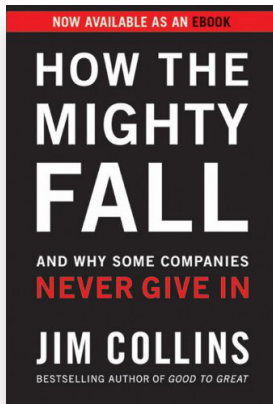


# EXECUTIVE BOOK SUMMARIES

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## ABOUT THE AUTHOR

Jim Collins

Jim Collins wrote *Good to Great and Built to Last*.

# How the Mighty Fall

## THE NUTSHELL

HarperCollins 2009

### Preface

The origins of this work date back years ago to when I became curious about why some of the greatest companies in history, including some once-great enterprises we'd researched for *Built to Last* and *Good to Great* had fallen. The aim of this piece is to offer a research-grounded perspective of how decline can happen, even to those that appear invincible, so that leaders might have a better chance of avoiding their tragic fate. The mighty can fall, but they can often rise again.

### The Silent Creep of Impending Doom

I've come to see institutional decline like a staged disease as it is 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.

### Five Stages of Decline

Having studied both sides of the coin, how companies become great *and* how companies fall, I've concluded that there are more ways to fall than to become great. Assembling a data-driven framework of decline proved harder than constructing a data-driven framework of ascent. Even so, a staged framework of how the mighty fall did emerge from the data. I believe this framework is helpful for understanding, at least in part, how great companies can fall. Equally important, I believe it can be useful to leaders who seek to prevent, detect, or reverse decline.

# How the Mighty Fall

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## **STAGE 1: Hubris Born of Success**

As with most companies that climb from good to great, the process begins with sustained, cumulative effort, like turning a giant, heavy flywheel where each push builds upon previous work, compounding the investment of effort—days, weeks, months, and years of work—generating momentum, from one turn to ten, from ten to a hundred, from a hundred to a thousand, from a thousand to a million. Once an organization gets one flywheel going, it might create a second or third flywheel. But to remain successful in any given area of activity, you have to keep pushing with as much intensity as when you first began building that flywheel. Stage 1 kicks in when people succumb to hubris as they lose sight of the true underlying factors that created success in the first place.

## **STAGE 2: Undisciplined Pursuit of More**

We anticipated that most companies fall from greatness because they become complacent. They fail to stimulate innovation. They fail to initiate bold action. They fail to ignite change so they just become lazy and watch the world pass them by. Although complacency and resistance to change remain dangers to any successful enterprise, *overreaching* better captures how the mighty fall. Stage 2 follows the hubris from Stage 1 (“We’re so great, we can do *anything!*”), leading companies to leap into areas where they cannot be great or growing faster than they can achieve with excellence—into the undisciplined pursuit of more.

## **STAGE 3: Denial of Risk and Peril**

Great enterprises do make big bets, but they avoid big bets that could blow holes below the waterline. Audacious goals stimulate progress, but big bets without empirical validation, or that fly in the face of mounting evidence, can bring companies down, unless they’re blessed with unusual luck. Luck is not a reliable strategy. Stage 3 arrives as internal warning signs begin to mount, yet external results remain strong enough to “explain away” disturbing data.

## **STAGE 4: Grasping for Salvation**

As the cumulative peril and/or risks-gone-bad of Stage 3 assert themselves, the enterprise goes into a sharp decline visible to all. The critical question is, how does its leadership respond? By lurching for a quick salvation or by getting back into the disciplines that brought about greatness in the first place? Initial results from taking dramatic action may appear positive, but they do not last. The descent into stage 4 begins when leadership reacts to trouble by going for a quick solution or a bold stroke to jump-start a recovery, rather than embark on the more pedestrian, arduous process of rebuilding long-term momentum.

# How the Mighty Fall

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## **STAGE 5: Capitulation to Irrelevance or Death**

As institutions hurtle toward Stage 5, they spiral downward, increasingly out of control. Each cycle—grasping, followed by disappointment followed by more grasping—erodes resources. Cash tightens. Hope fades. Options narrow. No company we studied was destined to fall all the way to Stage 5, and each company could have made different decisions earlier in the journey to reverse its downward slide. By the time a company has moved through Stages 1, 2, 3, and 4, those in power can become exhausted and dispirited, and eventually abandon hope. When you abandon hope, you should begin preparing for the end.

## **Well-Founded Hope**

Our research shows that it is possible to build a great institution that sustains exceptional performance for multiple decades, perhaps even longer, even in the face of chaos, disruption, uncertainty, and violent change. If you've fallen into decline, get back to solid management disciplines—now! If you're still strong, be vigilant for early markers of decline. Above all, do not ever capitulate to the idea that an era of success must inevitably be followed by decline and demise brought on by forces outside your control. Circumstances alone do not determine outcomes.