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IMPROVING THE PRACTICE OF MANAGEMENT

The seven habits of spectacularly unsuccessful executives

By Sydney Finkelstein

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The seven habits of spectacularly unsuccessful executives

It's rarely discussed, at least as not as much as the habits of successful CEOs, but the truth is that it takes some special personal qualities to be spectacularly unsuccessful. This author has written a best seller on the subject, and in this article he discusses how leaders can be not only instruments of success, but sometimes also architects of failure

By Sydney Finkelstein

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The past few years have witnessed some admirable business successes-and some exceptional failures. Among the companies that have hit hard times are a few of the most storied names in business - think Arthur Andersen, Rubbermaid and Schwinn Bicycle - as well as a collection of former high flyers like Enron, Tyco and WorldCom. Behind each of these failures stands a towering figure, a CEO or business leader who will long be remembered for being spectacularly unsuccessful.

The truth is, it takes some special personal qualities to be spectacularly unsuccessful. I'm talking about people who took world-renowned business operations and made them almost worthless. What's remarkable is that the individuals who possess the personal qualities that make this magnitude of destruction possible usually possess other, genuinely admirable qualities. It makes sense: Hardly anyone gets a chance to destroy so much value without demonstrating the potential for creating it. Most of the great destroyers of value are people of unusual intelligence and talent who display personal magnetism. They are the leaders who appear on the

covers of *Fortune* and *Forbes*.

Still, when it comes to the crunch, these people fail - and fail monumentally. What's the secret of their destructive powers? After spending six years studying more than 50 companies and conducting some 200 interviews, I found that spectacularly unsuccessful people had seven characteristics in common. Nearly all of the leaders who preside over major business failures exhibit four or five of these habits. The truly gifted ones exhibit all seven. But here's what's really remarkable: Each of these seven habits represents a quality that is widely admired in the business world. Business not only tolerates the qualities that make these leaders spectacularly unsuccessful, it celebrates them.

Here, then, are seven habits of spectacularly unsuccessful people, along with some warning signs to look out for. These habits are most destructive when a CEO exhibits them, but any manager who has these habits can do terrible harm-including you. Study them. Learn to recognize them. And try to catch these red flags before spectacular failure finds you!

Habit # 1: They see themselves and their companies as dominating their environment.

This first habit may be the most insidious, since it appears to be highly desirable. Shouldn't a company try to dominate its business environment, shape the future of its markets and set the pace within them? Yes, but there's a catch. Unlike successful leaders, failed leaders who never question their dominance fail to realize they are at the mercy of changing circumstances. They vastly overestimate the extent to which they actually control events and vastly underestimate the role of chance and circumstance in their success.

CEOs who fall prey to this belief suffer from the illusion of personal pre-eminence: Like certain film

directors, they see themselves as the *auteurs* of their companies. As far as they're concerned, everyone else in the company is there to execute their personal vision for the company. Samsung's CEO Kun-Hee Lee was so successful with electronics that he thought he could repeat this success with automobiles. He invested \$5 billion in an already oversaturated auto market. Why? There was no business case. Lee simply loved cars and had dreamed of being in the auto business.

Warning Sign: A lack of respect

Leaders who suffer from the illusion of personal pre-eminence tend to believe that their companies are indispensable to their suppliers and customers. Rather than looking to satisfy customer needs, CEOs who believe they run pre-eminent companies act as if their customers were the lucky ones. When asked how Johnson & Johnson lost its seemingly insurmountable lead in the medical stent business, cardiologists and hospital administrators pointed to the company's arrogance and lack of respect for customers' ideas. Motorola exhibited the same arrogance when it continued to build fancy analogue phones, rather than the digital variety its customers were clamouring for.

Habit #2: They identify so completely with the company that there is no clear boundary between their personal interests and their corporation's interests

Like the first habit, this one seems innocuous, perhaps even beneficial. We want business leaders to be completely committed to their companies, with their interests tightly aligned with those of the company. But digging deeper, you find that failed executives weren't identifying too little with the company, but rather too much. Instead of treating companies as enterprises that they needed to nurture, failed leaders treated them as extensions of themselves. And with that, a "private empire" mentality took hold.

CEOs who possess this outlook often use their companies to carry out personal ambitions. The most slippery slope of all for these executives is their tendency to use corporate funds for personal reasons. CEOs who have a long or impressive track record may come to feel that they've made so much money for the company that the expenditures they make on themselves, even if

extravagant, are trivial by comparison. This twisted logic seems to have been one of the factors that shaped the behaviour of Dennis Kozlowski of Tyco. His pride in his company and his pride in his own extravagance seem to have reinforced each other. This is why he could sound so sincere making speeches about ethics while using corporate funds for personal purposes. Being the CEO of a sizable corporation today is probably the closest thing to being king of your own country, and that's a dangerous title to assume.

Warning Sign: A question of character

When it comes right down to it, the biggest warning sign of CEO failure is a question of character. We might want to believe that leaders at companies like Adelphia, Tyco and ImClone were trustworthy stewards of those companies, but their behaviour suggests otherwise. But questions about character need not be limited to dubious or unethical acts. In fact, most leaders I studied were scrupulously honest. Rather, it is denial and defensiveness that are the critical warning signs. As Tony Galban, a D&O underwriter at Chubb, told me, "Always listen to the analysts' calls because that gives you a sense of how an individual thinks on their feet. They give you a sense of whether they're in denial or whether they're being professional." It gets down to this: Do you really trust this person?

Habit #3: They think they have all the answers

Here's the image of executive competence that we've been taught to admire for decades: a dynamic leader making a dozen decisions a minute, dealing with many crises simultaneously, and taking only seconds to size up situations that have stumped everyone else for days. The problem with this picture is that it's a fraud. Leaders who are invariably crisp and decisive tend to settle issues so quickly they have no opportunity to grasp the ramifications. Worse, because these leaders need to feel they have all the answers, they aren't open to learning new ones.

CEO Wolfgang Schmitt of Rubbermaid was fond of demonstrating his ability to sort out difficult issues in a flash. A former colleague remembers that under Schmitt, "the joke went, 'Wolf knows everything about everything.' In one discussion, where we were talking about a particularly complex acquisition we made in

Europe, Wolf, without hearing different points of view, just said, "Well, this is what we are going to do." Leaders who need to have all the answers shut out other points of view. When your company or organization is run by someone like this, you'd better hope the answers he comes up with are going to be the right ones. At Rubbermaid they weren't. The company went from being Fortune's most admired company in America in 1993 to being acquired by the conglomerate Newell a few years later.

Warning Sign: A leader without followers

John Keogh, another big-time underwriter of D&O insurance, pointed out what he looks for when CEOs are being interviewed by analysts: "[Was] the management team incredibly arrogant? [Did the CEO or CFO] have all the answers and is [he or she] pretty [much] on top of his or her game?" CEOs who believe they have all the answers don't really need other people, except to do what they want them to do. One of the critical side effects of a CEO's fixation on being right is that opposition can go underground, effectively closing down dissent. As middle management begins to realize that their personal contributions aren't important, an entire organization can grind to a halt. When a leader's perspective and the management team's perspective drastically differ, take note. The difference in perception between Schmitt and his staff at Rubbermaid was striking, and was characteristic of many executives' predicament. He was a leader without followers.

Habit #4: They ruthlessly eliminate anyone who isn't completely behind them

CEOs who think their job is to instill belief in their vision also think that it is their job to get everyone to buy into it. Anyone who doesn't rally to the cause is undermining the vision. Hesitant managers have a choice: Get with the plan or leave.

The problem with this approach is that it's both unnecessary and destructive. CEOs don't need to have everyone unanimously endorse their vision to have it carried out successfully. In fact, by eliminating all dissenting and contrasting viewpoints, destructive CEOs cut themselves off from their best chance of seeing and correcting problems as they arise. Sometimes CEOs who seek to stifle dissent only drive it underground.

Once this happens, the entire organization falters. At Mattel, Jill Barad removed her senior lieutenants if she thought they harbored serious reservations about the way that she was running things. Schmitt created such a threatening atmosphere at Rubbermaid that firings were often unnecessary. When new executives realized that they'd get no support from the CEO, many of them left almost as fast as they'd come on board. Eventually, these CEOs had everyone on their staff completely behind them. But where they were headed was toward disaster. And no one was left to warn them.

Warning Sign: Executive departures

A revolving door at the top is one of the strongest signals that there has been executive failure at a company. Whether executives leave under "false pretenses," or are sent to some distant outpost where they'll have no further influence at headquarters, a pattern of executive departures speaks volumes for what is going on at a company. At Mattel, along with firing senior lieutenants on a moment's notice, Jill Barad drove six direct reports to resign for "personal reasons." The same thing has happened at Sun Microsystems over the last year. A mass exodus may be an indication that the CEO is out to eliminate any contrary opinions, or it may reflect inside information senior executives are acting on. In either case, it's a powerful warning sign. Analysts and many investors regularly track insider sales of stock, but executive departures may provide an even clearer window on the company. After all, what stronger statement can an executive make than to leave his or her job and the company entirely?

Habit #5: They are consummate spokespersons, obsessed with the company image

You know these CEOs: high-profile executives who are constantly in the public eye. The problem is that amid all the media frenzy and accolades, these leaders' management efforts become shallow and ineffective. Instead of actually accomplishing things, they often settle for the appearance of accomplishing things.

Behind these media darlings is a simple fact of executive life: CEOs don't achieve a high level of media attention without devoting themselves assiduously to public relations. When CEOs are obsessed with their

image, they have little time for operational details. Tyco's Dennis Kozlowski sometimes intervened in remarkably minor matters, but left most of the company's day-to-day operations unsupervised.

As a final negative twist, when CEOs make the company's image their top priority, they run the risk of

by such executives as Enron's Jeffrey Skilling or Tyco's Kozlowski is as much or more an attempt to promote the company's image as it is to deceive the public: In their eyes, everything that the company does is public relations.

Warning Sign: Blatant attention-seeking

Conversations with myself: Seven disastrous thoughts of unsuccessful leaders

Habit #1: "Our products are superior, and so am I. We're untouchable. My company is successful because of my leadership and intellect-I made it happen."

Habit #2: "I am the sole proprietor. This company is my baby. Obviously, my wants and needs are in the best interest of my company and stockholders."

Habit #3: " I'm a genius. I believe in myself and you should too. Don't worry, I know all the answers. I'm not micro-managing; I'm being attentive. I don't need anyone else, certainly not a team."

Habit #4: "If you're not with me, you're against me! Get with the plan, or get out of the way. Where's your loyalty?"

Habit #5: "I'm the spokesperson. It's all about image. I'm a promotions and public relations genius. I love making public appearances; that's why I star in our commercials. It's my job to be socially visible; that's why I give frequent speeches and have regular media coverage."

Habit #6: "It's just a minor roadblock. Full steam ahead! Let's call that division a "partner company" so we don't have to show it on our books."

Habit #7: "It has always worked this way in the past. We've done it before, and we can do it again."

using financial-reporting practices to promote that image. Instead of treating their financial accounts as a control tool, they treat them as a public-relations tool. The creative accounting that was apparently practised

the difficulty of actually getting there. And when it turns out that the obstacles they casually waved aside are more troublesome than they anticipated, these CEOs have a habit of plunging full-steam into the abyss. For

The types of behaviour exhibited by Napoleonic CEOs tend to be so blatant that they can't be missed. Warning signs begin with the executive lifestyle-they may start to run with a very cool crowd, buy expensive art, and hobnob with political dignitaries and celebrities. The CEO will seem to spend more time with PR personnel and making public appearances than doing something as mundane as visiting customers. Other times, a company will build a striking new headquarters, designed to serve as a corporate symbol. In more extreme cases, the CEO will try to acquire the naming rights for a new sports arena or stadium.

Habit #6: They underestimate obstacles

Part of the allure of being a CEO is the opportunity to espouse a vision. Yet, when CEOs become so enamoured of their vision, they often overlook or underestimate

example, when Webvan's core business was racking up huge losses, CEO George Shaheen was busy expanding those operations at an awesome rate.

Why don't CEOs in this situation re-evaluate their course of action, or at least hold back for a while until it becomes clearer whether their policies will work? Some feel an enormous need to be right in every important decision they make, because if they admit to being fallible, their position as CEO might seem precarious. Once a CEO admits that he or she made the wrong call, there will always be people who say the CEO wasn't up to the job. These unrealistic expectations make it exceedingly hard for a CEO to pull back from any chosen course of action, which not surprisingly causes them to push that much harder. That's why leaders at Iridium and Motorola kept investing billions of dollars to launch satellites even after it had become apparent that land-based cellphones were a better alternative.

Warning Sign: Excessive hype

One of the things we learned from the Internet bubble is the danger of hype, which can hide problems or mask intentions that, if known, would lead people to make different decisions. Simply stated: When something sounds too good to be true...it usually is. One of the best signs of a company relying on hype is the missed milestone. Whenever a company announces that its quarterly earnings are below forecast, the market reacts negatively to the news. Another important warning sign to look out for is when companies avoid looking at persuasive market data. When Barneys was planning its doomed geographic expansion, someone suggested that it do a market study to make sure that its offerings could work outside New York. CEO Bob Pressman thought the idea was ludicrous. "Market studies?" he exclaimed, incredulously. "Why do we have to do market studies? We're Barneys!"

Habit #7: They stubbornly rely on what worked for them in the past

Many CEOs on their way to becoming spectacularly unsuccessful accelerate their company's decline by reverting to what they regard as tried-and-true methods. In their desire to make the most of what they regard as their core strengths, they cling to a static business model. They insist on providing a product to a market that no

longer exists, or they fail to consider innovations in areas other than those that made the company successful in the past. Instead of considering a range of options that fit new circumstances, they use their own careers as the only point of reference and do the things that made them successful in the past. For example, when Jill Barad was trying to promote educational software at Mattel, she used the promotional techniques that had been effective for her when she was promoting Barbie dolls, despite the fact that software is not distributed or bought the way dolls are.

Frequently, CEOs who fall prey to this habit owe their careers to some "defining moment," a critical decision or policy choice that resulted in their most notable success. It's usually the one thing that they're most known for and the thing that gets them all of their subsequent jobs. The problem is that after people have had the experience of that defining moment, if they become the CEO of a large company, they allow their defining moment to define the company as well—no matter how unrealistic it has become.

Warning Sign: Constantly referring to what worked in the past

When CEOs continually use the same model or repeatedly make the same decision, despite its inappropriateness, it can lead to significant failure. This type of thinking is often evident in the comments of senior executives who focus on similarities across situations while ignoring the sometimes more momentous differences. Take the case of Quaker Oats' acquisition of Snapple. Quaker paid \$1.7 billion for Snapple, mistakenly assuming that the drink would be another smash hit like Gatorade. The beverage division president said things such as, "We have an excellent sales and marketing team here at Gatorade. We believe we do know how to build brands; we do know how to advance Snapple as well as Gatorade to the next level." Unfortunately, they didn't realize that Snapple was not a traditional mass-market beverage, but a "quirky, cult" drink. What's more, while Gatorade was distributed via a warehouse system, Snapple relied on family-run distributorships that had little interest in co-operating with Quaker. In 1997, Quaker sold Snapple for a paltry \$300 million.

These seven habits of spectacularly unsuccessful

people are powerful reminders of how organizational leaders are not only instruments of growth and success, but sometimes also architects of failure. That each of the habits has elements that are valuable for leaders only serves to point out how vigilant people who enter a leader's orbit must be, whether they are other executives, board members, lower-level managers and employees, regulators, or even suppliers, customers and competitors. In small doses, each of the habits can be part of a winning formula, but when executives overdose, the habits can quickly become toxic. That is a lesson all leaders and would-be leaders should take to heart. ■

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