



# Why smart executives fail?

**You've seen them** on the covers of *Forbes*, *Fortune*, and *Business Week*. You've read about their brilliant and often inspirational leadership. You've listened to business gurus and industry analysts praise their companies as examples to be emulated. You've probably invested in their stock, either directly or indirectly. You may even have seized the chance to work for them or partner with them. These people are among the brightest stars of American and world business. They're business heroes, geniuses, titans.

Yet a few years or even a few months after they were so celebrated, their companies crashed. Key operations were shut down. Workers were laid off. The company's stock plunged. Huge ventures, to which these leaders and their companies were deeply committed, turned out to be almost worthless. When the dust settled, we found out that these leaders had destroyed hundreds of millions or even billions of dollars worth of value.

How is this possible? How can these business leaders fall so far so fast? How

can so many people be so disastrously wrong? What can possibly account for the scores of business failures we see every year, in different industries, and even different countries? And how can we prevent this sort of thing from happening again?

Six years ago I set out to answer these questions in the most extensive investigation ever conducted on this subject. My 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 these disasters, but to anticipate the early warning signs of failure. Ultimately, I wanted to move beyond *ad hoc* explanations of failure on a case-by-case basis and expose the roots of these breakdowns in a definitive way.

Some of the answers my research team uncovered were as surprising as the sudden fall from grace experienced by 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're better off without. For investors, many of the signposts of success that we strive to identify turn out to be markers for failure. And for those of us simply fascinated by the world of business, in part because the leaders and executives that run organizations seem so much apart from the rest of us, it turns out that they have the same weaknesses and character flaws, and make the same kind of mistakes, though perhaps on a grander scale, than we do.

## Highlights of our findings

Despite all that could go wrong for a company, the real fiascos can be blamed on surprisingly few causes. Here are three examples from the book:

### 1. Choosing not to cope with innovation and 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 cell phone business shifted from analog to digital 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,

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Motorola owned several of the key digital patents, which they licensed to competitors; yet they were steadfast in their insistence that the market was not ready to shift. The result is well known in Finland, as it is in the world – Nokia became market leader, a position they still hold today. Here's what is fascinating about this story: Motorola – and many other companies we studied like 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 can't figure out why.
2. You focus on one element of the business (new products, new store openings, etc.) but don't look closely at other parts of the business (systems, IT, distribution, etc.).
3. When your customers ask for something, you find it easy to come up with rational-sounding explanations for why you don't listen.

**2. Brilliantly fulfilling the wrong vision**

One of the biggest ideas that came out of the 1990's 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, well ... 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 Saatchi & Saatchi, only being "number one" was acceptable, leading the advertising firm to make acquisitions in businesses where they had no real capability. The result: massive losses and the forced resignation of the two founders. The same pattern repeated itself in companies as diverse as Enron, ABB, and WorldCom, among others.

**Warning signs:**

1. We've always used the same approach—it's worked in the past, it will work again.
2. We have our customers figured out. We've known what they wanted for years.
3. We run our overseas business just the same as we run our domestic business. If it ain't broke, we don't fix it.

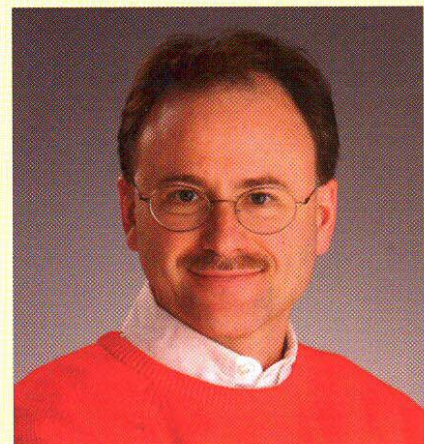
**3. The arrogance of the executive**

Many of the executives whose businesses figure prominently in this book 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. Daimler-Benz had the same reputation more recently. Saatchi & Saatchi was probably the most arrogant advertising agency the world has ever seen. Webvan, eToys, and most of the other dot-coms 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:**

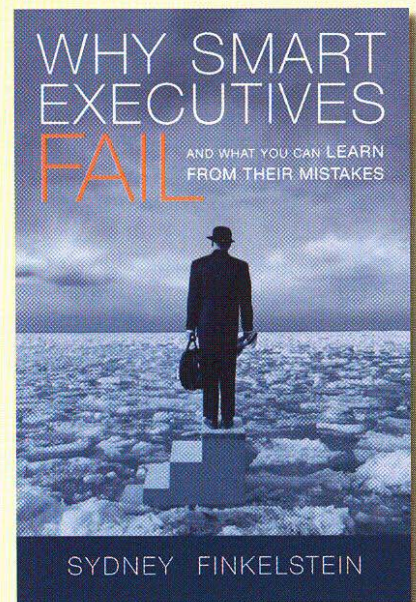
1. Your CEO believes that your company can do whatever it pleases because of its dominant position in the marketplace.
2. Your CEO tends to make the same decisions repeatedly, even when those decisions no longer seem appropriate.
3. Your CEO elevates public relations considerations over strategic considerations.

These are just some of the highlights from the research, summarized in *Why Smart Executives Fail*. All of us know that it is important to learn from mistakes, but how often do we take the time to do so. The stories and conclusions from the book can help us do some of that learning. If we don't learn, we're destined to repeat the same mistakes. Let's hope we don't.



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**The book** *Why Smart Executives Fail* by Sydney Finkelstein will be published by Portfolio in June 2003. For more information about the book, see <http://www.whysmartexecutivesfail.com>.



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