**Chapter 12 Supplement: Author James E. Timmons (book author)**

**Why do Strong, Healthy Companies Deteriorate?**

There are numerous examples of once mighty businesses that are no longer in business. Why? Is it just bad luck? No. It is bad management. There are two basic situations in which this management failure manifests itself. Please note that this section addresses companies that were at one time very successful at what they did. Therefore, their management team was once able to be less inefficient than their competitors. Were they not, the company would have perished long before it did. This broad presentation distinguishes between the two types of failure scenario for ease of understanding. In truth, there is probably a mixture of the two in virtually every failure.

***Flaw 1: I’m in Control***

Human nature requires us to try to control as much of our environment as we can. In business, this seems to be particularly evident when we believe that the success or failure of a project is highly dependent on us. Our energy, knowledge, and skills are important components to doing the business of the company. This characteristic can be a problem, when selecting subordinates to populate the management staff at levels below ours. We want highly motivated and competent people, of course. But that presents a dilemma, as some of us will also want to select people that will remain subordinate to us, and who will accept our guidance and direction. We want to remain the “Big Daddy”. Sometimes, that dilemma is solved by selecting a person with less talent and capability than we believe we personally possess. Obviously, we possess plenty of talent, and capability; after all, we are the successful entrepreneur manager, aren’t we?

Envision a large and successful company, with all the internal drama and politics that go with large companies. Now, envision the CEO of that company selecting a staff of vice presidents. Do they want any competition for their job? Probably not. Does the CEO select people that they believe can be controlled and who will be loyal? Probably. Do they select people that are regarded as competent for the task, but perhaps of not quite the same mental capabilities as the CEO? Maybe. Do all these VP’s select their staff and department heads with this same logic? Maybe. Now, leap forward ten years or so and the CEO is retiring. Is it likely that the next CEO will come from the ranks of the several “hand picked” VP’s? Probably. Are they going to do the same thing that the prior CEO did? Probably. Are they going to be right in what they do? They must be right; after all, they are the CEO aren’t they? Look another ten years into the future, and the CEO #2 is retiring. The scenario repeats itself, again and again. Eventually, the once prosperous and thriving company finds itself saturated with incompetence and has lost its vision and has no clue how it got there.

***Flaw 2: The Peter Principle***

The Peter Principle is real and exists in several versions, these being:

1. In a hierarchy every employee tends to rise to their level of incompetence;
2. In an organization, individuals tend to reach a level of responsibility at least one level above where they can function competently.

How can this deterioration of management capability be avoided? It is very difficult. First, the potential for this condition to develop or continue must be recognized by someone in power to do something about it. It starts at the very top, with the owners of the business. If they are not the CEO (or equivalent) of the business, they must select a CEO that also recognizes this condition and is willing to take the risks perceived to accompany hiring the absolute best people that can be afforded. This attitude must be shared at all levels of management, and all concerned must be vigilant to prevent it from creeping in.