FALL

HOW THE MIGHT FALL

In an exclusive excerpt from his new book, Good to Great *author* ***Jim Collins*** *pinpoints the insidious (and often invisible) problems that send great companies crashing to earth*

IN AUTUMN 2004, I RECEIVED A PHONE CALL from Frances Hesselbein, founding president of the Leader to Leader Institute. ¶ "The Conference Board and the Leader to Leader Institute would like you to come to West Point to lead a discussion with some great students," she said. ¶ "And who are the students?" I asked, envisioning perhaps a group of cadets. ¶ "Twelve U.S. Army generals, 12 CEOs, and 12 social sector leaders," explained Hesselbein. "They'll be sitting in groups of six, two from each sector—military, business, social—and they'll really want to dialogue about the topic." ¶ "And what's the topic?" ¶ "Oh, it's a good one. I think you'll really like it." She paused. "America." ¶ America? What could I possibly teach this esteemed group about America? Then I remembered what one of my mentors, Bill Lazier, told me about effective teaching: Don't try to come up with the right answers; focus on coming up with good questions. ¶ I pondered and puzzled and finally settled upon the question: Is America renewing its greatness, or is America dangerously on the cusp of falling from great to good? While I intended the question to be rhetorical (I believe America carries a responsibility to continuously renew itself, and it has met that responsibility throughout its history), the West Point gathering nonetheless erupted into an intense debate. Half of the participants argued that America stands as strong as ever, while the other half contended that America teeters on the edge of decline. ¶ History shows, repeatedly, that the mighty can fall. The Egyptian Old Kingdom, the Chou Dynasty, the Hittite Empire—all fell. Athens fell. Rome fell. Even Britain, which stood a century before as a global superpower, saw its position erode. Is that the U.S.'s fate? Or will America always find a way to meet Lincoln's challenge to be the last best hope of Earth? ¶ At a break, the chief executive of one of America's most successful companies pulled me aside. "I've been thinking about your question in the context of my company all morning," he said. "We've had tremendous success in recent years, and I worry about that. So what I want to know is: *How would you know?*" ¶ "What do you mean?" I asked. ¶ "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 of decline." That

HOW TO PLAY IT 060

BOOK EXCERPT

From the book, How The Mighty Fall And Why Some Companies Never Give In *By Jim Collins, ©2009 By Jim Collins*

question—how would you know?—captured my imagination and became part of the inspiration for this book.

THE DYNAMICS OF LEADERSHIP-TEAM BEHAVIOR

How managers interact says a lot about the state of a company

TEAMS ON THE WAY DOWN	TEAMS ON THE WAY UP
People shield those in power from unpleasant facts, fearful of penalties and criticism for shining light on the rough realities	People bring forth grim facts—"Come here and look, man, this is ugly"—to be discussed; leaders never criticize those who bring forth harsh realities
People assert strong opinions without providing data, evidence, or a solid argument	People bring data, evidence, logic, and solid arguments to the discussion
The team leader has a very low questions-to-statements ratio, avoiding critical input and/or allowing sloppy reasoning and unsupported opinions	The team leader employs a Socratic style, using a high questions-to-statements ratio, challenging people, and pushing for penetrating insights
Team members acquiesce to a decision but don't unify to make the decision successful—or worse, undermine it after the fact	Team members unify behind a decision once made, then work to make the decision succeed, even if they vigorously disagreed with it
Team members seek as much credit as possible for themselves, yet do not enjoy the confidence and admiration of their peers	Each team member credits other people for success, yet enjoys the confidence and admiration of his or her peers
Team members argue to look smart or to further their own interests rather than argue to find the best answers to support the overall cause	Team members argue and debate, not to improve their personal position but to find the best answers to support the overall cause
The team conducts "autopsies with blame," seeking culprits rather than wisdom	The team conducts "autopsies without blame," mining wisdom from painful experiences
Team members often fail to deliver exceptional results and blame other people or outside factors for setbacks, mistakes, and failures	Each team member delivers exceptional results, yet in the event of a setback each accepts full responsibility and learns from mistakes

Data: Jim Collins

THE SILENT CREEP OF DOOM

At our research lab, we'd already been discussing the possibility of a project on corporate decline, in part because some of the great companies we'd profiled in the books Good *to Great* and *Built to Last* had subsequently lost their positions of prominence. On one level this fact didn't cause much angst; just because a company falls doesn't invalidate what we can learn by studying that company when it was at its historical best.

But on another level I found myself becoming increasingly curious: How do the mighty fall? If some of the greatest companies in history can go from iconic to irrelevant, what might we learn by studying their demise, and how can others avoid their fate? I returned from West Point inspired to turn idle curiosity into an active quest. Might it be possible to detect decline early and reverse course—or even better, might we be able to practice preventive medicine?

I've come to see institutional decline like a 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.

Consider the rise and fall of one of the most storied companies in U.S. business history.

In the wake of the 1906 San Francisco earthquake, A.P. Giannini, founder of the fledgling Bank of Italy, found himself at odds with other bankers who wanted to impose up to a six-month moratorium on lending. His response: putting a plank across two barrels right in the middle of a busy pier and opening for business. "We are going to rebuild San Francisco," he proclaimed.

Giannini lent to the little guy when the little guy needed it most, and his bank, later renamed Bank of America, gained momentum—little guy by little guy, loan by loan, deposit by deposit, branch by branch, expanding ever outward from San Francisco. By 1945 it had surpassed Chase National Bank as the largest commercial bank in the world, and by the late 1970s it had grown to more than a thousand branches in more than a hundred countries. Along the way it became admired not just for its size but also for its quality of management. (Note of clarification: In 1998, NationsBank acquired Bank of America and took the name; the Bank of America described here is a different company than NationsBank.)

Entering the 1980s, Bank of America held a revered position and was widely regarded as one of the greatest companies in the world. Within eight years it would post some of the biggest losses in U.S. banking history, rattle the financial markets to the point of briefly depressing the U.S. dollar, watch its cumulative stock performance fall more than 80% behind the general stock market, face a serious takeover threat from a rival California bank, cut its dividend for the first time in 53 years, sell off its corporate headquarters to help meet capital requirements, see the last Giannini fam-

ily board member resign in outrage, oust its chief executive, bring a former CEO out of retirement to save the company, and endure a barrage of critical articles in the business press, with titles such as "The Incredible Shrinking Bank" and "Better Stewards (Corporate and Otherwise) Went Down on the Titanic." Anyone predicting such a fall as the decade began would have been viewed as a pessimistic outlier.

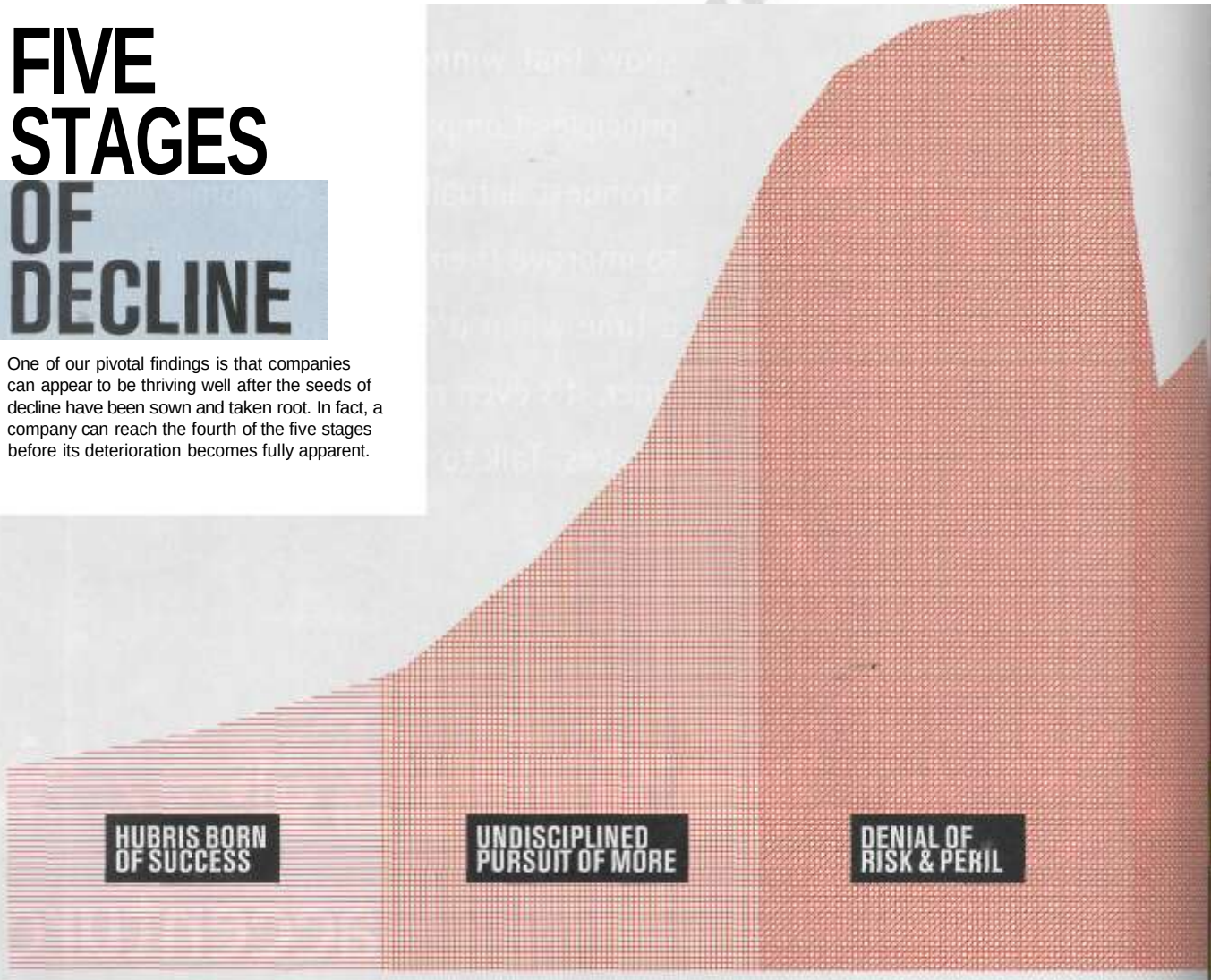
If a company as powerful and well-positioned as Bank of America in the late 1970s could fall so far, so hard, so quickly, then any company can. If companies such as Motorola, Circuit City, and Fannie Mae—icons that once served as paragons of excellence—can succumb to the forces of gravity, then no one is immune. If companies such as Zenith and A&P, once the unquestioned champions in their fields, can plummet from great to irrelevant, then we should be wary about our own success.

Every institution is vulnerable, no matter how great. There is no law of nature that the most powerful will inevitably remain at the top. Anyone can fall, and most eventually do.

But all is not gloom. By understanding the five stages of decline we uncovered in our research for *How the Mighty Fall*, leaders can substantially increase the odds of reversing decline before it is too late—or even better, stave off decline in the first place. Decline can be avoided. The seeds of decline can be detected early. And decline can be reversed (as we've seen with notable cases such as IBM, Hewlett-Packard, Merck, and Nucor). The mighty can fall, but they can often rise again.

FIVE STAGES OF DECLINE

One of our pivotal findings is that companies can appear to be thriving well after the seeds of decline have been sown and taken root. In fact, a company can reach the fourth of the five stages before its deterioration becomes fully apparent.



FIVE STAGES OF DECLINE

I feel a bit like a snake that swallowed two watermelons at once. I'd started this project as a diversion to engage my pen while completing the research for my next full-sized book on what it takes to endure and prevail when the world around you spins out of control (based on a six-year research project with my colleague Morten Hansen). But after my West Point visit, the question of how the mighty fall evolved into a topic of passionate curiosity channeled into a research effort that led to this small book.

In one sense, my research colleagues and I have been studying failure and mediocrity for years. Our research methodology relies on contrast, studying those companies that became great in contrast to those that did not and asking: "What's different?" But we had not explicitly delved into the question: Why do some great companies fall, and how far can a company fall and still come back? I began to joke with my colleagues: "We're turning to the dark side."

We had a substantial amount of data collected from prior research studies, consisting of more than 6,000 years of combined corporate history. From this data set, we identified a set of once - great companies that fell and constructed a set of "success contrasts" that had *risen* in the same industries during the era when our primary study companies declined. Our principal effort focused on a two-part question: What happened leading up to the point at which decline became visible, and what did the company do once it began to fall?

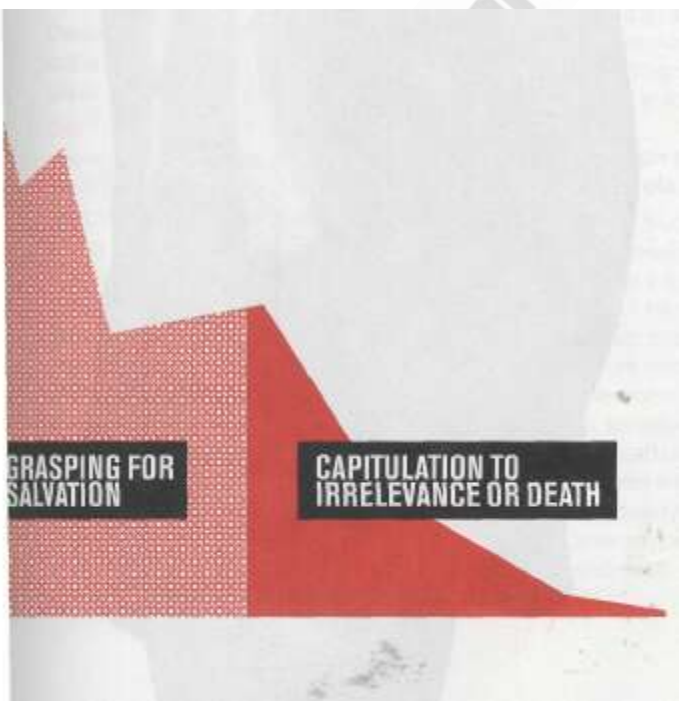
Our comparative and historical analysis yielded a descriptive model of how the mighty fall that consists of five stages that proceed in sequence. And here's the really scary part: You do not visibly fall until Stage 4! Companies can be well into Stage *3* decline and still look and feel great, yet be right on the cusp of a huge fall. Decline can sneak up on you, and—seemingly all of a sudden—you're in big trouble.

Even so, I ultimately see this as a work of well-founded hope. With a road map to decline in hand, institutions heading downhill might be able to apply the brakes early and reverse course. We've found companies that recovered—in some cases, coming back even stronger—*after having crashed down into the depths of Stage 4.* Our research indicates that organizational decline is largely self-inflicted, and recovery largely within our own control. So long as you never fall all the way to Stage 5, you can rebuild.

While a full exploration of the five stages is beyond the scope of this excerpt, here is a brief summary:

STAGE 1: HUBRIS BORN OF SUCCESS. Great enterprises can become insulated by success; accumulated momentum can carry an enterprise forward for a while, even if its leaders make poor decisions or lose discipline. 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. When the rhetoric of success ("We're successful because we do these specific things") replaces penetrating understanding and insight ("We're successful because we *understand why* we do these specific things and under what conditions they would no longer work"), decline will very likely follow. 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.

The best leaders we've studied never presume they've reached ultimate understanding of all the factors that brought them success. For one thing, they retain a somewhat irrational fear that perhaps their success stems in large part from fortuitous circumstance. Suppose you discount your own success ("We might have been just really lucky/were in the right place at the right time/have been living off momentum/have been operating without serious competition") and thereby worry incessantly about how to make yourself stronger and better-positioned for the day your



good luck runs out. What's the downside if you're wrong? Minimal: If you're wrong, you'll just be that much stronger by virtue of your disciplined approach. But suppose instead you succumb to hubris and attribute success to your own superior qualities ("We deserve success because we're so good/so smart/so innovative/so amazing"). What's the downside if you're wrong? Significant. You just might find yourself surprised and unprepared when you wake up to discover your vulnerabilities too late.

STAGE 2: UNDISCIPLINED PURSUIT OF MORE. Hubris from Stage 1 ("We're so great, we can do anything!") leads right to 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. Although complacency and resistance to change remain dangers to any successful enterprise, overreaching'better captures how the mighty fall.

Discontinuous leaps into areas in which you have no burning passion is undisciplined. Taking action inconsistent with your core values is undisciplined. Investing heavily in new arenas where you cannot attain distinctive capability, better than your competitors, is undisciplined. Launching headlong into activities that do not fit with your economic or resource engine is undisciplined. Addiction to scale is undisciplined. To neglect your core business while you leap after exciting new adventures is undisciplined. To use the organization primarily as a vehicle to increase your own personal success—more wealth, more fame, more power—at the expense of its long-term success is undisciplined. To compromise your values or lose sight of your core purpose in pursuit of growth and expansion is undisciplined.

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. The vigorous, fact-based dialogue that characterizes high-performance teams dwindles or disappears altogether. When those in power begin to imperil the enterprise by taking outsize risks and acting in a way that denies the consequences of those risks, they are headed straight for Stage 4.

Bill Gore, founder of W.L. Gore & Associates, articulated a helpful concept for decision-making and risk-taking, what he called the "waterline" principle. Think of being on a ship, and imagine that any decision gone bad will blow a hole in the side of the ship. If you blow a hole above the waterline (where the ship won't take on water and possibly sink), you can patch the hole, learn from the experience, and sail on. But if you blow a hole below the waterline, you can find yourself facing gushers of water pouring in, pulling you toward the ocean floor. And if it's a big enough hole, you might go down really fast, just like some of the financial firm catastrophes of 2008. To be clear, great enterprises do make big bets, but they avoid big bets that could blow holes below the waterline.

STAGE 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. The critical question is: How does its leadership respond? By lurching for a quick salvation or by getting back to the disciplines that brought about greatness in the first place?

Is the U.S. on the brink of decline? That question inspired Collins' new book

Those who grasp for salvation have fallen into 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.

When we find ourselves in trouble, when we find ourselves on the cusp of falling, our survival instinct and our fear can prompt lurching—reactive behavior absolutely contrary to survival. The very moment when we need to take calm, deliberate action, we run the risk of doing the exact opposite and bringing about the very outcomes we most fear. By grasping about in fearful, frantic reaction, late Stage 4 companies accelerate their own demise. Of course, their leaders can later claim: "But look at everything we did. We changed everything. We tried everything we could think of. We fired every shot we had, and we still fell. You can't blame us for *not* trying." They fail to see that leaders atop companies in the late stages of decline need to get back to acalm, clear-headed, and focused approach. If you want to reverse decline, be rigorous about what not to do.

STAGE 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 the company's leader

WHAT THEY LEARNED ON THE WAY DOWN

Two senior executives reflect on the lessons they learned in managing companies that were losing ground and struggling through tough times

Daniel H. Mudd, who was forced out as CEO of mortgage finance giant Fannie Mae in 2008

ON TAKING **THE TOP JOB:** As a manager, an ex-GE guy, I had a lot of confidence I could get Fannie on the right track. I thought I could catch a falling knife. The housing market collapsed and the falling knife became a chainsaw. Sometimes the downward slide of a company becomes so momentous and complex that whatever talents and effort you pour into it, it doesn't matter. I've learned to be more humble and try to distinguish problems that are fixable from those that are not.

ON FANNIE MAE'S CULTURE: There was a certain amount of arrogance. Fannie Mae played such a dominant role in the market historically that even if it was a little bit wrong, the customers had no choice but to play ball. We were establishing the standards. [But] the notion that we just went and grabbed everything we could get is wrong. There were huge swaths of home equity loans and subprime loans that came across the desk, and we said no.... [In making decisions,] the most helpful thing I could do was to step back and discern what the principle was. I regret the couple of cases where we started with the outcome we needed instead of starting with the principle.
-Interviewed by Jena McGregor

Gregory Q. Brown, Co-Chief Executive, Motorola

ON HUBRIS: Success is one of the biggest impediments to growth. It can reinforce a traditional way of doing things. A hit product (such as the RAZR) can mask the brutal reality that more work needs to be done. We [thought] we knew what was best for customers, as opposed to listening in an unfiltered and unemotional way to what customers were telling us. We should have been more in tune with the customer experience. We viewed things "inside out" as opposed to "outside in."

ON FACING REALITY: Sometimes organizations have a lack of free-flowing communications. There needs to be speed and no filters—almost a horizontal flow of information. We should have faced reality sooner around technology trends and device trends. Great firms react with speed. They're resilient and they reinvent. They are not comfortable with the status quo, and they have a healthy level of paranoia. We have to be more vigilant about ensuring that there is a healthy level of candor and transparency throughout the organization.

ON RECOVERY: It takes years to change a culture. Motorola has been known for quality, technology capability, and innovation. We haven't done as consistent a job of being customer-oriented and moving with speed. We are taking steps, but there's always more work to be done. You are never done. Achievements are temporary. You have to make sure you're creating an environment where disagreement is fine and constructive criticism is welcomed. I believe that this firm is getting stronger. In many parts of Motorola, reinvention is under way.
-Interviewed by Roger O. Crockett

just sells out; in other cases the institution atrophies into utter insignificance; and in the most extreme cases the enterprise simply dies outright.

The point of the struggle is not just to survive, but to build an enterprise that makes such a distinctive impact on the world it touches (and does so with such superior performance) that it would leave a gaping hole—a hole that could not be easily filled by any other institution—if it ceased to exist. To accomplish this requires leaders who retain faith that they can find a way to prevail in pursuit of a cause larger than mere survival (and larger than themselves) while also maintaining the stoic will needed to take whatever actions must be taken, however excruciating, for the sake of that cause.

WELL-FOUNDED HOPE

When Anne Mulcaby became chief executive of Xerox in 2001, she inherited a company mired in Stage 4. With Xerox's debt-to-equity ratio above 900%, Moody's rated its bonds as junk. With $19 billion in debt and only $100 million in cash, Mulcahy described the situation as "terrifying."

Mulcahy had never planned or expected to become CEO, describing her ascension as a total surprise. The consummate insider, she'd worked for nearly a quarter-century at Xerox, never drawing outside attention. For Mulcahy, it was all about Xerox, not about her. In fact, we found only four feature articles about Mulcahy during her first three years as CEO, a surprisingly small number given how few women become CEOs of storied companies.

Some observers questioned whether this insider, this unknown team player who had Xerox DNA baked into her chromosomes, would have the ferocious will needed to save the company. They needn't have worried. Their first clue might have come from reading her favorite book, Caroline Alexander's *The Endurance*, which chronicles how, against all odds, adventurer Ernest Shackleton rescued his men after their ship splintered into thousands of pieces as Antarctic ice crushed in around it in 1916. Drawing inspiration from Shackleton, Mulcahy didn't take a weekend off for two years. She shut down a number of businesses, including the inkjet-printer unit she'd championed earlier in her career, and cut $2.5 billion out of Xerox's cost structure. Not that she found these decisions easy—"I don't think I want them to get easy," she later reflected—but they were necessary to stave off utter catastrophe. During its darkest days, Xerox faced the very real threat of bankruptcy, yet Mulcahy rebuffed with steely silence her advisers' repeated suggestions that she consider Chapter 11. She also held fast against a torrent of advice from outsiders to cut research and development to save the company, noting that a return to greatness depended on both tough cost-cutting and long-term investment. She actually increased R&D as a percentage of sales during that bleak period.

For 2000 and 2001, Xerox posted a total of nearly

PULLING DELTA OUT OF A NOSEDIVE

By Dean Foust

Delta Air Lines plunged into bankruptcy in September 2005, marking the culmination of more than a decade of management missteps made largely out of hubris. The Southeastern airline allowed itself to go through many of the stages of decline outlined in Jim Collins' new book. Its sense of infallibility helped foster an undisciplined pursuit of practically every new jumbo jet that aircraft manufacturers rolled out, forcing it to fly large planes even on one-hour routes. Add to that a distinct denial of the increasingly grim realities of the airline business, exemplified by the errors made earlier this decade by then- Chief Executive Leo F. Mullin. He launched the trendy Song discount airline, which fizzled amid high costs and stiff competition from JetBlue Airways. Worse, Mullin negotiated a 2001 labor deal that paid top pilots a record-shattering $300,000 a year. "Management always had to have the biggest and the best," recalls a former exec. "It was the Delta way."

That strategy helped the Atlanta-based carrier rack up billions in losses, pushing it into bankruptcy. And management was so slow to accept its humbling fate that one bankruptcy judge told executives: "I have not heard anything that I will say remotely impressed me that you have the money, the talent, or the thought that you could successfully reorganize in this case." Admits President Ed H. Bastian: "There were periods when Delta could have been just 24 hours from disappearing. If the pilots had walked out, I'm not sure we could have pulled through."

Less than four years after it was left on life support, Delta is now the picture of health. Thanks to a management overhaul, a rigorous shift towards more profitable international routes, aggressive cost-cutting, and a shrewdly timed merger with Northwest Airlines,

Delta CEO Anderson's masterstroke was the merger with Northwest

Delta is now viewed by many analysts as the country's top-performing major carrier. It boasts the strongest balance sheet, the best route structure, and the best prospects for future profitability. "They transformed the company amazingly well," says longtime critic Roger E. King, an analyst for CreditSights, a New York-based institutional research firm.

It was a hard-won battle to reverse the downward spiral. In 2004, with cash running low and most assets hocked, Delta struggled for many weeks to find the debt-or-in-possession financing to keep operating. It also came within 24 hours of failing to avert a pilots' strike. The carrier had to fight hedge fund managers pushing for a sale or breakup, then a hostile bid from US Airways.

GETTING ON COURSE

What put Delta on the path to recovery and renewal was a willingness on the part of management and employees alike to make sacrifices. Gerald Grinstein, a director who had stepped in as CEO in early 2004, convinced the pilots to swallow deep pay cuts while reducing his own salary by 25%. (For good measure, he later donated his bonus to a scholarship fund for the children of employees.) Together with Bastian, he convinced a key group of creditors-suppliers including Boeing, Pratt & Whitney, and Coca-Cola—that they'd lose big under a merger with US Airways, which flew mostly Airbus planes using General Electric engines. And Bastian persuaded creditors to accept Delta's plan over US Airways' takeover bid, which was more dependent on outside financing. "They took the bird hi hand," he recalls.

But simply warding off failure wasn't enough. After the bankruptcy, Delta spent millions to rebuild morale, flying in many of its 47,000 employees for a series of events that were equal parts team-building and tent revival. And Delta convinced creditors to cede 15% ownership to employees. "They saw the importance of having the pilots and employees on board to unlocking the synergies of the deal," says Delta CEO Richard H. Anderson, a board member at the time who got the top job in August 2007. "It was equally important for the employees to know that we followed through on everything we promised."

Delta recruited Glen W. Hauenstein from Alitalia to move the carrier into underserved markets such as Kiev, Ukraine; Tel Aviv; and Nice, France. Lacking the cash to buy enough long-haul jets, Hauenstein retrofitted existing planes with winglets—tips on wings that reduce drag and save fuel-to give them more range. The result: International routes now represent 38% of all Delta flights, vs. *20%* in 2005.

But the masterstroke in Delta's rebirth was the merger that Anderson engineered with Northwest Airlines in 2008. The merger is not only expected to help Delta trim an additional $2 billion in costs, it has also married Northwest's strength in Asia with Delta's presence across Europe and Latin America. Wary of a culture clash, Anderson closed the deal in six months—about half the time of most airline mergers—and set up 37 internal committees to handle everything from fitting flight attendants for new uniforms to merging frequent-flier programs.

Everything was built around Delta's paternalistic culture. Anderson even changed the ID numbers on employee security badges to prevent people from figuring out whether a colleague hailed from the Delta or Northwest camps. What he didn't want, he says, was a situation where "employees were constantly sizing up which side you were on." And the pilots agreed to combine their two unions. Robert W. Mann, an airline industry consultant who advised Delta's pilots during the process, says, "It was the most rational, controversy-free process of this sort that I've ever been involved in."

While such moves have helped Delta minimize losses amid a down economy, Anderson remains acutely aware that failure is always close at hand. He flies in a Delta cockpit jump seat about once a month to pick the brains of pilots. And in a recent two-day stretch, he spoke to 2,000 employees to hear concerns and suggestions. For Delta to remain aloft, he argues, management needs to stay as grounded as possible.

$367 million in losses. By 2006, Xerox posted profits in excess of $ 1 billion and sported a much stronger balance sheet. And in 2008, *Chief Executive* magazine selected Mulcahy as CEO of the Year. At the time of this writing in 2008, Xerox's transition has been going strong for seven years—no guarantee, of course, that it will continue to climb, but an impressive recovery from the early 2000s.

Xerox. HP. Nucor. IBM. Merck. Texas Instruments. Pitney Bowes. Nordstrom. Disney. Boeing. What do these companies have in common? Each took at least one tremendous fall at some point in its history and recovered. Sometimes the tumble came early, when they were small and vulnerable, and sometimes the tumble came when they were large, established enterprises. But in every case, leaders emerged who broke the trajectory of decline and simply refused to give up on the idea of not only survival but ultimate triumph, despite the most extreme odds.

The signature of the truly great vs. the merely successful is not the absence of difficulty. It's the ability to come back from setbacks, even cataclysmic catastrophes, stronger than before. Great nations can decline and recover. Great companies can fall and recover. Great social institutions can fall and recover. And great individuals can fall and recover. As long as you never get entirely knocked out of the game, there remains hope.

We all need beacons of light as we struggle with the inevitable setbacks of life and work. For me, that light has often come from studying Winston Churchill. In the early 1930s, Churchill's career had descended into what biographer Virginia Cowles called "a quagmire from which there seemed to be no rescue."

At the end of Volume I of his series, *The Last Lion*, William Manchester captures Churchill's position in 1932. Lady Astor visited with Joseph Stalin, who quizzed her on the political landscape in Britain. Astor prattled on about the powerful, the up-and-coming, naming Neville Chamberlain as the star.

"What about Churchill?" asked Stalin.

"Churchill?" Astor's eyes widened. Then with a disdainful wrinkle of her nose, "Oh, he's finished."

Not only would Churchill redeem himself by giving voice to Britain's resolve to stand against the Axis powers during World War II, he also went on to win the Nobel Prize in Literature, return again as Prime Minister at age 77, be knighted by the Queen, and sear into the Cold War lexicon the term "Iron Curtain" in his prescient warning about Soviet aggression. Churchill's simple mantra: Never give in—never, never, never, never.

Never give in. Be willing to kill failed business ideas, even to shutter big operations you've been in for a long time, but never give up on the idea of building a great company. Be willing to evolve into an entirely different portfolio of activities, even to the point of zero overlap with what you do today, but never give up on the principles that define your culture. Be willing to embrace loss, to endure pain, to temporarily lose freedoms, but never give up faith in your ability to prevail. Be willing to form alliances with former adversaries, to accept necessary compromise, but never—ever—give up on your core values.

The path out of darkness begins with those exasperatingly persistent individuals who are constitutionally incapable of capitulation. It's one thing to suffer a staggering defeat—as will likely happen to every enduring business and social enterprise at some point in its history—and entirely another to give up on the values and aspirations that make the protracted struggle worthwhile. 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.

GETTING THE RIGHT PEOPLE IN KEY SEATS

The specifics can vary, even within companies, but our research delivered six important traits that identify "the right people"

The right people fit the company's core values	Great companies build cultures in which those who don't share the institution's values are surrounded by antibodies and ejected like viruses. People ask: "How do we get people to share our core values?" The answer: Hire people already predisposed to them—and keep them.
The right people don't need to be tightly managed	When you feel the need to tightly manage someone, you may have made a hiring mistake. You need not spend a lot of time "motivating" or "managing" the right people. It's in their DMA to be productively neurotic, self-motivated, self-disciplined, and compulsively driven to excel.
The right people understand that they do not have "jobs"—they have responsibilities	They grasp the difference between their task list and their true responsibilities. The right people can complete the statement, "I am the one person ultimately responsible for..."
The right people fulfill their commitments	In a culture of discipline, people view commitments as sacred—they do what they say they'll do, without complaint. Equally, this means that they take great care in saying what they will do, careful never to overcommit or to promise what they cannot deliver.
The right people are passionate about the company and its work	Nothing great happens without passion. The right people display remarkable intensity.
The right people display window-and-mirror maturity	When things go well, the right people point out the window, giving credit to factors other than themselves; they shine a light on others who contributed. Yet when things go awry, they do not blame circumstances or other people; they look in the mirror and say: "I'm responsible."

Data: Jim Collins

COLLINS, Jim. How The mighty. **Business Week**, New York, n. 4132, p. 26-38, 25 May. 2009.