

# Thinking Managers

Robert Heller of [www.thinkingmanagers.com](http://www.thinkingmanagers.com) asks; "Is decline inevitable?"

## Decline

**D**oes this sound familiar to an organisation where you have worked: 'The driving spirit fades, risk taking becomes a career killer, process replaces execution'.

Geoffrey Colvin, writing in Fortune magazine, says it is this triple threat that has slowed down some famed 'mammoths of past decades' such as General Motors, IBM, AT&T and Sears, and now threatens Wal-Mart.

While Colvin sees no signs of slippage at 'the world's greatest retailer' yet, the odds are that what happened to Marks & Spencer will strike the Bentonville giant.

There was once a well-informed and highly rated manager who asked: 'Is it inevitable that such organisations as Xerox should have their periods of emergence, full flower of growth and prestige and then later stagnation and death?' On overwhelming evidence, that answer is probably 'yes', even if the managements are aware of the risk.

The manager who posed the question was Peter McColough, a prime architect of the sensational rise of Xerox. In more recent times, events at Xerox have amply supported McColough's foreboding.

The Colvin-McColough Syndrome can affect anybody and any business of any size. Few stories are more familiar than that of the family firm whose boss runs out of energy, won't consider new ideas, manages the company by rote and presides over its 'inevitable' decline.

The negative forces in play are very hard to resist. One of them is the Law of Diminishing Returns. If you try the impossible, you will fail. Another 15 years of Wal-Mart growth, for example, would take its revenues to \$3.2 trillion – not far short of Japan's present total economy. That just won't happen.

There's a further reason why decline becomes an inevitability. If the board is divided by strategy, the critics begin at a considerable disadvantage. The momentum always lies with the chief executive who puts forward a grand strategy because rejection by the board implies a lack of confidence in the boss. If the critics are outnumbered, they can resign but it won't prevent damage from a bad policy.

The case of Carly Fiorina and Hewlett-Packard demonstrates the point. She failed to accept the inevitability of decline. She wanted market leadership across the whole high-tech field and made a \$19 billion bid for Compaq. This could indeed catapult their combined PC businesses to world leadership.

However, as Fortune's Carol J.Loomis explains, HP issued 1.1 billion shares to Compaq's investors. They thus obtained, among lesser goodies, 37% of the HP printer business, valued by Business Week at \$60-65 billion today.

According to the same source, the entire merged PC operation isn't worth more than \$3 billion. Obviously it was an awful deal. Not only did an extremely bright woman make a terrible mistake but she forced it through against vehement opposition of Walter Hewlett, the founder's son.

The battle resulted in Hewlett's departure as a non-executive director; the consummation of the deal; the well-timed sale of the 110 million shares for which Hewlett spoke; and Fiorina's dismissal this February. She was guilty of breaking two Golden Rules of Avoidable Decline:

- 1) Don't allow the pursuit of strategic ambitions to jeopardise financial soundness.
- 2) Don't forget that financial viability rests on Economic Value Added – earning more on the capital of the business than the cost of that capital.

The Colvin-McColough Syndrome is the toughest nut for a manager to crack. Carly Fiorina simply made a tough nut even harder.

**About the author:**

Robert Heller was the founding Editor of Management Today magazine and is one of the world's best selling authors on business management having written more than 50 books on the subject.

