

Time to understand how the mighty fall

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In business, certainty can be dangerous. Enron was “leading the revolution”, according to one distinguished management guru, Gary Hamel – until it wasn’t. Sony and Motorola were “visionary” companies that were “built to last”, according to another best-selling book, by Jim Collins. That is not something you might want to claim today. Fannie Mae was “great” (a different book by Mr Collins) before the subprime mortgage crisis took it down. And the most famous business blockbuster of them all (Tom Peters’s *In Search of Excellence*) declared that Atari was indeed “excellent”, which, as Mr Peters later conceded, was probably not really true.

Now the time has come to rewrite the received wisdom on Toyota. It is another bitter blow to the management guru industry – although, come to think of it, by the summer we will probably have a glut of new books on what went wrong at everybody’s (former) favourite manufacturing company.

In fairness Mr Collins has already written the book that explains the process by which an all-conquering company such as Toyota can be brought so low.

Last year, he published *How The Mighty Fall*, a crisp analysis of the “arc of tragedy”, as he called it, that failing companies can find themselves on. There are five key points on this arc, Mr Collins said, stages through which most doomed businesses pass. First, there is “hubris born of success”. At this stage, “people begin to believe that success will continue almost no matter what the organisation decides to do, or not do,” wrote Mr Collins. (One senior Toyota figure admitted last year: “Until now, our attitude was that we could do anything.”)

Hubris is followed by the “undisciplined pursuit of more”. Big gets confused with great, said Mr Collins. (Toyota’s remarkably rapid expansion turns out to have been unsustainable.) In this phase, not enough of the right people are sitting in the key seats. Core values get neglected. “This strains people, the culture and systems to the breaking point,” Mr Collins wrote.

After that comes “denial of risk and peril”. Bad news is discounted or explained away. “Rather than confront the brutal realities, the enterprise chronically reorganises.” The penultimate phase involves “grasping for salvation”. Panicky moves – maybe a big acquisition – are made. Last comes “capitulation to irrelevance or death”. Which requires no further explanation.

In fact, these headings were the terms used by Akio Toyoda, Toyota’s chief executive, in a speech criticising his company’s performance last October. Lacking the panache and presentational flair of most gurus, however, Mr Toyoda’s words struck many at the time as merely odd. But we should have paid closer attention. He was telling us that something really bad had happened at his company.

In his book, Mr Collins wrote that decline is like a disease that develops in small stages – “harder to detect but easier to cure in the early stages, easier to detect but harder to cure in the later stages”. The worrying thought for business leaders is that you can look healthy on the outside, but in fact be near to collapse. Until recently, Toyota was almost universally admired – by customers, by business pundits and even by grudging competitors.

The lesson is: never be seduced by the glowing story people may tell about you. Critics will probably exaggerate on the downside, too. The chances are that your business is neither as brilliant nor as awful as people say it is. The same rule applies to chief executives. They are rarely geniuses or morons, merely something in between.

Success in business is never guaranteed, in spite of the enticingly simple promises made by some of the titles on the airport bookshelves. Luck and timing have more to do with

companies' success than many people realise, or are prepared to admit. And, as Mr Collins is at pains to say these days, even those companies that, in his view, completed the journey "from good to great" had no right to claim the label of greatness indefinitely.

In *How The Mighty Fall*, he offered this warning: "Every institution is vulnerable, no matter how great. No matter how much you've achieved, no matter how far you've gone, no matter how much power you've garnered, you are vulnerable to decline ... Anyone can fall and most eventually do."

For Toyota, this story has run out of control like a car with a faulty accelerator pedal. "We have to listen to our customers and make better cars," Mr Toyota said last October. The hard work is about to begin.

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