How the mighty fall

Sydney Finkelstein, author of the bestseller Why Smart Executives Fail, talks to James Nelson about corporate failures

How did you hit on the idea of studying executive failures as opposed to success stories?

If you go to the business shelves in most book stores, and look at the leadership section, you’ll find a large number of books on great companies, successful organisations and titles by retired CEOs telling how they were so successful.

You’ll find very few books or analyses of the other side — all the things that went wrong.

How did you identify which business failures to study?

I wasn’t interested in minor problems. I wanted cases where the types of mistakes and issues involved changed companies dramatically.

Were the results of your research different to what you expected?

I started off with a group of hypotheses. I was interested in discovering what the patterns were, and there were two main ones.

The first was just how successful, talented and intelligent the leaders were before the really bad things happened. These were people who had been promoted many, many times and selected above other talented people many times.

The second was that these mistakes really could be attributed to the individual running the company or division.

This was in contrast to what most people, including myself, assumed, namely that many failures are precipitated by external factors.

After these failures, were any of the executives able to re-start their careers elsewhere?

The truth is none of them had a chance to run another major company. Many of them left their companies with significant compensation, but the career consequences of failure tended to be long-lasting.

Some of the companies had losses running to billions of dollars. Surely losses on this scale could be attributed to the whole senior management team and not just the CEO?

You know, there’s plenty of blame to go around.

Take Motorola, which failed to shift from analogue to digital technology for its mobile phones and, as a result, lost 75% of its global market share.

The divisional CEO and general managers running the cellphone business were really the ones behind that failure. The corporate CEOs were not without blame for having left them to run their own show without questioning pushing back and challenging their strategy.

But there are many examples where the CEO is so dominating that the management team is incidental to what happened.

You’d like to think that very senior executives would be able to disagree with the direction the CEO is taking. But the truth of the matter is that in most instances they didn’t, and that in itself had serious consequences.

Why do you think they didn’t?

What happened in so many of the companies I studied is that the CEO ceded some of the more outspoken executives. In some instances these executives even lost their jobs.

One of the classic warning signals of impending failure is a significant degree of senior executive turnover, almost always because the CEO is pushing them out and replacing them with people more loyal to him or her.

Couldn’t solid corporate governance from the board of directors have avoided some of these failures?

Absolutely. Corporate governance and effective vigilance by the board is a critical component in dealing with many of the problems that our research uncovered. But in many instances boards are inefficient.

The biggest problem with boards we studied was how weak the interaction between members was.

Are there specific techniques companies can follow to stay responsive to outside developments?

There are a whole range of things firms can do, such as:

- Make sure the improvements the company most wants to provide are the ones customers want most.
- Reward employees who find flaws or potential problems in the company’s procedures.
- Get senior managers to set the example when it comes to acknowledging and learning from failures.
- Seek critical evaluations from genuine outsiders.
- Don’t think in terms of “damage control”. Think instead of eliminating the damage and it’s causes.

Many of the failures you spotlight were at high-profile companies. Were there no business media or stock analysts questioning the wisdom of these firms’ strategies?

There were occasionally outside voices questioning the companies’ strategies, but the executives had a remarkable ability to shut these out — and in many instances not just shut them out but try to destroy people sharing those contrary points of view.

You’ve said most of the root causes of business failures are psychological. I’ve written about the seven habits of spectacularly unsuccessful people and there are strong psychological elements at play in them.

For example, one is believing you control and dominate completely the company’s stakeholders and environment and can change anything you want.

In extreme cases the leaders we studied were unable to separate themselves from the company.