

Is Your Company in Decline? How Would You Know?

by Gary Tomlinson

Learning from the school of hard knocks can be very informing, but often the tuition is too high! We should learn from other people's experiences. The purpose of this column is to share great business wisdom from the experiences of authors like Jim Collins, Michael Gerber, Gary Harpst, Michael LeBoeuf, Ron Willingham, Stephen M.R. Covey and others. Because when you combine great business education with your own business experiences the outcome you'll receive is far greater than the sum of its parts.

The wisdom of Jim Collins' new book *How the Might Fall* has been chosen to share with you this week. "When you are at the top of the world, the most powerful nation on Earth, the most successful company in your industry, the best player in your game, your very power and success might cover up the fact that you're already on the path to decline." So, *how would you know?* "If some of the greatest companies in history can collapse from iconic to irrelevant, then what might we learn by studying their demise, and how can others avoid their fate?"

Collins has studied both sides of the coin; how companies become great and how companies fall. He has concluded that there are more ways to fall than to become great. He began to think of decline as analogous to a disease, perhaps like cancer, that can grow on the inside while you still look strong and healthy on the outside. It's not a perfect analogy because organizational decline, unlike cancer, is largely self-inflicted. Still, the disease analogy might be helpful. Collins shares this personal story to illustrate:

"On a cloudless August day in 2002, my wife, Joanne, and I set out to run the long uphill haul to Electric Pass, outside Aspen, Colorado, which starts at an altitude of about 9,800 feet and ends above 13,000 feet. At about 11,000 feet, I capitulated to the thin air and slowed to a walk, while Joanne continued her uphill assault. As I emerged from tree line, where thin air limits vegetation to scruffy shrubs and hardy mountain flowers, I spotted her far ahead in a bright-red sweatshirt, running from switchback to switchback toward the summit ridge. Two months later, she received a diagnosis that would lead to two mastectomies. I realized, in retrospect, that at the very moment she looked like the picture of health pounding her way up Electric Pass, she must have already been carrying the carcinoma. That image of Joanne, looking healthy yet already sick, stuck in my mind and gave me a metaphor."

Collins has 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, dangerously on the cusp of a precipitous fall."

His research project took more than four years in duration and uncovered five stages of decline which proceed in sequence. They are:

Stage 1: Hubris Born of Success: “Stage 1 kicks in when people become arrogant, regarding success virtually as an entitlement, and they lose sight of the true underlying factors that created success in the first place. Luck and chance play a role in many successful outcomes, and those who fail to acknowledge the role luck may have played in their success – and thereby overestimate their own merit and capabilities – have succumbed to hubris.”

Stage 2: Undisciplined Pursuit of More: “Hubris from Stage 1 (“We’re so great, we can do anything!”) leads right into Stage 2, the Undisciplined Pursuit of More – more scale, more growth, more acclaim, more of whatever those in power see as “success.” Companies in Stage 2 stray from the disciplined creativity that led them to greatness in the first place, making undisciplined leaps into areas where they cannot be great or growing faster than they can achieve with excellence, or both. When an organization grows beyond its ability to fill its key seats with the right people, it has set itself up for a fall.”

Stage 3: Denial of Risk and Peril: “As companies move into Stage 3, internal warning signs begin to mount, yet external results remain strong enough to “explain away” disturbing data or to suggest that the difficulties are “temporary” or “cyclic” or “not that bad,” and “nothing is fundamentally wrong.” In Stage 3, leaders discount negative data, amplify positive data, and put a positive spin on ambiguous data. Those in power start to blame external factors for setbacks rather than accept responsibility.”

Step 4: Grasping for Salvation: “The cumulative peril and/or risks-gone-bad of Stage 3 assert themselves, throwing the enterprise into a sharp decline visible to all. Those who grasp for salvation have fallen in Stage 4. Common “saviors” include a charismatic visionary leader, a bold but untested strategy, a radical transformation, a dramatic cultural revolution, a hoped-for-blockbuster product, a “game changing” acquisition, or any number of other silver-bullet solutions. Initial results from taking dramatic action may appear positive, but they do not last.”

Step 5: Capitulation to Irrelevance or Death: “The longer a company remains in Stage 4, repeatedly grasping for silver bullets, the more likely it will spiral downward. In Stage 5, accumulated setbacks and expensive false starts erode financial strength and individual spirit 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 into utter insignificance; and in the most extreme cases, the enterprise simply dies outright.”

Collins says “we do ourselves a disservice by studying only success. We learn more by examining why a great company fell into mediocrity (or worse) and comparing it to a company that sustained its success than we do by merely studying a successful enterprise. Furthermore, one of the keys to sustained performance lies in understanding how

greatness can be lost. Better to learn from how others fell than to repeat their mistakes out of ignorance.” He goes on to say that “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. Whether you prevail or fail, endure or die, depends more on what you do to yourself than on what the world does to you.”

To learn more about Collins’ *How the Mighty Fall* you can download my 10 page book report by going to www.gary-tomlinson.com and clicking on “Book Reports.”

Gary Tomlinson is an entrepreneur and founder of five successful businesses. Today he is an accountability consultant and professional speaker. He works with executive teams to help clarify and achieve their organizational initiatives. His speaking topics include “Top Ten Messages from Ten Top Books” and the “Art of Telling – Communicating Your Way to the Top.” You can engage Gary at gary@gary-tomlinson.com or visit his website at www.gary-tomlinson.com