

## How The Mighty Fall

Jim Collins

HarperCollins

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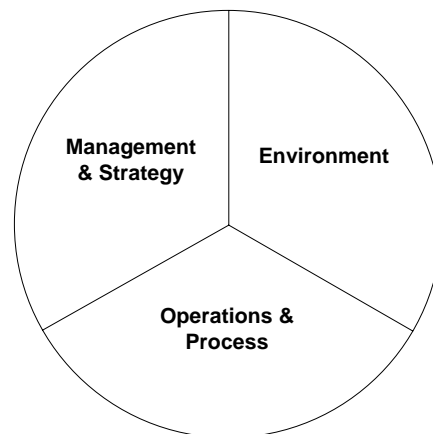
### Reviewed by Paul Harmon

I bought this book after I read an article in the *Economist* that said that Akio Toyoda, the current president of Toyota motors, was rumored to have read this book and had urged his fellow executives to do so as well. The article went on to suggest that Mr. Toyoda felt that his company was already in the advanced stages of a downward spiral and that he planned to guide its recovery. Note that this article appeared after the stories of how the financial meltdown of 2008 had led to large parking lots filled with unsold Toyota cars, but well before any recalls for brake problems were announced. In other words, if the *Economist's* rumors were true, Mr. Toyoda was concerned about what his company was doing well before it got into the very troublesome situation it finds itself in today.

Jim Collins is a business consultant who has previously written books on how companies go from being good to being great. In 2004, he started looking at data about companies that got into trouble. In essence, some of the companies he had studied that had gone from good to great, found themselves in serious trouble a few short years later, and some failed altogether. Collins began to ask himself how great companies got into trouble and why some recovered and others did not. I was attracted, immediately, because of my own concerns with the role of process in organizations that succeed or fail. I wanted to know if failure typically resulted from a failure to execute processes, or if it was more likely a result of causes related to management and strategy, failures to adopt new technologies, or changes in the legal environment, competition, or public taste.

BPTrend readers may recall that I wrote an Advisor in 2008 titled *How Did Toyota Do It?* In that Advisor I reflected on the fact that Toyota had just been hailed as the largest auto manufacturing company in the world. I asked myself what role process excellence had played in Toyota's success. I explained, then, that I am increasingly inclined to analyze company results in terms of three elements: (1) Management & Strategy (the decisions management makes), (2) Environment (decisions made by governments, competitors and customers that are largely beyond the control of the organization), and (3) Operations and Process. I suggested that Toyota was very good at process, but that other elements also contributed to its success – including strategic decisions made by the company's management, the fact that many people in countries around the world were ready to buy cars for the first time, and that gas was becoming more expensive. All these factors converged to create consumer demand for smaller cars. I used the diagram shown in Figure 1 to suggest how one might think about how each of the three elements contributes to an organization's success.

In another Advisor, using the same approach, I argued that GM's problems were not a result of its manufacturing processes or the quality of its cars so much as a result of consumer expectations that gas prices would remain low, thereby encouraging the well established preference by US customer's for large vehicles and the sale of SUVs.



**Figure 1. Three Elements in an Organization's Success**

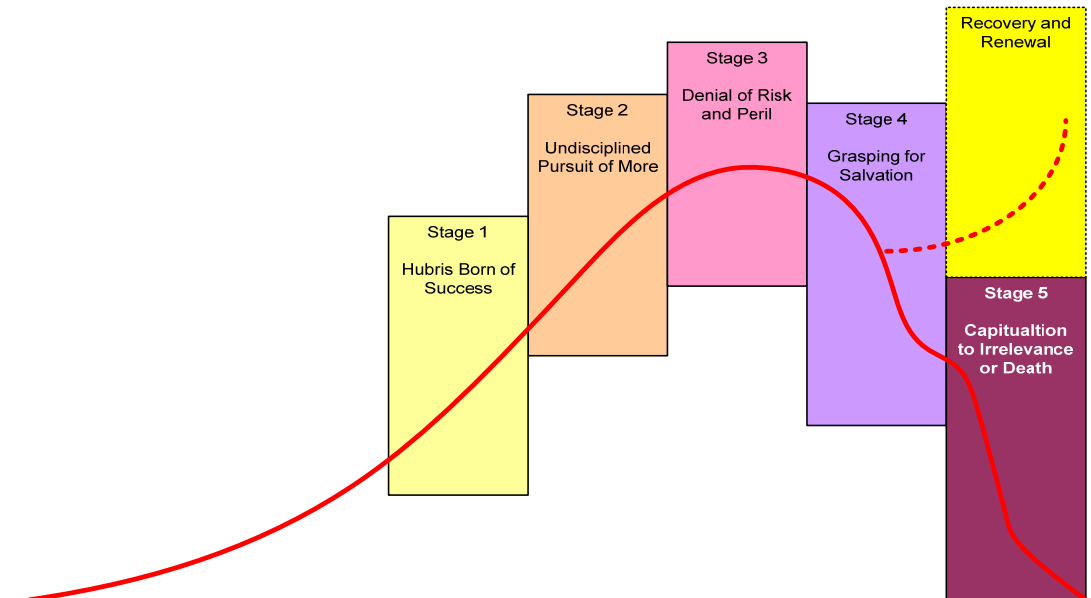
Collins begins by discussing how many, very successful companies seem to transition from greatness to serious trouble in a very short time. (Who of us would have imagined two years ago that Toyota would be in the trouble it is in now.) Collins' book, is full of other examples.)

Collins' discussion of the problem eliminates the Environmental element early on when he considers several examples of paired companies in the same industry, where both start out well and quickly become very successful. Then, one company goes on to greater success and the other stumbles and falls. (The example Collins cites the most is the parallel rise of Wal-Mart and Ames. From 1980 to 1986, both grew rapidly and seemed to be well-matched competitors, each pursuing a similar business model based on low cost retail prices. (In 1986, however, Ames went into rapid decline while Wal-Mart went on to greatness.) So, presumably we can rule out laws, quality of product or customer preferences in many cases.

Collins suggests a five Stage model, which I've pictured in Figure 2. One thing to notice immediately is that the beginning of a fall occurs when the company appears to be doing very well. The root of the decline, according to Collins, is the hubris that sets in as a result of overwhelming success. Collins believes that leadership and the strategic focus that good leaders bring to organizations is the key to success. His data focuses on what managers do and the directions in which they seek to move their organizations. Let me follow his line of thinking before I return to issues that will be of more interest to process practitioners.

Collins assumes that great companies are built on great business models that are very well executed – in large part because the CEO hires great managers to execute the business model. If the business model is excellent, the company succeeds and begins to be recognized as a really good company. In the worst case, this leads the managers to think they have special insights into the nature of things, and, as they enter Stage 2, they begin to imagine there is nothing they can not do.

Collins makes a point of demonstrating that lots of successes are due to being in the right place at the right time. Success also results from a combination of circumstances that allow a company to succeed with an approach that would not have succeeded at another point in time. (In this sense, Collins recognizes the role of the environment in creating situations in which companies can be successful.)



**Figure 2. Jim Collins Five Stage Model of Organizational Decline (And the Possibility That the Organization May Rally and Recover.) (Modified from How the Mighty Fall.)**

Collins argues that smart executives recognize that success involves quite a bit of luck and is dependent on environmental factors that could change rapidly. This leads those same executives to be very cautious –some would say paranoid -- constantly looking out for some change that may render their current approach ineffective. They believe that their approach is good, but they keep working to renew and refine it as circumstances change.

When hubris begins to set in, it occurs because the executives become convinced that their approach is so superior and foolproof that they will triumph over any circumstance. (In Collins terms, they lose track of the context in which their approach was successful.) As hubris leads executives into Stage 2, they begin to pursue growth in an undisciplined manner, assuming their approach will work in situations where it was never tested and without the people and experience required to be successful. ,

Collins introduces Packard's Law. Named after David Packard of HP fame, Packard was well known for saying that HP's growth rate could not exceed the rate at which it could hire enough good people to implement its growth plans. Collins goes on to show how companies that seek rapid growth often think they can get around Packard's Law by instituting policies and procedures that will guide less skilled or knowledgeable managers to do what really good managers would do. In Collins terms, this results in a growing bureaucracy. He cites Bank of America as an example. When BofA dominated banking, it depended on entrepreneurial branch managers who were given significant responsibilities for loans and who were held accountable. Later, as the bank rapidly expanded, reaching 1,100 branches and appearing to be at the top of its game, it instituted a complex layering of loan committees that required the branch managers to obtain some 15 signatures before authorizing a loan.

Even rapid expansion and over confidence in an approach will not lead to failure if the organization keeps checking for problems and risks, and pays attention to the internal signs of trouble. Unfortunately, hubris and the egos involved in massive expansion efforts often result in situations in which leaders don't listen to bad news. While things are still going very well,

executives can plausibly deny that any given problem is serious, and individuals who seem to be emphasizing the negative are often removed from power.

Collins goes into a detailed history of Motorola. He cites the company's early successes, including Six Sigma, and its rapid rise to greatness. (Motorola went from \$5 billion to \$27 billion in revenues in just under a decade.) It then decided to leap-frog its competitors with the Iridium satellite phone system. They put approximately 50 satellites in orbit making it possible for satellite phone owners to call from most major cities in the world to most other major cities in the world. This effort was launched on a small scale at a time when cellphones were not in wide use. The effort was well conceived, and enjoyed success as it moved through the early milestones. However, by the time Motorola was ready to expand the satellite launch, the environment had changed. Cell phones were in wider distribution and worked well enough for most people making calls to and from major cities. Motorola had been unable to design a satellite phone smaller than a brick and the phones didn't work indoors because they required a line of site to a satellite. Cautious managers urged Motorola to cancel the effort, but hubris, sunk costs, the sense of grandeur associated with a worldwide system, and an unwillingness to listen to negative advice, led to the decision to proceed. Iridium was established as a separate company with Motorola owning most of the stock. The expanded satellite system was launched in 1998 and in 1999 Iridium filed for bankruptcy, defaulting on over 1.5 billion in loans, and nearly bankrupting Motorola.

In Collins' model, a company is in crisis in Stage 4. Many companies in this position grasp for one of several fixes. They hire a new, outside CEO, introduce new programs, launch a blockbuster product, pursue acquisitions, or launch some bold, new, untested strategy. In most cases, these initiatives only exacerbate the problem, and things get worse. Some companies that try these quick fixes stay in Stage 4 for a long time, but most sink rapidly into irrelevance or bankruptcy. The fortunate ones get acquired by someone else.

The alternative, which could occur at any stage along the way, but usually only occurs in Stage 4, is that the company recovers and goes on to further successes. Collins isn't as good at describing exactly what leads to recovery as he is at documenting what leads to decline. He spends a lot of time talking about how important it is for executives to "never give up" and that doesn't seem to add much to the discussion, as far as I can tell. More relevant, Collins stresses that new fixes are unlikely to work and says the company needs to return to basics. It needs to reexamine the approach that initially brought it success, renew that approach with a critical eye to what is still valid and what has changed, and then apply tight discipline to return the company to practices that resulted in the earlier success. This is usually helped by the fact that a crisis calls for a sharp reduction in product lines and personnel. Handled correctly, this is an opportunity to get rid of marginal product lines and the second rate managers and bureaucrats that were hired in the rapid growth period, and to reestablish the focus and sense of responsibility that prevailed when the company was first experiencing major success.

As I reflected on the relative roles of process and management, and on Toyota, this is what occurred to me. There is much about a core approach that results in success. Collins conceptualizes this "approach" as a company culture, as a strategic vision, or as a business plan that organizes resources for a market. At best, he treats these as capabilities that should be nurtured. He never considers the details of any of these approaches. He assumes that good executives hire and support other good executives and vice versa.

Next, I thought about the testimony of Mr. Toyoda before the US Congress this past week. Toyoda told Congress, as he had told others earlier, that Toyota had "grown too fast." He suggested that Toyota executives had become infatuated with the idea of becoming the largest car company in the world and allowed themselves to lose their focus on quality. And, apparently

Mr. Toyoda believed this had been true for several years and was what led them to pushing out cars rather than waiting for orders (Just in Time). This resulted in the many lots of unsold Toyota vehicles in the fall of 2008, and Toyota's first significant financial setback. Mr. Toyoda proposes to get back to basics, and all of us who have used Toyota as an example of what happens when an organization focuses on continuous process improvement, certainly hope they succeed.

That said, I don't think we should argue that Toyota's current problems are a result of Toyota Production Systems (TPS) or that they undermine the value and successes of Lean. Toyota used its process methodologies to produce superior cars for decades as it went from success to success. Toyota's approach worked, and, if Collins is to be believed, their current problems are a result of the attitudes and strategies of their executives, and not on the way they produced cars.

Here are some other thoughts, however. I have talked with several Toyota people who work in marketing and sales. They routinely tell me that Toyota doesn't apply the TPS system in their domains. "No, TPS is just for manufacturing," they explain. I've also read articles about IT people at Toyota who have the same problems IT people have elsewhere when it comes to developing an overview of any process they are asked to automate. Individual workers may know their processes, but it doesn't follow that managers have a good overview of their processes, or that the company works hard to integrate manufacturing processes with sales and marketing processes. I hope in going back to basics, that Toyota executives will also think about the ways in which the world has changed since TPS was established in the 1950s. I suspect that TPS would benefit from a big dose of process architecture, some integrated process management, and some serious work on how to best interface internal processes with customer concerns.

And this leads me back to thinking about how executives decide what their core advantages really are. I can see how they get led astray by Wall Street and fall into trying to achieve growth at any cost. I can even see why Toyota developed hubris – after all, we all kept telling each other that they had a sensational methodology. Now, Toyota executives, like any other executives who find themselves in trouble, are going to have to get back to basics, and I expect that will require a very steady look at how their processes are organized.

But these are just my reflections. This is a business manager's book and, to my mind, a fairly superficial one. However, I recommend it. It's a short book, a quick read, and it brings together lots of data about big companies that have had problems in the past few years. And, it will undoubtedly lead readers to their own insights and reflections.

As I say, it's a business manager's book and, ultimately, a fairly superficial one. .