



Why smart executives fail

The hubris of CEOs can sometimes be a decisive factor in their downfall. Bestselling author and internationally-recognized management researcher Sydney Finkelstein* examines why leaders fail and identifies a few warning signs to look out for along the way.

Six years ago a research team at Tuck Business School launched an exhaustive investigation into what drives the success or failure of chief executives. Our goal was not only to understand why businesses break down and fail, but to focus on the people behind these failures; not only to understand how to avoid disaster, but to anticipate the early warning signs of failure. Ultimately, we wanted to move beyond ad hoc explanations of failure on a case-by-case basis and expose the roots of corporate breakdown in a definitive way.

Some of the answers uncovered were as



Sydney Finkelstein

surprising as the sudden fall from grace of many of the business leaders we studied. In fact, many of the qualities that sound like the attributes of a dream enterprise turn out to be the basis for a business nightmare. For managers, many of the qualities we aspire to emulate, or feel guilty for not having, turn out to be ones we are better off without. For investors, many of the signposts of

success that we strive to identify turn out to be markers for failure.

Despite all that could go wrong for a company, the real fiascos can be blamed on surprisingly few causes. Some of the most important are as follows.

Choosing to ignore change

Companies that have been successful in the past often let their history and culture take over, a combination that closes down new ideas. When the mobile telephone business shifted from analogue to digital

Continued on page 14

After eight successful years at the helm of Swiss-Swedish engineering giant ABB, chairman Percy Barnevik took the company close to the brink of collapse before resigning.



Source: Bloomberg

Continued from page 13

in the mid-1990s, for example, formerly dominant Motorola was slow to respond. Insiders told us about Motorola's "fortress-like" mentality, with engineers who believed they knew more than their customers, most of whom were demanding digital.

Remarkably, Motorola owned several of the key digital patents, which it licensed to competitors; yet it was steadfast in its insistence that the market was not ready to shift. The result – Nokia became market leader, a position it still holds today.

Here's what is fascinating about this story: Motorola – and other companies in the study, such as Rubbermaid, Wang Labs and General Motors – were fully aware of how the market was shifting but chose not to do anything about it. This striking finding calls for much more open-mindedness in companies, including open discussion of mistakes, negative feedback when warranted, and a culture that is willing to learn.

Warning signs:

1. There are competitors out there who seem to be successful, but you cannot figure out why.
2. You focus on one element of the business (new products, new store openings and so on) but do not look closely at other parts of the business (systems, IT or distribution).
3. When your customers ask for something, you find it easy to come up with rational-sounding explanations for why you don't listen.

Brilliantly fulfilling the wrong vision

One of the biggest ideas that came out of the 1990s strategy gurus' handbook was the notion of strategic intent. The idea is straightforward enough. Focus on a clear, powerful goal that defines what victory would be for your company. Marshall all resources in that direction and never waver your resolve.

In principle, strategic intent is a powerful idea. In practice, people just seem to get in the way. What looks like a logical intent often breaks down when executives let themselves get caught up in "the one big idea" fallacy without regard to natural and practical limits to the logic.

So, for the old advertising group Saatchi & Saatchi, being "No. 1" was the only acceptable outcome, leading it to make acquisitions in businesses where it had no real capability. From a base in advertising, Saatchi & Saatchi went on to buy a variety of consulting firms and even made a bid for the troubled Midland Bank. When the company proved unable to manage its now too-diverse empire, the losses piled up and the two founders were forced to resign.

The same pattern has repeated itself in companies as diverse as Enron, ABB, and WorldCom.

Warning signs:

1. You have always used the same approach – it's worked in the past, it will work again.
2. You have your customers figured out. You have known what they wanted for years.
3. You run your overseas business just as you run your domestic business. If it isn't broken, you don't fix it.

Executives identify too closely with companies

While most investors and employees would like their leaders to be fully committed to their jobs, some of the most egregious mistakes occur when executives are too closely connected to their companies. Such executives treat the company as an extension of themselves, and act accordingly. For example, Samsung's chief executive Kun-Hee Lee decided to enter the automobile industry (a \$3bn mistake) simply because he liked cars. Remarkably, everyone we interviewed at Samsung pointed out how chairman Lee's predilection for autos drove this ruinous decision. A succession of Motorola chiefs made the ill-fated satellite communications company Iridium so much a symbol of their boldness that they were unable to pull back when conditions changed. In the 1980s, General Motor's CEO Roger Smith devised a plan to combat Toyota and other Japanese automakers by embracing robotics as a way to increase efficiency and reduce GM's dependence on disastrous labour relations. Despite the fact that factory efficiency requires excellence in world-class manufacturing processes such as just in time inventory and supply chain integration, Smith became so fixated on automation as the solution, that he was incapable of evaluating it critically.

Warning signs:

1. Your CEO appears to identify so completely with your company that there is no clear boundary between personal interests and corporate interests.
2. Your CEO is devoting seemingly excessive time to fulfilling personal missions that do not necessarily benefit the company.
3. Your CEO tends to reinvest continually in corporate initiatives that he or she favours, despite your company's inability to make those initiatives work.



Ken Hee Lee, CEO of Samsung



World Com

Executive arrogance

Many of the executives whose businesses we studied were not only arrogant – they were proud of it. People who dealt with General Motors and IBM in their glory days remember vividly the condescension with which these companies regarded everyone outside their ranks. Saatchi & Saatchi had a reputation for arrogance in the world of advertising. Webvan, eToys and most of the other dotcoms made little secret of the disdain they had for traditional businesses. Cabletron, Motorola, and Wang believed they had the only technology in their industries worthy of being taken seriously.

Warning signs:

1. Your CEO believes that your company can do whatever it pleases because of its dominant position in the marketplace.
2. Your CEO often seems to almost disrespect competitors and suppliers.
3. Your CEO elevates public relations considerations over strategic considerations.

Executives Rely on Past Formulas for Success

Executives often revert to harmful or inappropriate strategies as the result of a "defining moment" earlier in their careers. It's usually the one thing they are most known for, the thing that gets them their subsequent jobs, the thing that makes them special. The problem is that once people have experience this "defining moment," they tend to let it define them for the rest of their careers. For William Smithburg of Quaker, the defining moment had been his successful promotion of Gatorade. The problem was that he tried to repeat that behaviour when it came to dealing with Snapple, even though the two beverages were more different than alike. For example, Snapple was a "cult" drink that relied on entrepreneurial distributors, while

the marketing for Gatorade was classic textbook and depended on traditional warehousing distribution. For An Wang, the CEO of Wang Labs, the defining moment was probably his successful launch of a word processor with systems that were all proprietary. Unfortunately, he tried to repeat that behaviour when it came to PCs, a market that quickly came to be dominated by the IBM standard.

Warning signs:

1. Your CEO tends to make the same decisions repeatedly, even when those decisions no longer seem appropriate.
2. Your CEO tends to shut down lines of inquiry that markedly differ from his apparent preferences.
3. Your CEO is often unconcerned with all that could go wrong in his strategic initiatives.

All of us know that it is important to learn from mistakes, but how often do we take the time to do so? Throughout our research, we kept coming back to the same fundamental principles: it is people that run organizations, and they behave in ways that are no different than others. They are subject to the same biases, pressures, and misjudgements that all of us are, yet the price they pay for these mistakes can be immense. If we do not learn, we are destined to fall into the same traps. An understanding of why smart executives fail offers a real opportunity to choose a different path.

**Sydney Finkelstein is Steven Roth Professor of Management at the Tuck School of Business at Dartmouth College. He is the author of Why Smart Executives Fail, published by Portfolio in June 2003. He is a regular visiting faculty member at the Australian Graduate School of Management (AGSM) where he directs the Strategic Leadership executive development program. ■*