

How The Mighty Fall

Jim Collins

HarperCollins

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Reviewed by Paul Harmon

I bought the book after I read an article in the *Economist* that said that Akio Toyoda, the new president of Toyota motors, was rumored to have read this book and be urging it on his fellow executives. The article went on to suggest that Mr. Toyoda felt that his company was already in stage 3 or 4 on its 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 break 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 horrible situation in which it is now mired.

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 had proceeded in a few years to get into serious trouble, and some failed altogether. Collins begin to ask himself how great companies got into trouble and why some recovered and others failed. I was attracted, immediately because of my own concerns with the role of processes in helping organizations to succeed or fail. I wanted to know if failure typically resulted from a failure to execute processes, or if it was more likely to result from causes related to management and strategy, in failures to adopt new technologies, or changes in the legal environment, competition, or public taste.

Loyal readers may recall that I wrote an Advisor in fall of 2008 (How Did Toyota Do It? Nov. 28, 2008) in which 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: A management & strategy element (the decisions management makes), an environment element (decisions made by governments, competitors and customers that are largely beyond the control of the organization), and an operations and process element. I suggested that clearly Toyota was very good at process, but that other elements also contributed to its success – including strategic decisions made by the company's management and the fact that many people in many countries were read to buy cars for the first time, that gas was becoming more expensive – which led to consumer demand for smaller cars. I used the diagram show in Figure 1 to suggest how one might think about each elements contribution to an organization's success.

In a similar article using the same approach, I recently argued that GM did not get into trouble because of its manufacturing processes or the quality of its cars so much as because of US laws that had guaranteed low cost gas, and encouraged the sale of SUVs, which played into a well established preference by US customer's for large vehicles.

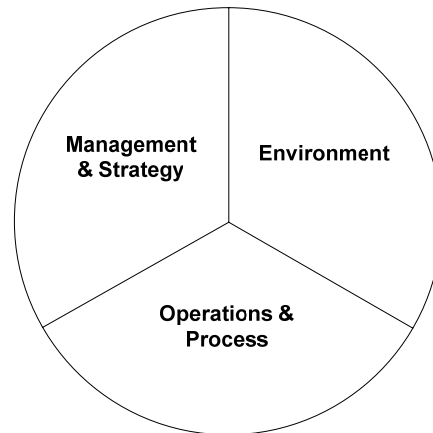


Figure 1. Three Elements in an Organization's Success

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

Without discussing the problem in the way I might, having never seen Figure 1, Collins eliminates the Environmental element early on, when he considers several examples of paired companies in the same industry, where both start out well, quickly become very successful, and then split, with one proceeding on to greater successes, while the other stumbles and falls. (The example Collins relies on the most in this regard is the parallel rise of Wal-Mart and Ames. From 1980 to 1986, each grew rapidly and seemed to be well-matched competitors each pursuing a very 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, to the outside observer, the company is doing very well. The root of the decline, in fact, is the hubris that begins as a direct result of overwhelming success. Let's be clear, Collins believes that leadership and the strategic focus that good leaders bring to organizations is the key. 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 till I've explained it and then I'll 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 then 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 time. (In this sense, Collins recognizes the role of the environment is creating situations in which companies can be successful.)

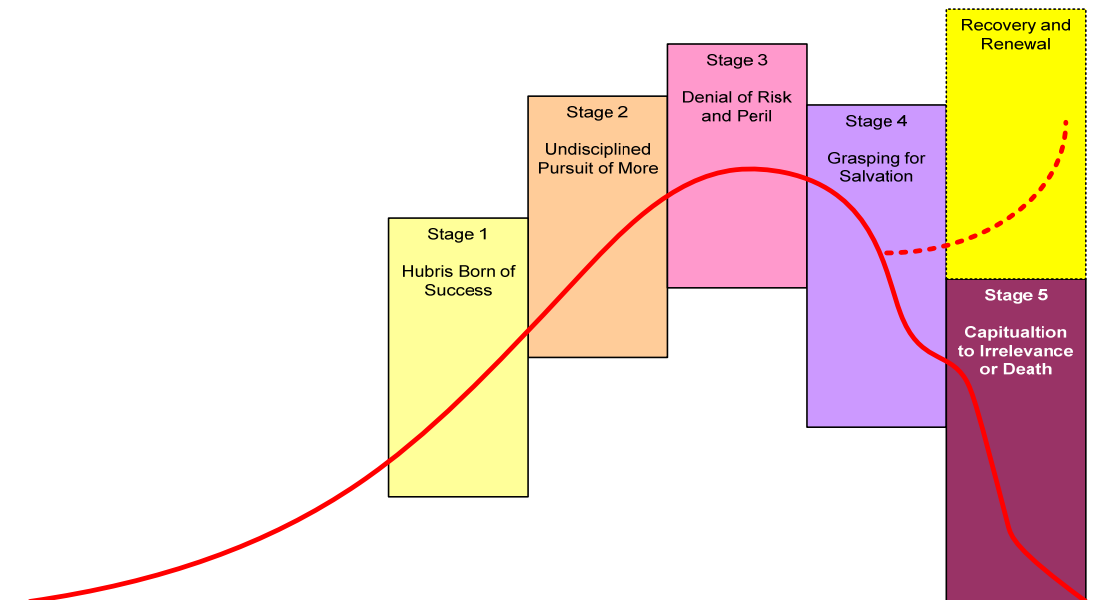


Figure 2. Jim Collins Five Stage Model of Organizational Decline (And the Possibility That the Organization May Rally and Recover.) (Modified from How the Mighty Fall.)

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 -- and constantly looking out for some change that may render their current approach ineffective. They believe that their approach is good, but they believe that it is contingent and they keep working to renew it and refine it as circumstances change.

When hubris begins to set in, it occurs because the executives decide that they do not need to be concerned. They become convinced that their approach is so superior and foolproof and will allow them to triumph over any circumstance. (In Collins terms, they lose track of the context in which their approach was successful.) As hubris leads executives into the second Stage, they begin to pursue growth in an undisciplined manner, assuming their approach will work in various circumstances in which it was never tested and that it will work even if they do not have people with experience in the approach.

Collins introduces Packard's Law. Named after David Packard of HP fame, Packard was well known for saying that HP could not grow faster than 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 it dominated banking, it depended on entrepreneurial branch managers who were given very significant responsibilities for loans and held accountable. Later, as the bank expanded rapidly and reached toward 1,100 branches -- and appeared from the outside at the very top of its game -- it instituted a complex layering of loan committees and only allowed a branch manager to make a loan after obtaining some 15 signatures. Later still BofA experienced massive losses and was sold to another bank.

Even rapid expansion and uncritical 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. 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 jump-frog its competitors with the Iridium satellite phone system. In essence, the company would put some 50 satellites in orbit that would make it possible for someone with a satellite phone to make a call anywhere in the world to any other location. This effort was launched small when cell phones were only beginning to appear. The effort was well conceived, and enjoyed successes as it passed its early milestones. By the time Motorola was ready to commit to launching satellites, a very expensive proposition, the environment had changed. Cell phones had become widely successful and lots of people had already acquired them. They worked well enough for most people, who were making calls to and from major cities. Motorola had been unable to fit its satellite phones in a package much smaller than a brick and they couldn't be used indoors – they required a line of site to a satellite. Cautious managers were urging that Motorola cancel the effort, but hubris, sunken costs, a sense of the grandeur of 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 satellites were launched in 1998. In 1999 Iridium filed for bankruptcy, defaulting on over 1.5 billion in loans, and nearly bankrupting Motorola.

In Stage 4 the company is in a crisis. Many companies in this position grasp for one of several fixes. They hire a new, outside CEO, introduce new programs, launch a blockbuster product, try acquisitions, or launch on some bold, new untested strategy. In most cases these initiatives only exacerbate the problem, and things get worse. Some companies who try these quick fixes stay in Stage 4 for a long time, but most who try them sink rapidly into irrelevance or bankruptcy. If they are lucky, they 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 nearly as good at describing exactly what leads to recovery as he is at documenting what lead to decline. He spends a lot of time talking about how important it is for the executive 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. 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 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 many of the second rate managers and the bureaucrats that were hired in the rapid growth period and to reestablish the focus and the sense of responsibility that predominated when the company was first experiencing major successes.

As you can see from my summary, this isn't a deep book. It's a business book with lots of examples hung on a rather vague common sense model. For all that, the case studies are interesting and it can't help but lead the reader to some interesting meditations on companies you are familiar with.

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 them as capabilities that should be nurtured. He never considers the details of any of these approaches. He assumes that good executives choose and support good ones and vice versa. As I say, it’s a business managers book, and ultimately a pretty superficial one.

Next I thought again on the testimony of Mr. Toyoda before the US Congress this past week. Toyoda told Congress, as he had told others, earlier, that Toyoda had “grown too fast.” He suggested that Toyoda 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 led to pushing out cars rather than waiting for orders (JIT), which, in turn, had resulted in all those lots of unsold cars in the fall of 2008, and Toyoda’s first significant financial setbacks. Mr. Toyoda proposes to get back to basics, and all those 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, however, I don’t think we should argue that Toyota’s current problems have anything to do with 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. It’s approach worked, and, if Collins is to be believed, its current problems result from the attitudes and strategies of its executives, and not on the way it made 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 on IT people at Toyota who have the same problems IT people have elsewhere 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 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 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 those are just my reflections. I recommend this book. It’s a short book and a quick read, but it brings together lots of data about big companies that have had problems in the past few years and will undoubtedly lead you to your own insights and reflections.