Why Smart Executives Fail
And What you Can learn from Their Mistakes

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Authors Big Thought: In this book the author unveils the extraordinary results of the largest research project ever devoted to leadership failure. One astonishing finding: Businesses that seemed to have nothing in common turned out to have failed for exactly the same reasons. Even the excuses that failed managers used turned out to be the same in case after case. This book proves that we can learn as much from exploring executive mistakes as from their successes.

Chapter notes:

Chapter 1: Why Smart Executives Fail

How can business leaders fall so far so fast? How can so many people be so disastrously wrong about the value and strength of companies in the news? What can possibly account for the scores of business failures seen every year, in different industries, and even in different countries? And how can we prevent this sort of thing from happening again.

Giant business disasters can be prevented, but only if we start thinking about business leadership and organizations in strikingly new ways. This means putting aside the easy answers and looking intently at the real causes of business failures – the people who create, manage, and lead the company.

There are seven theories usually cited for executive failure:

1. Executives were stupid and incompetent
2. The Executives couldn't have know what was coming
3. It was a failure to execute
4. The executives weren't trying hard enough
5. The executives lacked leadership ability
6. The company lacked the necessary resources
7. The executives were a bunch of crooks

In searching for the reasons why smart executives fail and to go deeper into understanding the reason for failures, the author studies fifty-one companies in detail. In addition, another dozen or so other companies were studied briefly. Together this represents the largest and most comprehensive study of business failures ever conducted. At almost every company they were able to interview people who gave first hand accounts that inevitably went far beyond the press reports that were also consulted. The extensive direct interviews (197 of them) were supplemented with large quantities of information collected from financial statements, news stories, published analyses, press releases and company reports.

The authors didn't start with crystal-clear hypotheses on what patterns of failure they would see, or even whether definitive patterns could be identified. There major findings and conclusion s emerged from the data over time.

They were looking for two things:
They wanted to get as close to the "inside story" as possible for each case history. Second, while analyzing each company in the sample, they looked for patterns. Over time, it became clear just how deep-rooted and relatively small in number the causes of failure actually were Businesses that seemed at first to have nothing in common turned out to have failed for exactly the same reasons and in much the same way.

The case histories and results from their research are laid out in three sections:

Part I: Great Corporate Mistakes. When the authors considered all of the companies together, they realized that most of them failed during four major business passages: creating new ventures, dealing with innovation and change, managing mergers and acquisitions, and addressing new competitive pressures. These are multifaceted events that involve some degree of corporate transformation, and are very complex, so it's probably not that surprising that we find these stages of business especially perilous. Instead of bringing out the hidden strengths of a business, each of these challenges tends to bring out the hidden weaknesses.

In Part I these four business passages are explained and why they represent periods of increased vulnerability for any business. More important, they show why the conventional wisdom about these stages of business is inadequate.

Why was each of these stages so dangerous for these companies? What were the great corporate mistakes they made? What pitfalls exist for executives as they take their own organizations through each of these transitions, and what can they do about it? The answers to these questions reveal why the conventional wisdom about these key chapters in a business life is inadequate.

Part II: The Causes of Failure looks across all fifty-one companies studied and across the four critical transitions described in Part I where executes tend to stumble, and it identifies the key underlying reasons for failure that we saw again and again.

We discovered that precipitous business failures are caused by four destructive patterns of behavior that set in, without anyone noticing them, well before a business goes under. These four syndromes involve

1. Flawed executive mind-sets that throw off a company's perception of reality
2. 2. Delusional attitudes that keep this inaccurate reality in place.
3. Breakdowns in communications systems developed to handle potentially urgent information, and

4. Leadership qualities that keep a company's executives from correcting their course. Long before there are obvious danger signs, several of these syndromes can take hold of executive behavior. While the business might appear outwardly healthy, the inner mechanisms are breaking down. Examining these interrelated concerns, one at a time, makes it chillingly clear how each one can set a business up for collapse. Together they provide a framework on how to think about business failure,

Part III Learning from Mistakes

In Part 111 the third and final set of research is revealed -how board members, CEOs, executives, lower-level managers and employees, investors, and other interested stakeholders can learn from the mistakes of others, so as to avoid and prevent the disastrous outcomes we document in this book.

These issues are introduced in two ways. First, a set of early warning signs of failure are introduced that executives and investors alike need to watch out for. And second, ways to diagnose business mistakes as they are happening are presented, and tools are provided to help people learn from their own mistakes. These last two chapters, then, offer a set of ideas and tools that readers can use to help avoid and sometimes even predict business failure.

<u>Chapter 2: New Business Breakdowns</u>

Things to remember when embarking on a new Venture

- General Magic was almost in the business of collecting licenses with partners for its not-yet-developed software. Partnerships can be a valuable element in building credibility, but go in with open eyes. The motives of your partners are not going to necessarily be the same as your own goals.
- Boards of directors need to think very carefully about CEO incentives, especially the unintended consequences of stock options and stock grants. CEO and managerial stock ownership is good up to a point; too much ownership and individual preferences can begin to take precedence over what is best for the company.
- New ventures with long time horizons are not one-time investments. Before the venture even gets underway, build in specific guideposts where the entire project is evaluated. Make subsequent investments

contingent on meeting predetermined metrics at each guidepost, such exit ramps will help you keep sunk costs sunk.

- If you have a good idea, it's not impossible for someone else to have the same good idea. More importantly, even after you've established your new venture, competitors may emerge (from the shadows, as the supermarkets did to Webvan; or from a new place, as Palm, Sun, and the Internet did to General Magic). If you can't create entry barriers to protect your established business, expect to struggle.
- The balance of supply and demand is a dynamic process. What looked good for one telecom start-up began to look a lot less good when a dozen others joined the party If new competitors push supply over demand—even if that demand had you drooling—you're going to lose. That is the lesson that the telecom bubble teaches us.
- Be conservative and rigorous in segmenting the market, but segment it you must. It's not enough to know that there are potential customers for your product or service; you also need to know everything about them. Iridium and Webvan both postulated large market opportunities that never materialized because they were insufficiently rigor-motives of your partners are not going to necessarily be the same as your own goals. • Boards of directors need to think very carefully about CEO incentives, especially the unintended consequences of stock options and stock grants. CEO and managerial stock ownership is good up to a point; too much ownership and individual preferences can begin to take precedence over what is best for the company. • New ventures with long time horizons are not one-time investments.
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- Don't fall in love with your product or service; that's your customers' job. Webvan became so enamored with the presumed uniqueness and elegance of its last-mile strategy that it underestimated how difficult it was to build a market, especially when established super-markets started offering comparable service. Similarly, it was Motorola engineers and their techtosterone culture that provided the fuel for Iridium, not customer demand. Kun-Hee Lee at Samsung and the development team at General Magic were also true believers; only their customers weren't.
- Expect the unexpected. Samsung believed that the government would bail out of the auto-venture; the government didn't. General Magic believed that apple would rely on its Telescript software for the Apple Newton; Apple didn't. Iridium really believed that its telecommunications partners around the world considered Iridium a priority for development: they didn't.
- The scorecard for new ventures is not determined by how stellar the resumes of management team are. Don't lose sight of what counts: strategy, capabilities, customers, and competitive advantage.

Chapter Three: Innovation and Change

Things to Remember About Innovation and Change

- People do things for many reasons, only some of which are readily apparent to them. By highlighting the importance of history and culture, we take a step back to examine what is there but seldom discussed internally It should be standard practice for executives to acknowledge the implicit biases that, often unwittingly come with a company's history and culture.

- Ask questions. Not just any questions, but questions that can tap into potentially important changes that can significantly affect our organizations. For example, the rise of digital technology is relevant not only for Motorola but for companies in such industries as media, computers, photography education, medical instruments, consumer electronics, and many others. How might such "sector wide" changes affect your business?
- The effective management of risk seems like a lost art. Assessing the risk of managerial initiatives can raise questions while there is still time to make real-time adjustments. For example, Dell Computer is always asking what could go wrong and considering ways to mitigate the downside.
- Motorola's fall in the cell phone business spawned this idea from Robert Galvin: Each executive should keep an "anticipation registry" that records his or her insights on how the market is changing, and what he or she is doing about it. While not all ideas will be good ones, the practice of keeping score (particularly if tied to compensation) can be an important discipline.
- Never forget that even in the most decentralized companies, there is a critical role for corporate management to play. One of the riskiest decisions a company can make is to abdicate total responsibility to divisional managers without any oversight. One need not challenge the ^ basic value of decentralization, such as autonomy focus, and entrepreneurship, to advocate some degree of parental supervision.
- This latter point highlights the relevance of "checks and balances" in corporate systems. Some control of independent divisions is required, ^ but heavy-handed meddling by Corporate is counterproductive. How Corporate can add value to divisional management should be the Reading agenda item at the very top of organizations. The choice is stark—if Corporate cannot provide such pluses as special expertise, a powerful brand name, cost savings, management development, are new business opportunities, then why should Corporate exist?
- When there are advantages to coordination across business units, reinforce these pluses with team-based goals and incentives. Don't expect your own warring tribes to go out of their way to cooperate

when old-line division-based incentives predominate. If you really want to see innovation and change flourish at you company, you must both motivate awareness and facilitate action Managers will pay attention when such behavior is rewarded via compensation and promotions, and reinforced through company culture Enabling managers to pull the trigger, however, requires you to accept a degree of experimentation and the attendant failures that involves We will return to this idea later; at this point let's not forget that while it is important to encourage responsibility for innovation and change throughout the organization, every leader must set the tone and ex ample for others to follow.

Part 11: Causes of Failure

Chapter Four: Mergers and Acquisitions

Things to Remember About Mergers and Acquisitions

- Just as board members at companies such as Enron and Tyco have taken the heat for standing by while accounting scandals ran amuck, they must be held responsible for acquisitions that defy logic. Saatchi & Saatchi buying Midlands Banks? It just isn't meant to be.
- Synergies are elusive. Pre-acquisition analysis must realistically evaluate potential synergies, paying particular attention to the possibility of negative synergies, the rush of time, and the cost involved.
- We wouldn't buy a car or a house without carefully studying just what it is we are buying. Why should buying companies be any different? More ships have been wrecked by inept due diligence-think Quaker-than almost any other aspect of deal making. . The hard work really starts when the deal is done. Effective integration may not be easy, but absentee management or wanton disregard for those affected by the merger won't help. Sony and Saatchi & Saatchi paid little attention to the aftermath of their business deals, and paid a price.
- Acquisition isn't a "one-off" exercise. The best acquirers have managed to remember what they've learned from each deal and use that knowledge as a weapon for growth.
- Build managerial continuity. *Just* as there is tribal knowledge within organizations that needs to be revealed and transferred during acquisitions, managers involved in integration are valuable resources. Harnessing their expertise means developing a cadre of people whose primary responsibility becomes M&As; with each subsequent involvement in a deal the knowledge base of such people expands, making the company a formidable contender.
- Don't forget to celebrate successes. The work behind integration is very hard, and often very frustrating. Look for small wins early on,

and give the team a chance to celebrate those wins.

Chapter Five: Strategy Gone Bad: Doing the Wrong Thing
Things to Remember About Strategy and Managing Competitive Threats

- Competition is nothing more than a group of people in another company who believe that they can offer something to customers that is superior to what you presently offer. Paying attention to what those competitors are doing for your customers is critical.
- There are many ways to assess your strategic position in a market-place, but something as simple as the "who, what, how" framework can be powerful. Who are you selling to, what are you selling to them, and how are you selling it?
- To understand the strategy of a company, you need to understand the strategists. Without knowing about An Wang's history, could you really understand why his company made the decisions that it did?
- Do you view your competitors as worthy opponents? Beware of the overconfidence that can come with being a market leader. There are too many examples of industry leaders losing position to newcomers who weren't accorded adequate respect.
- Listen to all the sources of information you can find in deliberating on strategy, especially salespeople who are in daily contact with customers. Access to diverse sources of information is valuable to avoid becoming a company of true believers who disregard data that might tell another story.
- Executives who run into trouble tend to rely too much on their own personal preferences that are not backed up with sufficient supporting evidence. General Motors' robotics solution was based on assumptions that would not have been supported if debated openly.
- Pay special attention to struggling CEOs trying to turn around a desperate situation with one well-timed initiative or decision. Often the result will be even worse.
- Don't assume that managers left to implement a senior executive's strategy will actually do what was originally intended. As happened at the Boston Red Sox and Snow Brand Milk, their goals, motives, and methods can lead them badly astray. Leadership at the top is one of the best ways to establish common principles that managers can rely on in doing their jobs.

Chapter Six: Brilliantly Fulfilling the Wrong Vision

How Executive Mind-set Failures push Businesses to the Brink…. And Beyond

- In the scores of business failures investigated for this book, there wasn’t a single major breakdown that was due to a company carrying out operations badly. In every case, the real problem was that the company was carrying out the *wrong* operations.
- The real cases of nearly every major business breakdown are the things that put the company on the wrong course and keep it there.
- There is one blind spot that appears somewhere near the center of almost every major business disaster: seriously inaccurate perception of reality among executives.
- There were three patterns of strategic misintent in the companies studied, each evoking a poignant metaphor: the search for the magic answer, the pursuit of the Holy Grail, ad a fixation on the wrong scoreboard.
- The magic answer – pursuing the magic answer leads managers to focus on one principle or one model to the exclusion of all others. It encourages one big bet that’s often the wrong one.
- A Holy Grail, in business terms, is a strategy that remains forever unattainable. It attributes overwhelming importance to a causal factor that doesn’t even exist.
- A wrong scoreboard is simply an inappropriate measurement of success. The most common example is market share.
- The authors identified four executive mindsets failures that get to the heart of why strategies based on intellectual assets don’t work. In each case smart executives rely on flawed assumptions about what works and what doesn’t.
    1. Yesterday’s answer, is any picture of reality that once worked but is no longer valid. The most common of yesterday’s answers are well-designed and well-made products that fulfill customers’ needs from the past, but are no longer what customers want.
    2. A different game – a company’s perceptions of reality have become obsolete not because times have changed, but because it has moved into a new area where it’s version of reality is no longer valid.
    3. A false self-image. – being wrong about your own competencies.
    4. The film producer’s error – failing to take sufficient account of the specific and often unique attributes that made a particular venture so successful.

In all the examples where mistaken perceptions of reality were used to guide large companies, there is one big, recurring paradox: What seems obviously false with the benefit of hindsight seemed so obviously true that no one thought to question it. If you want to catch your company before a mistaken picture of reality has done too much damage, you have to stop and question the things that seem obvious. Companies need to test their ideas of what could change with different questions than the ones they use to test their picture of reality.

Most of the companies blinded by a disastrously inaccurate picture of reality had all the data they needed to see that their picture of reality was wrong and the substitute a better one. Most of the companies discussed here – as diverse as GM, e Toys, Sony, Motorola, Saatchi and Saatchi, Barneys, LTCM, Quaker, Cabletron, Oxford Health Plans, Food Lion, L.A. Gear, Rubbermaid, the Boston red Sox and Schwinn – had data pouring in from their own operations that should have easily shown them that their basic business assumptions were wrong. The data seemed to have no effect.

The measures that these companies took to encourage and preserve their mistaken pictures of reality were truly remarkable.

<u>Chapter Seven: Delusions of a Dream Company</u>

- Companies that appear to be too good to be true my have created an insulated culture that systematically excludes any information that could contradict its reigning picture of reality.
- Companies that cultivate these positive qualities to excess become "zombie businesses". They might continue to do business the way they always have. They might even d it extremely well. But when a problem develops and things stop working the way they did before, managers have no way of knowing because they are largely cut off from the outside information they need.
- The people in a zombie company will be blissfully unaware that they are in the middle of a major business disaster until after it has unfolded.
- Executives are usually brilliant, dynamic and impressively attuned o what's happening around them. The technical people will usually have a state-of the –art grasp of their specialty areas.

- The mechanism that makes a business into a zombie consists of “company policies” and company attitudes” that are ultimately mind numbing, a cumulative effect of so many small and seemingly benign polices that are ultimately destructive.

Policies and Techniques to Keep Your Company Responsive to Outside Developments

Compensate for Company Pride:

1. Create internal advocates for strategies and technologies introduced by competitors and by other outside firms that are tackling analogous tasks.
2. Give someone the job of monitoring competitor’s missteps and making sure that they are avoided.
3. Use partnering to bring in new ideas and new practices.

Compensate for the company’s vision of excellence:

1. Make sure that the improvements the company most wants to provide are the ones the customers most want to have.
2. Make each top executive personally responsible for dealing with important customers.

Compensate for the Company’s positive attitude:

1. Reward employees who can find flaw or potential problems in the company’s procedures
2. Make heroes of the “Paul reveres”, who ride through the company warning that “the British are coming”

Compensate for Company Perfectionism

1. Change goals when the old goal is being fully met, rater than simply “raising the bar”.
2. Get senior managers to set the example when it comes to acknowledging and learning from failures.
3. Use external benchmarks, especially for routine operations and centralized support services.
4. Use devices such as “mistake of the Month” to reward experiments that are unsuccessful when it comes to producing financial returns but highly successful when it comes to producing knowledge returns.

Compensate for Team Spirit

1. Request minority reports and reports that aim at presenting the strongest contrasting position.
2. Create cross functional teams and diverse work groups whose members will see things differently.
3. Seek critical evaluations from genuine outsiders
4. Preserve potentially innovative groups, so they can support each other's efforts.

Compensate for Public Relations reflexes:

1. Keep the liability lawyers and public relations people out of basic planning and decision making.
2. Don't think in terms of "damage control". Think instead of eliminating the damage and its causes.

<u>Chapter Eight: Tracking Down the Lost Signals.</u> Why Businesses Don't Act on Vital Information

- There are simply too many examples of companies and other organizations that have failed to recognize a vital piece of information and act on it. Yet there are some businesses, and some government agencies, that are much more likely to recognize and act on vital information. What makes some organizations receptive, and others not?
- *Undirected information* – nice employees recognize the importance of some information they've received, they need to know where to direct it.
- *Missing communication channels* –many companies can't act on vital information because there are no regularly established communication channels between the people receiving the information and the people who need to act on it. Even when the communication channels seem adequate, they can't cope effectively with urgent information if they are too rigid and hierarchical. To make sure that crucial information has some chance of being aced on, an organization should establish a way to flag any potentially vital information so that it gets special attention.
- *Missing oversight* – when all the necessary pieces for the proper handling of information are in place, someone still needs to check to

make sure that they're actually working the way they're supposed to. Executives must actively seek out potentially important information that might not otherwise be coming to their attention.

- *The Ungovernable organization* – this can especially happen in highly innovative, rapidly growing companies that encourage employees to be revolutionary and creative.
- *The ungovernable board* – some companies are ungovernable simply because of fundamental breakdowns I their boards of directors, the group most responsible for vital information and the ultimate governance mechanism in a company. How boards function as a group, the nature of their interactions among themselves and with the CEO, and what they consider important to look into and what they don't, plays a huge part in board effectiveness.
- *Excessive oversight* – companies who reward smooth routine functioning to the point where it becomes impossible to take account of special circumstances or to take corrective measures that go beyond the ordinary.
- *The exceptional personality* – sometime many of the breakdowns in oversight that cause viral information to be neglected are due to the special treatment that is given to exceptional personalities. Executives generally feel that these personalities deserve extra latitude because they are likely to bring off successes in circumstances where lesser talents wouldn't be able to do it.
- *Overly distant overseers* – when outsiders acquire a company, especially if they are foreigners, there are special factors that can prevent them from receiving vital information about the business and acting on it.
- *Lost lessons* – when a business neglects to use the information that's worth special attention.

<u>Chapter Nine: Seven Habits of Spectacularly Unsuccessful People</u>. The Personal Qualities of Leaders Who Preside Over Major Business Failures

- To be spectacularly unsuccessful requires some very special personal qualities. Most of the great destroyers of value are people of unusual intelligence and remarkable talent. They are almost always capable of being irresistibly charming, exercising great personal magnetism, ad inspiring others.

- Nearly all of the leaders who preside over major business failures exhibit five or six of these habits. Learning to recognize these habits is the first step toward finding ways to compensate for them.

Habit #1: They see themselves and their companies as dominating their environments, not simply responding to developments in these environments.

- They vastly overestimate the extent to which they are controlling events and vastly underestimate the role of chance and circumstance in their success.
- *The illusion of personal preeminence* – many a CEOP believes that he or she is personally able to control the things that will determine the company's success or failure, a tendency labeled the illusion of personal preeminence.
- *Behavior that's a little too preeminent-* Leaders who suffer from the illusion of personal preeminence often reveal this in the way they treat the people around them. They often use intimidating or excessive behavior to dominate the people who surround them.
- *The illusion of corporate preeminence* – executives who succumb to an illusion of personal preeminence often succumb to an illusion of corporate preeminence too. This is a belief on the part of the CEO that his or her company is absolutely central to suppliers and customers alike. They often believe that the superiority of their company's products make it invulnerable.

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

- These executives treat the company as an extension of themselves. They cause the company to do things that would make sense for a person, but do not make sense for a company. The CEOs begin to behave as though they own their own companies, even when they do not, and they begin to act as though they have the right to do anything they want with them, which isn't true. They often use the corporation to carry out personal ambitions when these are not a good way to generate profits.

- Once they've launched a project, such leaders often invest in it with no sense of proportion or restraint because they feel that betting on the project is betting on themselves.

Habit #3: They seem to have all the answers, often dazzling people with the speed and decisiveness with which they can deal with challenging issues

- In a world where business conditions are constantly changing and innovations often seem to be the only constant, no one can "have all the answers" for long. Worse, because these leaders need to feel that they have all the answers, they have no way to learn new answers
- One of the critical side effects of a CEO's fixation on being right is that opposition can go underground, effectively closing down dissent. Once this happens, the entire organization will grind to a halt, whether or not these CEO's were actually right or wrong in their judgments.
- Ultimately, executives "with all the answers" trust no one. Only they can be relied upon to make the final call on any issue where the answer isn't obvious. This how they out their personal imprint on every aspect of their company's operations.

Habit #4: They ruthlessly illuminate anyone who isn't 100% behind them

- By eliminating all dissenting and contrasting viewpoints, they cut themselves off from their best chance of correcting problems as they arise.

Habit #5: they are consummate company spokespersons, often devoting the largest portion of their efforts to managing and developing the company image

- Leaders who develop this habit become the sort of high-profile CEOs that are constantly in the public eye. They brilliantly inspire confidence among the public, employees, potential new recruits, and, especially, investors. Their best energies and attention go into crafting a public image, rather than running the company.
- The unholy alliance of business media and stock markets also encourage companies to choose "great communicators" for their top positions.

- When CEOs make the company's image their top priority, they tend to encourage financial reporting practices that promote that image. Companies that distort their financial reports seldom do it to deceive the Public. They do it as a result of a general mind-set, put in place by the CEO, in which everything the company does is seen as a matter of public relations.

Habit #6: They treat intimidatingly difficult obstacles as temporary impediments to be removed or overcome

- They become so enamored with their vision of what they want to achieve that they overlook the difficulty of actually getting there. They assume that all problems are solvable, when many problems, in fact, are either insolvable or else solvable at too great a cost.
- Executives coming off a string of successes are particularly prone to underestimate obstacles.
- When CEOs find that the obstacles they had casually waived aside are proving more troublesome than they anticipated, they tend to deal with the problem by escalating their commitment.
- Proceeding with the same course of action, but wit new resources, removes, for the time being, any need to admit that this course of action was wrong in the first place. After each round, it becomes harder to pull back or change direction. Recognizing the point at which escalating commitment is getting out of hand can be almost impossible for the person responsible.

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

- Many CEOs on their way to becoming spectacularly unsuccessful accelerate their company's decline simply by reverting to what they regard as the tried and tested. In their quest for certainty in a world grown unpredictable, they persist in using the wrong scoreboard. In their desire to make the most of what they regard as their core strengths, they cling to a static business model.

Part 111: Learning from Mistakes

<u>Chapter Ten: Predicting the Future. The Early Warning Signs</u>

We need to be on the lookout for these clues whether we are a manager in a company; on the board; a prospective employee; a potential acquirer; or an

investor. From all of these points of view, it's ital to now how to recognize the critical signals that foreshadow business failure.
Here are two things to keep in mind:

1. Whenever possible we'll try to identify those warning signs that are moist visible to outsiders.
2. If we see a warning sign, it is nothing more than that – a warning.

Questions to Ask When Looking for Early Warning Signs

UNNECESSARY COMPLEXITY

1. Is the company's organizational structure convoluted or complex?
2. Is the strategy unnecessarily complex for an otherwise simple problem?
3. Is its accounting overly complicated, nontransparent, or nonstandard?
4. Is it employing complicated or nonstandard terminology?

SPEEDING OUT OF CONTROL

5. Does the management team have enough experience to handle growth?
6. Are there small. Yet non trivial details or problems that seem to be getting overlooked by management?
7. Is management ignoring warnings now that would lead to problems later?
8. Is the company so successful or so dominant that it's no longer in touch with what it needs to do to remain on top?
9. Do the unplanned departures of senior executives signify deeper problems?

THE DISTRACTED CEO

10. Do I have unanswered questions about the CEO's background and talent?
11. Is the CEO spending too much money to fulfill personal missions that don't necessarily benefit the company?
12. Are company leaders so consumed by money and greed that they're taking questionable or inappropriate actions?

EXCESSIVE HYPE

13. Is it possible that the excitement around the company's new product is just hype?
14. Could the excitement around the company's merger or acquisition be hype?

15. Is the excitement around the company's prospects just unfulfilled hype?
16. Is the latest missed milestone part of a pattern that could signify deeper problems?

A QUESTION OF CHARACTER

17. Are the CEO and other senior executives so aggressive or overconfident that I really don't trust them?

<u>Chapter Eleven: How Smart Executives Learn</u>

- General Motors, Motorola, Saatchi and Saatchi, Samsung, Johnson and Johnson – in each case and in virtually all the others studied, thee was an opportunity to learn, and derail the freight train bearing down on the company. Some mistakes should not happen, not only because of their momentous import, but also because there are so often critical inflection points when intervention can make a difference.
- Organizations and executives inevitably have opportunities to take action to avoid disaster; the companies that fail are those where the strategic, cultural, organizational, and leadership breakdowns exacerbate the inherent weaknesses at critical times.
- Two critical lessons emerge from this section:
    - First, because every company has a history, it is virtually impossible to pinpoint every single potential vulnerability. Rather, companies depend on a culture that thrives on asking questions, staying alert, and being open-minded. The ability to constantly recalibrate in real time is a capability executives must nurture.
    - Second, when they see conditions changing, executives need to pay special attention to all four underlying forces for failure. It is at precisely these times when an assessment of potential executive mind-set failures, delusional attitudes, information breakdowns, and leadership pathologies is absolutely needed.
- Throughout this research the authors were on the alert to identify attributes of companies that are most likely to recognize what is happening and have the guts to respond, and the one thing that stands out is open-mindedness. Creating an open culture in which mistakes come to light, and learning from them comes easily, requires a certain type of leader, a leader who believes in the importance of a culture of openness and who lives by the tenets that implies.

- Openness means fighting the natural tendency to cover up unfavorable or distasteful information. It requires leaders to set the standard for learning form mistakes, an unnatural act in many organizations.
- A culture of openness is a culture where people feel safe to say what they really think and to act on it. You have to encourage information flow rather than force it.
- Executives not only must be prepared to admit when they are wrong, they also need to create opportunities for others to safely provide feedback.

Reviewer's recommendation: This book felt like a must-read to me as it is the flip side of Good to Great. The information and examples given were very relevant to the times.

Wise leaders recognize that they and their organizations need periodic refocusing to be the best they can be. Frumi helps such leaders rediscover the strengths and values that energize them so they in turn can renew their colleagues, employees, and business operations.

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