How the Mighty Fall

This article takes its material from the book *How the Mighty Fall* and how some companies never give in, by Jim Collins. There are always companies that are at various stages described by Collins. If we can identify them we are much better placed to invest successfully.

The Five Stages of Decline

As a broad outline, Collins identifies what he calls the five stages of decline:

The first stage is identified as hubris that has been born out of a successful business concept.

This hubris leads to the second stage which is the undisciplined pursuit of more. The key in this stage is the lack of discipline.

As this pursuit begins to unravel we have the third stage which is characterised by the general denial of risk and peril within the organisation.

Now things are becoming critical and the organisation is seen to be desperately grasping for salvation.

This leads to a final capitulation where the organisation becomes irrelevant and/or the death of the organisation.

Introduction

Collins uses the useful metaphor of a flywheel as a business model of the process of decline of the organisation. He identifies three stages of this journey to eventual decline:

The first stage is one born out of initial success in building an effective flywheel.

The second stage takes the process further as the organisation succumbs to the notion that new opportunities will be better than its original flywheel.

The next stage sees the organisation divert resources to the range of new flywheels.

The inevitable fourth stage sees the new flywheels failing.

Recognising the depth of the failure sees the organisation desperately turn back to the original flywheel as it struggles to survive.

Markers for the Various Stages

The first stage

The first stage is marked by success. This success leads on to a sense of entitlement and the general development of arrogance. This easily flows into neglect of the primary flywheel. What we do replaces why we do it. What is lost in this stage is understanding and insight into why things are done. This leads inevitably to a decline in the earlier learning orientation and the discounting of the role of luck in development of the primary flywheel.

The second stage

The second stage is marked by the quest for growth, or the confusion of big over great. This sees the taking of undisciplined and discontinuous leaps. We find fewer of the right people in the key roles as cost discipline is eroded in favour of easy cash. There will be a focus on jobs rather than responsibilities, which leads to the problematic succession of power as personal interest assumes priority over that of the organisation.

The third stage

In the third stage we see the denial of risk and peril for the organisation. There is a marked tendency to explain away negative data and not face up to problems. Big bets will be taken with bold goals and a complete lack of empirical validation of what is undertaken. There will be a strong tendency to take huge downside risks based on ambiguous data. Healthy team dynamics will be eroded, with a marked tendency to blame externalities and the reluctance to accept responsibility for what has happened. There will be repeated and obsessive reorganisations with the imperious detachment of the leaders in the organisation.

The fourth stage

The fourth stage sees the organisation grasping for salvation as a series of measures characterised as ‘silver bullets’ lead to their failure. The organisation will grasp for a ‘leader as saviour’ and there will be much panic and haste around radical change and fanfare for revolution as hype precedes actual results. The initial upswing in results is followed by disappointments. There will be great confusion and much cynicism about what is done, leading to chronic reorganisation and the general erosion of the financial strength of the organisation.

The fifth stage

Now we see the capitulation of the organisation into irrelevance or death as the downward spiral flies increasingly out of control. The repeated cycles of grasping erodes resources and leads inevitably to more disappointment. Cash tightens as hopes fade and available options narrow or cannot be funded.

Possible Recovery

The conclusion is the well-founded hope that the organisation can recover from the fourth stage. This requires the organisation to revert to solid disciplines in management AT ONCE. There should be an attitude of never giving in and a willingness to change tactics, never giving up the pursuit of the core purpose. This recovery requires leadership from exasperatingly persistent managers and workers who become constitutionally incapable of capitulation.

The key to recovery is having the right people in key management seats. The markers that Collins sees for great managers start with them fitting with the core values of the organisation, such that they don’t need to be tightly managed because they fulfil their commitments through understanding that they have responsibilities rather than jobs to do. The right managers will be passionate about the company and its work with what Collins calls a *window and mirror* maturity, which means they herald success from others, but accept blame for failures.

I have seen all of this time and time again in businesses listed on stock markets. I have found this analysis helps me to spot the great businesses and managers, while avoiding the maybe doomed failures that are struggling to survive.

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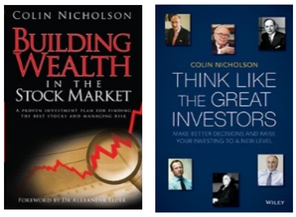

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