

Book Report

When chief executives hit the slippery slope

**WHY SMART EXECUTIVES FAIL:
And What You Can Learn From
Their Mistakes**

By **Sydney Finkelstein**
Portfolio. 318 pages.

Reviewed by **Sharon Reier**

The psychologist Alfred Adler formulated the concepts of the inferiority complex and the superiority complex. Feelings of inferiority are often good, Adler said, because they motivate people to achieve, make a social contribution, and thereby succeed. By contrast, he theorized, feelings of superiority can lead to a private logic, a lack of community feeling and arrogant and antisocial behavior.

For evidence that the superiority complex has run amok in the executive suite, look no further than Martha Stewart, Bernard Ebbers, Dennis Kozlowski and the Parmalat founder Calisto Tanzi, all of whom were once perceived as superstars but whose behavior led to disaster for their shareholders and themselves.

Sydney Finkelstein, a professor of management at the Tuck School of Business at Dartmouth College, has spent six years tracking how chief executives

veer onto the slippery slope, both strategically and personally. The result, "Why Smart Executives Fail: And What You Can Learn from Their Mistakes," is a synthesis of case studies of corporate mishaps and an analysis of the psychological flaws that prompted them.

Finkelstein's premise is that the executives who make it to the top are genuinely smart, talented men and women whose confidence and leadership styles impress boards of directors and analysts.

The trouble, he said, comes when successes go to their heads, and they forget their weaknesses and punish any critical feedback.

After studying and interviewing employees at 51 companies that stumbled, Finkelstein concluded that in almost every case the chief executive, the key decision maker, had the data to react properly but refused to face reality.

Finkelstein identifies the pathologies that encourage chief executives to tilt full-speed toward recklessness. Among

them: underestimating obstacles, identifying so completely with the company that they treat it like a personal fiefdom, obsession with image, and blatant attention-seeking.

In a series of case studies, he shows how these characteristics pervade poor decisions, causing chief executives to blunder in mergers and acquisitions, innovation, and crisis management and display an unwillingness to learn.

As an example of the last, he cites the Japanese dairy giant Snow Brand Foods, which in 1955 was involved in a milk contamination scandal. The company quickly took full responsibility, ran newspaper ads to apologize, and instituted a quality testing division.

But by the 1990s the new mantra became cutting costs and raising productivity. Disaster occurred when an Osaka factory began cutting corners and producing milk far above capacity.

Before long, there was a new outbreak of food poisoning. This time, 60 hours elapsed before Snow Brand regional executives admitted responsibility. In the intervening days, 6,000 people became sick, and not until two days later did Snow Brand's chief executive acknowledge the error. When he did, he further inflamed customers by abruptly halting a TV press conference, complaining of

lack of sleep. After one more scandal, the company went into bankruptcy.

Finkelstein's case histories are compelling and well-written. His prose becomes lumpy when he counsels chief executives on how to avoid the delusional track. Nonetheless, for investors there may be some insights in the book that could be useful for predicting corporate fiascos:

- A significant number of mid- to high-level executives leaving for no apparent reason. (Think Jeffrey Skilling of Enron.) "I would bet in another six to 18 months, something bad will happen," Finkelstein said.

- Consistently missing earnings forecasts — a signal, Finkelstein said, that management's view of reality is off.

- Paying huge sums to get the naming rights to a sports stadium or other building. Companies that spend so much inflating their image, according to Finkelstein, have often lost the ability to challenge their own convictions.

For readers with no chance to negotiate a 10-figure pay package — and little chance of landing, let alone messing up, a chief executive job — this book has another redeeming feature: the warm glow that when it comes to mental health, you are probably superior to the boss.

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