history, nor setbacks need imprison us irreversibly. As long as we remain resilient and avoid being entirely sidelined, hope persists, and the prospect of resurgence remains for even the mightiest entities.
- The methodology employed involves a meticulous examination of once-great companies, aiming to unravel two crucial inquiries:
 - Why did these companies, which once thrived, experience decline?
 - And, what factors contributed to the visible signs of decline?

By addressing these questions, leaders gain valuable insights into the dynamics that precede decline, empowering them to navigate and preemptively counteract potential pitfalls.

The Book Chapter Summary

The book consists of 8 main chapters and a detail appendix section.

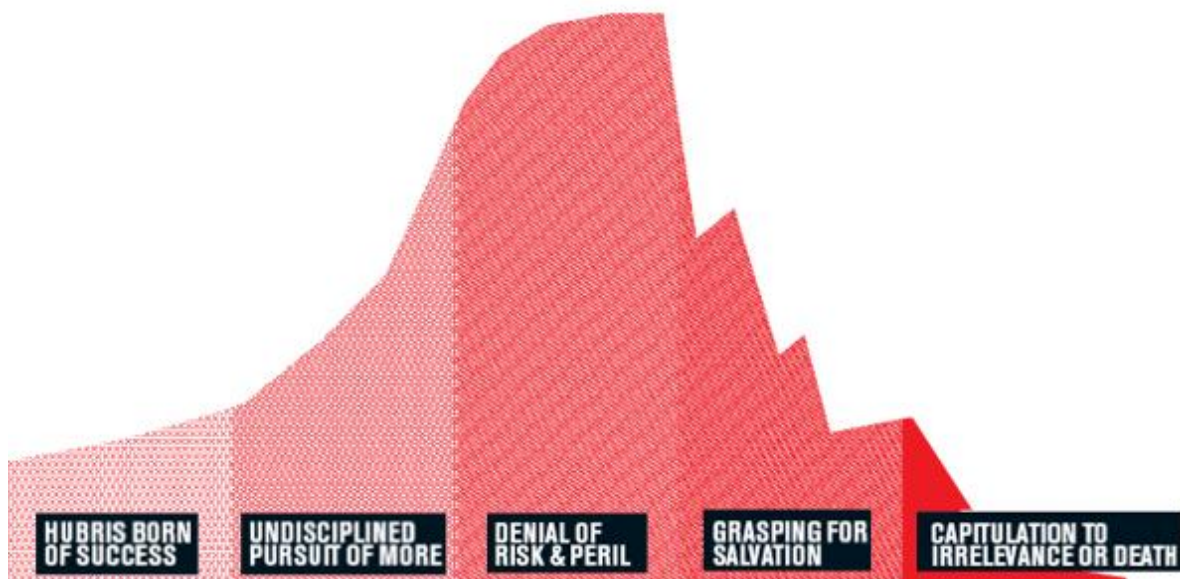
1. The Silent Creep Of Impending Doom

- The book commences with Collins reflecting on the wisdom imparted by his mentor, Stanford professor Bill Lazier, encapsulated in the advice: "**Don't try to come up with the right answers; focus on coming up with good questions**".
- A pivotal exploration within the book revolves around the issue of "**How What You Know**" can signify a decline, particularly when situated at the pinnacle of success. As Collins points out, whether it's being the most powerful nation on Earth, the preeminent company in your industry, or the top player in your game, the very zenith of your power and success can obscure the subtle signs that you are already on the path of decline.
- The narrative delves into the nuanced theme of recognizing decline while seemingly at the summit of achievement. The cautionary tale emerges: when one believes they are invincible due to past triumphs, they may inadvertently neglect the telltale indicators of decline. The book explores the psychological and strategic aspects of being at the zenith, shedding light on how the illusion of invincibility can blind leaders to the warning signs that they may be on a trajectory towards decline.
- Furthermore, the book intricately examines the rise and fall of one of the most illustrious companies in American business history – **Bank Of America**.

The Book Chapter Summary

2. Five Stages Of Decline

- Explain on the research process used in the study and on how Jim Collins and his research team come out with their framework.
 - Companies In Recovery
 - Fannie Mae And Others Financial Meltdowns Of 2008
 - Success Comparison Set
 - Correlations, Not Causes
 - Strengths Of Historical Analysis
- Illustrate and explain the 5-Stage Framework
 - **Stage 1: Hubris Born Of Success.**
The firm's management becomes conceited, per success as nearly an entitlement.
 - **Stage 2: Undisciplined pursuit of more**
More scale, more growth, more acclaim. Companies' management wander from the trained creativity that led them to greatness in the 1st place, making undisciplined leaps into areas where they can't be great or growing quicker than they can achieve with excellence, or both.
 - **Stage3: Denial of risk and hazard**
Leaders of the company don't give weight-age to negative information, give more price to positive information and put a positive spin on ambiguous data. Those in power start to blame external factors for reversals rather than accept responsibility.
 - **Stage 4: Grasping for salvation**
Common "saviors" include a charismatic visionary leader, a bold but untested strategy, a radical transformation, a "game changing" acquisition or any number of other silver-bullet solutions.
 - **Stage 5: Capitulation to irrelevance or death**
Accumulative setbacks and expensive false starts to erode the company financial strength and individual spirits to such an extent that leaders abandon all hope of building a great future. In some cases their leaders just sell out. In other cases the institution atrophies to utter insignificance.



The Book Chapter Summary

▪ Important Points And Comments

- “Great companies can stumble badly, and recover. While you cannot come back from stage 5, you can tumble into the grim depths of stage 4 and climb out. Most companies eventually fall, and we cannot deny this fact. Yet our research indicates that organizational decline is largely self-inflicted, and recovery largely within our own control”

3. Stage 1: Hubris Born Of Success

▪ Story lines and illustrating how successful companies fall into stage 1 of decline

- **Motorola** pursuit of past successful analog technology – “Forty-three million analog customer can’t be wrong”
- **Circuit City** pursuit on an adventure called Divx – “This is a company that is in great shape”. “To be successful in any given area of activity, you have to keep pushing with as much intensity as when they first began building that flywheel, exactly what Circuit City did not do”
 - Whereas, **Best Buy**, succeed – Creating a consumer electronics superstore. Doing exactly opposite of Circuit City, pursue with intensity
- **Zenith** (Exception case) – “fell largely because it stayed focused on its core business too long and failed to confront its impending demise”. Note: “A core business that meets a fundamental human need and one at which you’ve become best in the world rarely become obsolete”.
- **Great Atlantic & Pacific Team Company (A&P)** arrogant stance that “we will continue to keep things just the way they are and we will continue to be successful – well, we’re A&P” forgotten why was A&P successful in the 1st place.
- Failure of **Ames Department Stores** versus the success of **Wal-Mart** (Note: Wal-Mart started 4 year later and actually learned from Ames). The different – “Wal-Mart maintained its near-religious fanaticism about its core values, purpose, and culture, Ames did the opposite in its quest for quick growth, catapulting itself right into stage 2”.

▪ Important Points And Comments

- It is better to take approach 1, that is, to discount your own success than to take approach 2, attribute success to your own superior qualities.
- **Markers For Stage 1**
 - Success Entitlement, Arrogance
 - Neglect Of A Primary Flywheel
 - What Replaces “Why”
 - Decline In Learning Orientation

4. Stage 2: Undisciplined Pursuit Of More

▪ Story lines and illustrating how successful companies fall into stage 2 of decline

- **Ames** pursuit on acquisition destroyed the momentum built over 3 decades making it a significant urban player overnight – “Wal-Mart continued to focus 1st on rural and small town areas before making an evolutionary migration into more urban settings”.
- **Rubbermaid** – “Our Vision is to grow”: “doing a lot of new stuff, all at the same time”, “Choking on nearly 1 thousand new products introduced in 3 years...”
- **Merck** – pursuit of growth at all cost. “Merck’s quest for growth subtly diluted the power of - Merck’s purpose-driven philosophy that made the company great in the 1st place”. Note: “All three companies from **Built To Last** that fell in the analysis – **Merck, Motorola and HP** – pursued

The Book Chapter Summary

outsized growth to their detriment”.

- Important Points And Comments
 - **Packard’s Law** – “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”.
 - **Markers For Stage 2**
 - Unsustainable Quest For Growth, Confusing Big With Great
 - Undisciplined Discontinuous Leaps
 - Declining Proportion Of Right People In Key Seats
 - Easy Cash Erodes Cost Discipline
 - Bureaucracy Subverts Discipline
 - Problematic Succession Of Power
 - Personal Interests Placed Above Organizational Interests

5. Stage 3: Denial Of Risk And Peril

- Story lines and illustrating how successful companies fall into stage 3 of decline
 - **Motorola** – Undisciplined pursuit in the Iridium Program despite negative evidences. In contrast, **Texas Instruments (TI)** only dared its big leap only after diligently turning the DSP flywheel fifteen years. It didn’t bet big in 1982, when it 1st put DSP on a single chip as well as in 1986, when it had only \$6 Million in DSP revenues.
 - **Rubbermaid** – “Our Vision is to grow”: “doing a lot of new stuff, all at the same time”, “Choking on nearly 1 thousand new products introduced in 3 years...”
 - **Merck** – pursuit of growth at all cost. “Merck’s quest for growth subtly diluted the power of - Merck’s purpose-driven philosophy that made the company great in the 1st place”. Note: “All three companies from **Built To Last** that fell in the analysis – **Merck, Motorola and HP** – pursued outsized growth to their detriment”.
 - **IBM** – Historical fall in the late 1980s and early 1990s: Failure in the Leadership-Team Dynamic
 - **Others In Stage 3** – Scott Paper, Zenith
- Important Points And Comments
 - **Taking Risks Below The Waterline** – “To be clear, great enterprises do make big bets, but they avoid big bets that could blow holes below the waterline. When making risky bets and decisions in the face of ambiguous or conflicting data, ask 3 questions”
 - What’s the upside, if events turn out well?
 - What’s the downside, if events go very badly?
 - Can you live with the downside? Truly?
 - At this stage, Leadership-Team Dynamics is critical.
 - **Markers For Stage 3**
 - Amplify The Positive, Discount The Negative
 - Big Bets And Bold Goals Without Empirical Validation
 - Incurring Huge Downside Risk Based On Ambiguous Data
 - Erosion Of Health Team Dynamics
 - Externalizing Blame
 - Obsessive Reorganization
 - Imperious Detachment

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6. Stage 4: Grasping For Salvation

- Story lines and illustrating how successful companies fall into stage 4 of decline
 - **HP** – Appointment Of Carly Fiorina as CEO; “The company of Bill Hewlett and Dave Packard is being reinvented”. Whereas, Louis V. Gerstner, Jr, CEO of **IBM** stated “The last thing IBM needs right now is a Vision”; doing “Nothing” for the 1st 100 day in office – “No, thank you. We’re going dark for a bit while we assess the task at hand”.
 - **Ames, Circuit City, A&P** – Hired new CEOs
 - **Motorola Versus IT** – “Two great companies that stumbled; one fell through stage 4 while the other did not”
- Important Points And Comments
 - **Searching For A Silver Bullet** – “Stage 4 begins when an organization reacts to a downturn by lurching for a silver bullet. This can take a wide range of possible forms, such as betting big on unproven technology, pinning hopes on an untested strategy, replying upon the success of a splashy new product, seeking a game changing acquisition, gambling on an image makeover, hiring consultants who promise salvation, seeking a savior CEO, expounding the rhetoric of ‘Revolution’, or in its very late stages, grasping for a financial rescue or buyout”.
 - **Markers For Stage 4**
 - A Series Of Silver Bullets
 - Grasping For A Leader-As-Savior
 - Panic And Haste
 - Radical Change And “Revolution” With Fanfare
 - Hype Precedes Results
 - Initial Upswing Followed By Disappointments
 - Confusion And Cynicism
 - Chronic Restructuring And Erosion Of Financial Strengths

7. Stage 5: Capitulation To Irrelevance Or Death

- Story lines and illustrating how successful companies fall into stage 5 of decline
 - **Scott Paper** – “Had the company not fallen through stage 1, 2, 3 and 4 and not lost control of its financial freedom, the new CEO Dunlap would have never been brought in to burn the village in order to save it”.
 - **Zenith** – Explain how the company proceeds from stage 1 through stage 4. “Zenith churned through 5 CEOs in 10 years, fell into bankruptcy, and reemerged with less than 400 employees, 98 % fewer than the 36,000 employed in 1988. It had fallen from one of the greatest success stories of American business history at mid-century into a shadow of its former self”.
- Important Points And Comments
 - **Denial Or hope** – “Requires leaders who retain faith that they can find a way to prevail in pursuit of a cause larger than mere survival and larger than themselves, while also maintaining the stoic will needed to take whatever actions must be taken, however excruciating, for the sake of that cause”.

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8. Well-Founded Hope

- Story lines and illustrating how successful companies fall into stage 4 of decline
 - **Xerox** – Illustrate how the CEO Anne Mulcahy in 2001 inherited a company mired in stage 4 and turn it around. She put the company after self.
 - **Xerox. HP. Nucor. IBM. Merck. Texas Instruments. Pitney Bowes. Nordstrom. Disney. Boeing** – “What do these companies have in common? Each took at least one tremendous fall at some point in its history and recovered”.
- Important Points And Comments
 - “The signature of the truly great vs. the merely successful is not the absence of difficulty. It's the ability to come back from setbacks, even cataclysmic catastrophes, stronger than before. Great nations can decline and recover. Great companies can fall and recover. Great social institutions can fall and recover. And great individuals can fall and recover. As long as you never get entirely knocked out of the game, there remains hope”.
 - “Great leaders used decline as a catalyst”
 - “Right leaders feel a sense of urgency in good times and bad” – Gerstner, CEO IBM
 - “The path out of darkness begins with those exasperatingly persistent individuals who are constitutionally incapable of capitulation. It's one thing to suffer a staggering defeat—as will likely happen to every enduring business and social enterprise at some point in its history—and entirely another to give up on the values and aspirations that make the protracted struggle worthwhile. Failure is not so much a physical state as a state of mind; success is falling down—and getting up one more time—without end”.

9. Appendices And Notes

- Explaining the fallen company selection criteria
- Explaining the success-contrast selection criteria
- Illustrating Fannie Mae and the Financial Crisis of 2008
- Providing an evidence table – subverting the complacency hypothesis
- Providing an evidence table – grasping for salvation
- Illustrating the decline and recovery case of IBM, Nucor and Nordstrom
- Providing Good-To-Great Framework – Concept Summary

My Takeaways From the Book

- **The prevailing notion often attributes the failure of companies to complacency, but according to Collins, this is a misconception. He compellingly argues that it's not complacency that proves fatal, but rather a meandering, undisciplined pursuit of elusive magic bullets.** Collins passionately delineates the critical distinction between disciplined and undisciplined growth, emphasizing the perils of the latter.
- Collins delves into the peril of hubris stemming from success, cautioning against the tendency to conflate the 'how' with the 'why.' He eloquently underscores the importance of never losing sight of the nobility of one's purpose amid the trappings of success. According to Collins, the true measure of success lies not only in how we execute our endeavors but, more crucially, in the wisdom that guides our actions.
- The profound wisdom encapsulated in Collins' writing is encapsulated in the assertion, "**Whether you prevail or fail... depends more on what you do to yourself than on what the world does to you.**" This poignant statement underscores the empowering notion that we are not shackled by our circumstances, setbacks, history, or mistakes. Even in the face of staggering defeats, our liberation lies in the choices we make.
- The narrative takes a practical turn by offering a useful approach to discerning the pulse of a successful company on the verge of decline. It provides insights into recognizing the stages of decline and offers guidance on averting the precipice. Collins' framework becomes a valuable tool for leaders, offering a strategic roadmap to navigate the complexities of organizational life and proactively steer clear of pitfalls.

Anthony EL Tan (Profile):



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