

## How the mighty fall

Mighty disclaimer:

The variables we identify in our research are correlated with the performance patterns we study, but we cannot claim a definitive causal relationship. If we could conduct double-blind, prospective, randomized, placebo-controlled trials, we would be able to create a predictive model of corporate performance. But such experiments simply do not exist in the real world of management, and therefore it's impossible to claim cause and effect with 100 percent certainty. That said, our contrast method does give us greater confidence in our findings than if we studied only success, or only failure.

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A FIVE-STAGE FRAMEWORK:  
HUBRIS BORN OF SUCCESS  
UNDISCIPLINED PURSUIT OF MORE  
DENIAL OF RISK AND PERIL  
GRASPING FOR SALVATION  
CAPITULATION TO IRRELEVANCE OR DEATH

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Circuit City in decline exemplifies a cycle of arrogant neglect that goes like this:

1. You build a successful flywheel.
2. You succumb to the notion that new opportunities will sustain your success better than your primary flywheel, either because you face an impending threat or because you find other opportunities more exciting (or perhaps you're just bored).
3. You divert your creative attention to new adventures and fail to improve your primary flywheel as if your life depended on it.
4. The new ventures fail outright, siphon off your best creative energy, or take longer to succeed than expected.
5. You turn your creative attention back to your primary flywheel only to find it wobbling and losing momentum.

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A core business that meets a fundamental human need—and one at which you've become best in the world—rarely becomes obsolete.

To disrespect the potential remaining in your primary flywheel—or worse, to neglect that flywheel out of boredom while you turn your attention to The Next Big Thing in the arrogant belief that its success will continue almost automatically—is hubris. And even if you face the impending demise of a core business, that's still no excuse to let it just run on autopilot. Exit definitively or renew obsessively, but do not ever neglect a primary flywheel.

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innovation can fuel growth, but frenetic innovation—growth that erodes consistent tactical

excellence—can just as easily send a company cascading through the stages of decline. catastrophic decline can be brought about by driven, intense, hard-working, and creative people.

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Packard's Law states that no company can consistently grow revenues faster than its ability to get enough of the right people to implement that growth and still become a great company.

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the greatest danger comes not in ignoring clear and unassailable facts, but in misinterpreting ambiguous data in situations when you face severe or catastrophic consequences if the ambiguity resolves itself in a way that's not in your favor.

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The signature of mediocrity is not an unwillingness to change. The signature of mediocrity is chronic inconsistency.

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organizations do not die from lack of earnings. They die from lack of cash.