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Philosopher of failure studies fallen stars

By GORDON PITTS

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Bernard Ebbers created an organization "driven by greed and love of money."

Martha Stewart couldn't separate her personality from the publicly traded company that bears her name.

Sam Waksal had "a track record of overpromising and underdelivering."

Such are the harsh judgments of **Sydney Finkelstein**, a Montreal-born, U.S.-based business professor who specializes in the pathology of managerial failure, epitomized by this trio of fallen stars.

These days, Prof. Finkelstein, who teaches at the Tuck School of Business at Dartmouth College in New Hampshire, is like a kid in a candy store -- a store of very sour candies.

All around, supposedly smart people are screwing up big time. "Everybody keeps asking me: 'What about HealthSouth, or Freddie Mac, or Martha?' " he says, listing just the latest round of flameouts.

The flood of financial flotsam has become so constant that Prof. Finkelstein had trouble closing off research for his book, *Why Smart Executives Fail, and What You Can Learn from Their Mistakes*, published recently to critical acclaim.

Prof. Finkelstein, 44, became a philosopher of failure because he saw a gaping void in business research. So much of academic and journalistic literature draws from the experiences of successful companies -- hence, the management bible of the 1980s was *In Search of Excellence.*

But searching for excellence alone offers an incomplete and unbalanced picture of corporate life, he argues. There is considerable value to studying failure in a systematic way.

The product of six years of work, his book looks at more than 50 companies and how they and their chief executives screwed up. What Prof. Finkelstein found is that character traits that breed success in one era become, at another time, fatal flaws that can tear a CEO's career and company apart.

This tension is reflected in his list of the "seven habits of spectacularly unsuccessful people" -- traits of ego and overreaching that are fine in small doses but fatal when taken to extreme.

Habits that amounted to "a job description for CEOs in the late nineties" turned deadly in the 21st century, he says.

One common problem is that "the individual CEO is put on a plane that is far beyond what his or her job description is all about. They become more than a spokesperson but an icon for the company."

His seven deadly habits should be familiar to anyone who watched the rise and fall of telecommunications and dot-com CEOs. For example: "They seem to have all the answers, often dazzling people with the speed and decisiveness with which they can deal with challenging issues."

Another fatal flaw: "They identify so completely with the company that there is no clear boundary between their interests and corporate interests."

According to Prof. Finkelstein, that description finds echoes in the careers of Mr. Ebbers, the former CEO of the former WorldCom Inc., and Ms. Stewart, who created Martha Stewart Living Omnimedia Inc. in her own image.

It may have been an insider trading scandal that led to a recent indictment against Ms. Stewart on charges including obstruction of justice, fraud and conspiracy. But that incident only focused attention on an overbearing management style, by which the company, founded in her image, served as a personal fief even as it evolved into a multimedia public corporation. "Everybody is piling on because she has built up a lot of ill will over time," the professor says.

Prof. Finkelstein, whose credentials include a bachelor's degree from Montreal's Concordia University, offers no Canadian examples of failed CEOs. But he has examined Jean-Marie Messier, the disgraced former CEO of Vivendi Universal SA, which in 2000 acquired Montreal-based Seagram Co. for its entertainment assets.

Mr. Messier, he says, led "the classic imperial life." He also became a kind of Svengali to Edgar Bronfman Jr., the Seagram CEO and grandson of the liquor company's great builder, Sam Bronfman.

Driven by personal interests, Mr. Bronfman had bet the Seagram legacy on the movie and music business. Now, disturbingly, he is trying to reacquire the assets he traded away for Vivendi shares.

Prof. Finkelstein has followed the story of Mr. Waksal, former CEO of ImClone Systems Inc., who was sentenced to seven years in prison for insider trading violations -- a scandal that has dragged in his friend, Ms. Stewart.

The book tracks his career as a researcher who left other jobs under clouds of suspicion. Yet Bristol-Myers Squibb Co. took a chance on Mr. Waksal's company and cancer drug because it was desperate about the future of its product pipeline.

Prof. Finkelstein offers a number of signs warning when things are spinning out of control. For example, a company may be veering toward trouble when it acquires naming rights for a new sports arena or stadium -- consider the former Enron Field in Houston.

Another sign is when executive compensation reflects an inordinate obsession with greed, such as in the case of WorldCom and Enron Corp. Prof. Finkelstein says WorldCom under Mr. Ebbers reminds him of the movie *Chocolat* where one of the characters drops all resistance and gorges on chocolate.

"At WorldCom, money and profits took the place of chocolate and there was no limit to their hunger," he writes.

Seven Habits of Spectacularly Unsuccessful People

1. They see themselves and their companies as dominating their environments, not simply responding to developments in those environments.

2. They identify so completely with the company that there is no clear boundary between their personal interests and corporate interests.

3. They seem to have all the answers, often dazzling people with the speed and decisiveness with which they can deal with challenging matters.

4. They make sure that everyone is 100 per cent behind them, ruthlessly eliminating anyone who might undermine their efforts.

5. They are consummate corporate spokespersons, often devoting the largest portion of their efforts to managing and developing the company image.

6. They treat intimidatingly difficult obstacles as temporary impediments to be removed or overcome.

7. They never hesitate to return to the strategies and tactics that made them and their companies successful in the first place.

Source: Why Smart Executives Fail, and What You Can Learn from Their Mistakes