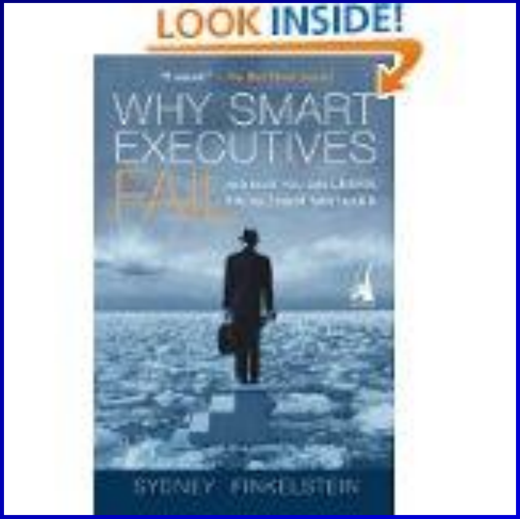
“Why Smart Executives Fail

And What You Can Learn From Their Mistakes”



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Sit back and THINK!

Major Misconceptions

1. Executives were stupid
2. Executives couldn’t have known what was coming
3. Failure to execute
4. Executives weren’t trying hard enough
5. Executives lacked leadership ability
6. Company lacked necessary resources
7. Executives were simply a bunch of crooks

Great Corporate Mistakes

New Business Ventures

- General Magic - PDAs
  - Developed a “Dream Team” of executives and gained many licenses with partners to bring in major cash flow, but before the software was even developed.
    - Internet, competitors, and debt doomed this company
- Iridium (Motorola) – Satellite Cell Phones
  - A constellation of 64 low-Earth orbiting satellites, allowing for subscribers to make phone calls from any global location.
    - Even though they knew the difficulties they made the same mistakes anyway – too big, costs too much, and can’t use everywhere---like inside buildings!

- Samsung Motors (Korea)
  - Created automobiles because head of company was a car enthusiast. He felt that since Samsung was atop other industries in previous decades, it would be top of this industry also.
    - Builder to Imperialist
- Webvan
  - Developed a internet grocery system that filled orders by machines and delivered products to customers with a 30 minute window delivery time (i.e. between 8pm and 8:30pm)
    - Didn't realize low-margin of supermarket business and chose a strategy that was very complex versus the simple business model.

Innovation and Change

- Johnson & Johnson in Stent Business
  - Bought patents for Palmaz-Schatz stents and then bought out Cordis, an angioplasty balloon maker. Had a virtual monopoly on a product customers desperately wanted.
- Rubbermaid
  - Created many products with great speed, giving itself a monopoly on many products. Did this with little market testing and quick innovations.
- Motorola Cell Phones
  - Created first major analog cell phones and owned 60 percent of the market in 1994.

Why These Companies Failed

- None of these companies ***listened to the customer***. All of them had major market share and dominated their competitors. They felt this was good enough and did not have to make any changes in their product while the competition did. (Icarus?)
  – Johnson & Johnson
    - Continued production of same stent, even when cardiologists were saying that these stents were not good enough.

  – Rubbermaid
    - Continued producing low-quality products at high price even when economy shifted into “more-for-less” mindsets.

  – Motorola
    - Continued producing analog cell phones even when customers were telling them they needed to switch to digital

Mergers and Acquisitions

- Quaker Acquires Snapple
  - Snapple had poor sales with Coke and Pepsi entering the tea market, so Quaker bought them.
    - Problem
      - Quaker also owned Gatorade, and therefore thought they could sell the Snapple just like Gatorade
- Sony Acquires Columbia Pictures
  - Sony's Betamax video recorder was booming and so Sony bought Columbia to produce movies that would work with the Betamax.
    - Problems
      - When the CEO of Columbia did not transfer with the merger, Sony did a poor job of hiring. Did not do their research on Peters and Guber. Peters-Guber spent way too much of Sony's money.

- Saatchi & Saatchi
  - Was one of the leading ad agencies
  - Began buying companies – acquired 37
  - Then continued buying to become number one in everything (bought consulting firms and banks).
    - Problems
      - Went on acquiring companies without proper techniques, just so they could have more growth
      - Debt caught up with them
      - Ended up only caring about how many acquisitions it could get
      - Builder becomes Imperialist

Bad Strategies

- Wang Labs
  - Wang ran his company as a dictator, controlling all facets of the business. This characteristic of the business that made it great also was the thing that made it fall. (Icarus)
- Snow Brand Milk
  - Snow Brand Milk had an outbreak of staphylococcus linked to its milk and never learned from its first mistake.
    - Snow Brand then let its quality fall so that it could produce over capacity and once again had an outbreak of sickness linked to spoiled milk.
    - Snow Brand also sold beef, and tried to disguise its Australian beef as Japanese beef because of Mad Cow disease and pocketed the difference.

- Boston Red Sox and Integration
  - It took the Red Sox twelve years before they put an African American into the game once there was integration. (It was only as a pinch runner .)
  - While the Red Sox were a team in decline they did nothing to fix it. Other teams were becoming better because of integration, but the Red Sox still went along in their ways.

The Causes of Failure

Brilliantly Fulfilling the Wrong Vision

- Strategic Misintent
  - The Magic Answer
    - When an executive thinks he can find the secret to success in one principle or model. "It encourages one big bet that is often the wrong one." Usually a valid principle or model, but too incomplete. "If you bet the company, you bet too much."
  - The Holy Grail
    - A strategy that remains forever unattainable.
    - i.e. First mover advantage – Internet boom
  - The Wrong Scoreboard
    - An inappropriate measure of success.
    - i.e. Market Share – McDonald's example (Boeing)

- <u>Negative Transfer: Good Intellect, Bad Place</u>
  - Yesterday's Answer
    - Where a business is concerned with a picture of reality that once worked, but is no longer valid.
      - Boston Red Sox not integrating sooner.
  - A Different Game
    - Companies perceptions become obsolete not because times have changed, but because it has moved into a new area where its version of reality is no longer valid.
      - Toro expanding into snow blowers. Grass always grows, but it doesn't always snow.
  - A False Self-Image
    - Being wrong about what you are good at.
      - L.A. Gear thinking it was a shoe manufacturer, when really it was a girl's fashion manufacturer.
  - The Film Producer Error
    - Failing to take sufficient account of the specific and often unique attributes that made a particular venture successful.
      - United Airlines trying to copy Southwest's low fares, but what made Southwest successful was its employees

- One-Track Mind(-set)
  - It’s A Small World
    - When people in a company base their assessments of reality on experiences they’ve had that are simply not representative of the larger world.
      - Iridiuim: could solve world’s cell phone problems!
  - Home Field Rules
    - When executives assume that their counterparts elsewhere will play by the same rules that they play by at home.
      - Sony-Columbia: Sony’s Japanese bosses assumed American businesspeople would be operating with the same ethical codes as the Japanese.
  - Expansion Fever
    - It’s what a company is suffering from when it pursues rapid expansion at the expense of profitability and without controlling liabilities.
      - Saatchi & Saatchi

Delusions of a Dream Company

- Zombie Businesses
  - Businesses that are stuck in their ways:
    - “Watch us and see how it’s done.”
    - “We’re better than you are. Period.”
    - “Trust us – we know what we’re doing.”
    - “We don’t need customers telling us how to run our business.”
    - “We have a positive attitude here.”
    - “No negative feedback, please.”
    - “Telling everyone will just make things worse.”
    - “Never settle for less than perfect.”
    - “Whatever happens, it’s not my fault.”
    - “Too much team spirit.”
    - “I speak for the entire company.”

Tracking Down The Lost Signals

- The delusional policies and attitudes that make for a zombie business will help support the mistaken picture of reality, encouraging employees to *ignore* any vital information that would threaten it.

Learning From Mistakes

Predicting the Future

- Early Warning Signs of Failure
  - Unnecessary Complexity
    - Tends to create a bigger problem than it solves
  - Speeding Out of Control
    - Make costly mistakes because executives are overwhelmed
  - The Distracted CEO
    - Leadership from the top, distracted CEO can have severe consequences
  - Excessive Hype
    - Can hide problems or mask intentions that if known would lead people to make different decisions

How Smart Executives Learn

- Smart Executives Step Up to Learning and Open-Mindedness
  - **Learning From People**
    - Employees (suggestion boxes)
    - Customers
  - **Get to “Worst Practices,” Not Just Best Practices**
    - Look at what didn’t work, “worst practices”
  - **Spread the News**