Managing for Success

Spotting Danger Signals – And Fixing Problems Before They Happen

Morgen Witzel

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Chapter 1

Ludicrous, but unavoidable

At a conference a few years ago, I listened to a colleague's paper on the distinctions between successful and unsuccessful companies. She quoted Tolstoy's famous line from *Anna Karenina*: 'Happy families are all alike; every unhappy family is unhappy in its own way.' 'We can say the same thing about companies', my colleague concluded. 'Every happy company is alike, but each unhappy or unsuccessful company is unhappy in its own way.'

The more I thought about this idea, the less I agreed with it. Surely the success of companies is founded on their being able to do something unique and different from what other companies are doing? That is what the writers on strategy tell us when they talk about competitive advantage, and my own experience both as a business historian and a businessman seemed to bear this out. As for unsuccessful companies, is it possible that there are common factors that lead to failure? Don't failing companies follow certain patterns, certain paths? Again, experience seemed to suggest that this was so.

With this in mind, I turned to Norman Dixon's classic work *On the Psychology of Military Incompetence*. I found that Dixon had already reached the same conclusion. On military failures and disasters, he writes:

> *These moving, often horrific accounts evoked a curious déjà vu experience. For there was something about these apparently senseless goings-on which sent one's thoughts along new channels, making contact with phenomena quite other, hitherto unrelated contexts; and then back again to the senseless facts, now not quite so senseless, until gradually a theme, continuous as a hairline crack, could be discerned through the stirring tales of derring-do.*[1]

Dixon arrived at two main conclusions. First, by far the greater proportion of failures are the result of human agency. Disasters come about as a result of errors and blunders by those in charge, not because of environmental forces or so-called 'acts of God'. Dixon also argued that

those who make mistakes are not necessarily stupid. He rejected the notion that the people in charge of disasters were fools; a little serious research shows that many of them were in fact highly intelligent. Incompetence is often highly situational. People who show great ability in one field may fall to pieces when thrust into another field and asked to make decisions. Dixon gives us examples of army officers who were both competent and courageous when commanding small units, but who turned into dithering incompetent wrecks when promoted to higher command.

Dixon's second point was that the reasons for incompetent behaviour are very often rooted in the organizations around us, not in ourselves. The culture of an organization – its norms, its values, its expectations in terms of attitudes and behaviour – often compel people to behave in ways that they *know* are wrong; yet they go ahead and make mistakes anyway. Peer pressure, the herd instinct and bullying combine personal insecurity and lack of confidence to create a toxic mix that can force even highly intelligent people into making the wrong decisions. So powerful are these forces that surround us in most organizations that Dixon wondered whether people who achieve great things do so *because* of the organizations to which they belong, of *in spite* of them.

The more I reflected on these conclusions, the more I came to believe that Dixon was right. I examined many cases of business failure, businesses that had made big, game-changing, life-threatening mistakes and sometimes collapsed completely: Lehman Brothers, Royal Ahold, Swissair, Parmalat, Global Crossing, Marconi, BP, Time Warner, Royal Bank of Scotland, IBM, General Motors, Satyam, Motorola, Ratner's, Enron, Nortel and many others, and then further back in time too, British Leyland, ITT, Ford Motors, Harland & Wolff and even further back to the South Sea Company, the Medici Bank, the Society of the Bardi, even back into the ancient world to the tomb workers of Deir al-Medina in Egypt. I looked for common patterns and common threads of failure, and I found them. In every case there was a clear pattern of errors and blunders and poor judgement. Managerial incompetence ran through the whole saga, not so much like Dixon's hairline fault, but more like a great yawning chasm, into which value, jobs, hopes, dreams and lives had been sucked – and are still being sucked.

In these cases and many others, there are of course examples of poor decision-making by individuals, but it is rare to find cases where a single decision caused the disaster. Often it is not one big seismic event that leads to crisis, but rather a steady trickle of smaller ones, an accumulation of failures that builds up until the crisis point is reached. When things go wrong, it is fashionable to blame individuals: Richard Fuld has been held responsible for the crash of Lehman Brothers, Tony Hayward lost his job as chief executive of BP in the aftermath of the *Deepwater Horizon* disaster, Cees van der Hoeven was blamed for the crash of Royal Ahold: but were they and others like them solely responsible? In any properly functioning company, these men would have been surrounded by others who would have questioned the wisdom of their approach, urged a different strategy, insisted on more stringent health and safety procedures or the better auditing of accounts and so on. Junior executives would have realized that something was wrong and spoken up, or acted on their own initiative to prevent disaster.

Any of a number of things could have been done in these cases, but were not done. Why? Because as Dixon says, organizations build up *cultures of incompetence*, where it becomes customary and accepted to do the wrong thing, be it producing defective goods, operating dangerous workplaces, taking bad strategic decisions, turning a blind eye to financial irregularities, treating customers and workers with contempt or any of the other many things that companies do to get themselves into trouble. Henry Ford once remarked – with prescience, given what was to come for his own company – that he had never known a business problem that came from the market; problems arose thanks to internal defects within the company, things the company itself was doing wrong.

Whenever a big corporate crisis makes the news, the immediate reaction of the press is to hunt for a scapegoat? Who was to blame? They want to know, and usually also, when will that person resign? But the resignation of an incompetent leader rarely solves the problem on its own. Behind that leader lies a culture of incompetence that has to be broken down. It is those cultures of incompetence that I want to look at in this book. Where do they come from, how do they develop, and most of all, how can we prevent them from developing? If we are really

are going to manage for success, as the title of this book suggests, then we need to learn how to eradicate cultures where failure is accepted.

Incompetence and failure

Before turning to where these cultures of incompetence come from, it is important that we define our terms. 'Incompetence' and 'failure' are big words, and potentially dangerous ones.

'Incompetence', in the context of this discussion, means a sustained failure to discharge one's duties. Anyone can make a mistake; the quality of a person can often be judged by how quickly and well they recover from that mistake. A single error is quite different from a sustained series of blunders, each compounding the last. A culture of incompetence is one where mistakes are frequent and, once made, are then left alone, swept under the carpet or not noticed at all.

A culture of incompetence does not always affect the entire company or its operations. There are some companies which are brilliant at operations but stumble when it comes to making strategy (with the result, as we shall see later, that they execute the wrong strategy exceptionally well), or which are superb at innovation but struggle to build relationships with customers. The truth is that in order to be effective, companies have to be good at *everything*. Finance, operations, marketing, supply chain management, innovation, human resources management, communications, leadership and so on are no a menu from which companies can pick and choose the things they like best and then set the rest to one side. It all has to be done, and done well.

'Failure', as implied above, means systemic failure, the breakdown of a company at some point. It implies at the very least a major loss of value and reputation, and can include physical damage to assets, physical damage or death to customers, criminal charges and so on, and even total collapse and liquidation. It is impossible to avoid failure entirely, and indeed without failure there could be no innovation: an ability to engage in trial and error is very important for both personal and

corporate development. But there are failures whose consequences are controllable and non-damaging, from which it is possible to learn, and there are failures which do massive damage, from which it is hard or even impossible to come back.[2]

Incompetence and failure have costs: financial, organizational and human. When a business fails, or when it suffers a serious setback, its entire mission is compromised. It can no longer serve its customers; it can no longer perform the social function for which it was created. That means lost opportunities and chances for the firm, its employees and its customers – at the least – and sometimes more broadly for societies too. Economists talk about 'opportunity cost', that is, if we choose one of several options, we should consider the cost to us of *not* picking one of the other options. What opportunities for benefit or profit have we forgone, and are they greater or less than the benefits or profits we expect from the option we have chosen?

I would like to propose an extension of this concept: *wasted opportunity cost*. When a company takes a significant hit, financially or otherwise, as a result of managerial incompetence, what opportunities are then lost forever? What are the costs of those lost opportunities, for the firm itself, for its employees, its customers and the governments and taxpayers that all too often have to step in and pick up the pieces?

When I set out to research this book, I was made aware at once of how difficult a subject this would be to tackle. Some colleagues recoiled in horror when I told them of my plan, and several tried dissuade me from writing it. 'We don't need to give people examples of failures', one declared. 'We need to give them examples of success, so that they can follow these and learn from them. Teaching people about failure is just horrible.'

Apart from this, I also found a kind of weary acceptance of failure as the status quo. Dixon commented that, 'by now most people have become accustomed to, one might almost say blasé about … incompetence. Like the common cold, flat feet or the British climate, it is accepted as a part of life – faintly ludicrous, but quite unavoidable', and that still seems to be true today.[3] There have been plenty of books written about management incompetence and management failure, and I will refer to these as we go on through the book, but

I have found no sense that business culture has changed its attitude to failure. People shake their heads over Enron and Lehman Brothers and the others, and click their tongues, and wonder how this could possibly have happened, and who was to blame, but there is no sense that the business world in general is in any way learning from failure.

This is a pity, because there is a great deal to be learned from failure. First, if we understand why things go wrong, then there is a chance that we can take preventive action so that they do not go wrong again. And, because many failures stem from very similar causes, paradoxically it is easier to learn from the failures of others than from their successes. We can watch other companies fall into the tiger trap, and thus we learn what a tiger trap looks like and how to avoid it.

Failure may indeed be 'horrible', a nasty yucky subject that makes us squirm and we would prefer to avoid. But we can still learn things by studying it. Roses bloom best when fed with well-rotted manure, and we can create something positive out of the refuse that failed managers and companies leave behind them, so long as we have the stomach for it and are able to confront the truth. But, most companies do not. Most companies hide their failures away and – with a few honourable exception – only admit to failings when they are exposed by whistle-blowers or an outside agency. Most companies try to pretend that failures never happened. Very few – and I speak here from experience again, as a sometime historian of companies – are prepared to openly discuss their failures and learn lessons from them. There are various reasons for this, including legal reasons: in this litigious age, few companies are prepared to admit to anything that could get them involved in a lawsuit (which means that, to be on the safe side, they never admit to anything at all. John D. Rockefeller of Standard Oil and his executives routinely refused to answer even such basic questions as 'what is the business of your company?' and 'where is its head office located?').

When failure occurs, especially if it looks like there is a reasonable chance that the failure will not be made public, the first reaction in many companies is to hide the evidence. I have seen this happen myself, and I am willing to bet that many readers have seen it as well. I once

argued to a group of senior executives that the best way to make a lot of money and then have time to enjoy it was not to rise all the way to the top, but to rise as quickly as possible to a position of considerable responsibility and then screw up massively, in a way that would embarrass the company if the news came to light though stopping just short of criminal behaviour. The resulting pay-off would set most people up for a life of leisure. The only response I received was the rather weak comment that 'companies are tightening up on that sort of thing nowadays'. Really? I have yet to see the evidence.

Incompetent behaviour is covered up, incompetent managers are paid off, redeployed or promoted sideways – or even upwards – and the failure is forgotten. As a result, these companies have no idea of what the wasted opportunity costs might be. They will never realize what they could have achieved had the incompetent behaviour been prevented in the first place.

Other writers before myself have delved into the field of business failure, and there are some excellent works on the subject: Sydney Finkelstein's *Why Smart Executives Fail*, Jagdish Sheth's *The Self-Destructive Habits of Good Companies*, Stewart Hamilton and Alicia Micklethawyt's *Greed and Corporate Failure* and Donald Sull's *Why Good Companies Go Bad* are particularly outstanding examples. The works of psychologists such as Manfred Kets de Vries and Adrian Furnham have produced some valuable data on anti-social and deviant behaviour by managers. As noted above, though, very often these books – their authors no doubt urged by publishers who are equally convinced that failure is something nasty lurking in the woodshed – focus on the positive side, on how to recover from failure caused by incompetent managers.

Jeffrey Sonnenfeld and Andrew Ward's *Firing Back*, for example, has some excellent case studies of people losing their jobs for a variety of reasons, including personal managerial failures, but most of the book is devoted to showing how these individuals rebounded and rebuilt their lives. Memoirs by business leaders typically ignore failure altogether or concentrate on justifying their own behaviour. Rare and refreshing are memoirs such as those of former jewellery magnate Gerald Ratner, who acknowledge their own failings.

each option, therefore we have no way of knowing which is best. The 'reckless' manager will choose an option regardless of the risks, just for the sake of doing something. The 'indecisive' manager will hang back, debating, considering, tossing coins and then tossing them again, poised quivering on the brink of taking a decision but never quite taking it – until it is too late.

Fear plays a large part in many organizations, and sometimes this fear is deliberately induced. The culture of bullying described by the French courtier Eustache de Refuge in the seventeenth century had its exact counterpart at Enron in the late twentieth.[5] Dominant, powerful, macho figures bully their weaker colleagues into submission, so that the latter find that the best way to survive was to keep their mouths shut. Engineers at Morton Thiokol, which provided components for the space shuttle, were reportedly urged by their superiors to keep their mouths shut about what they knew of problems with the *Challenger*; which later blew up, killing all its crew. Even without bullying, there will be cases of managers who cannot make a decision because they are too frightened of the consequences. In such cases they will do all they can to pass the decision to a colleague or up the line to a superior – or just ignore it altogether and hope it goes away.

'Reaction to provocation' also manifests itself in a several ways. First, managers tend to be reactive rather than proactive. This was first noticed by Henry Mintzberg in his book *The Nature of Managerial Work*, where he challenged the conventional view of managers as rational thinkers who made plans and then proceeded to implement them in a deliberate way. In fact, said Mintzberg, managers spend most of their time firefighting, reacting to whatever events their colleagues and the environment and *fortuna* throw at them. Anyone who still believes that people in business always act rationally should read Satyajit Das's *Traders, Guns and Money*, a hilarious and horrifying description of the chaos, bitchery and backbiting that go on in the world of derivatives trading.[6]

Second, and probably as a result of this, managers tend to focus on the short term and leave the long term to take care of itself. This is in spite of ample evidence that a purely short-term approach is more risky and

adds to the pressures on managers. Third, managers tend to follow what other managers are doing, sticking together with their colleagues. This of course can be a good thing, in that everyone pulls together and works for the good of the team, just as ants work together for the benefit of the anthill. But it can also lead to the herd instinct, groupthink and passive going along with the majority; again, just as ants will march blindly into an ant trap without noticing that the ants in front of them are all dying.

Why ants act in this way is not known, but one of the main reasons why managers indulge in formication (ant-like behaviour; we will discuss the other in Chapter 8) is related to personal self-image and self-respect. Like all human beings, managers desire the respect and esteem of others. For most of us, the image we have of ourselves is closely bound up with how others perceive us. If other people think of us as being weak, we begin to think of ourselves as weak. If others see us a stand-offish or egotistical, we tend to modify our behaviour so as to move closer to the herd. Fear is not the only factor that leads to groupthink. I have seen, many times, how people will scramble to align their opinions with the alpha male in the room (and it nearly always is a male) with a view to identifying themselves with the dominant power group. Often this behaviour is quite unconscious. In others, the pressure to align oneself with the alpha male are overt. People who insist on having their own view and standing apart are labelled as sociopaths. 'His face doesn't really fit in here', we are told, or else 'she doesn't believe in the things we believe in.' And so, in the name of teamwork and unity, dissenters are slid out until there is only one voice left, the voice of the alpha male.

The tendency for managers to get bogged down in details and fail to see the bigger picture will also be a familiar one. Mintzberg again alluded to this in *The Nature of Managerial Work*, and there is a view that the ends of organizations are best served by 'muddling through', taking a lot of small steps rather than a few big ones.[7] There is a lot to be said for this, but managers do still need to know where they are going and maintain a sense of forward motion. Instead, there can be drift towards 'analysis paralysis', the view that no action can be taken at all until every relevant piece of data has been analysed.

Again, analysing data in and of itself is a good thing. The problem is that managers use data much as drunks use lamp posts. Some use it for illumination, while others use it for support to keep them from falling over. (There is a third use, which I am sure you can work out for yourselves.) Managers need to get used to the fact that, most of the time, they will have to take decisions based on incomplete data. Intuition and experience must also come into play. And yes, there will be an element of risk.

Organizations and markets are open systems, so we cannot control all the variables. But instead there is a culture within management that insists on what my colleague Pablo Triana refers to as the 'unhealthy yearning for precision'. If we *can* identify every last variable, the belief goes, then we can write an equation which will account for every factor and yield a perfect solution. But, paradoxically, often these attempts actually *increase* the level of risk rather than decreasing it.

Another paradox: managers do need to analyse data and they do need to keep their eyes on the ground under their feet, looking out for signs of tiger traps. At the same time they also need to keep their eyes on the far horizon and keep thinking about the long term, trying to anticipate what may be happening down the road, just as Andrew Grove urges them to do. They need to be masters of the small brushstroke and the broad canvas, the fine detail and the big picture, simultaneously. There is only one problem. Our system of education and training has begun to discourage them from doing this. Management education itself has become increasingly fragmented and siloed, the focus moving away from general management towards ever-narrowing specialism.

One of the most dangerous consequences of this has been the growing separation of leadership from management. According to theory, and increasingly in practice, all things that leaders do – like long-term thinking, vision, innovation, determining strategy, motivating people to do, succeed and excel – are no longer the task of the manager. The manager's task is to attend to detail, to observe and monitor and report, create budgets, hire and fire people; in other words, to be a kind of self-aware robot.

The consequences of this approach are truly alarming. Managers who take this view become even more risk-averse than they already were. They feel reluctant to accept responsibility; indeed, there may be pressures for them *not* to accept responsibility. Buck-passing and 'above my pay grade' become standard responses. And again, this reluctance to accept risk – when we know that accepting risk is one of the things managers are there to do – results once again in the paradox of increased risk. On the other side of the coin, the failure of leaders to get involved in management carries its own serious risks. Ram Charan and Geoffrey Colvin, writing in 1999, estimate that 70 per cent of business failures were failures not of strategy or vision, but of execution.[8] Good ideas were executed badly. Why? Charan and Colvin offer several possibilities, but for me the answer is clear: the CEOs and chairmen who articulated these fine strategies failed to follow up on execution.

Prevention rather than cure

Everything said above about leaders, of course, can be equally applied to organizations as a whole. Again, I come back to the issue of culture. Leaders influence cultures, of course, and we shall see that as a running theme through this book, but on the other side of the coin, cultures also influence leaders. Toxic cultures constrain and subvert leaders, restricting their actions and altering their mindsets. Take for example the conservatism that sometimes sets in as fast-growing organizations begin to mature. They become more risk-averse, less flexible and less innovative, looking to their past successes rather than future opportunities. That conservatism is not just the leader's doing; it is part of the culture of the whole organization, and everyone feels it. This is not to absolve leaders from responsibility, by the way; they *can* change the culture, if they have the will and strength to do so, but the problem does not lie solely with them.

Often, too, the culture is broader than the organization. It can affect entire industries, even the entire business world. That, I have found, is the case with the failure to learn from failure. When failure is discussed at all, it is treated as something that happens, inevitable, and as Dixon says, unavoidable. The main thing, we are told, is to learn from failure.

Everyone seems to love this phrase; over the last twelve months I have heard countless politicians, civil servants, doctors, senior police officers and bishops, as well as business executives, assure us that 'they will learn from this failure and move on'. (How many actually do learn, I wonder?)

Books about managerial incompetence and management failure also usually try to solve problem by looking at how to recover the failure. Take for example Donald Sull's *Why Good Companies Go Bad, and How Great Managers Remake Them*. It is a very good book, and I recommend it. But there is a problem. It is not always possible to 'remake' companies once incompetent managers have done their work. No one could remake Lehman Brothers; no one could rescue Royal Ahold, or Marconi, or Ratner's. Those companies went down, taking shareholders' money and employees' jobs with them, down into the chasm. Thus, while it is undoubtedly useful to study ways of recovering from near-death experiences, it is also important to try to stop these events from happening in the first place.

My aim in this book is prevention, not cure. I hope to show how incompetence can be weeded out and the conditions that lead to incompetence can be avoided in the first place. Doing so may have its costs, but they are bound to be less than the costs of 'remaking' a failed company, assuming it can be remade at all.

The first step is to accept that failure is not, despite widespread belief to the contrary, inevitable. Just because systemic failure is an accepted part of business life now does not means it has to be. Businesses don't have to crash. Failure can be avoided, but first of all we have to believe that this is true.

Back in the 1970s, it was accepted that manufacturing processes would have defects. A certain portion of every batch would have to be sent back to the factory for re-work. Cars built on a Friday would never run properly. It wasn't a good situation, customers grumbled, but what could be done about it? Defects were a part of life.

Then came the Japanese, with zero defects and six sigma. The story is still told of an American company which ordered a shipment of a thousand components, and specified that the acceptable level of defects was

ten per thousand. The shipment from Japan duly arrived, and someone noticed that in addition to the thousand components there was also a small box with a further ten. A phone call was put through to Japan: what was the meaning of this? 'Oh', came the reply, 'those are the ten defects you asked for.'

Today, zero defects and six sigma are commonplace in manufacturing. It is no longer acceptable to deliver shoddy goods to customers or clients. Failure in processes is no longer tolerated. Manufacturing processes have changed, of course, to become more efficient and effective, but what has really changed is the culture of business. Everyone, from the leader to the shop floor employees, is expected to play a part in ensuring that the zero defects philosophy is carried into action.

Similarly, until a few years ago (and in some parts of the world, still today), workplace accidents were considered as normal in industries such as construction and steel. Every year, some workers would be injured, some might even be killed. It was too bad, of course, very sad for them and their families, but nothing could be done about it. Then along came the concept of zero harm, the notion that workplace accidents were not acceptable and it was the duty of everyone in the company to ensure that accidents of all kinds were eliminated. Again, this was partly a matter of tightening up procedures, but colleagues in health and safety tell me that the real change is one of mindset and approach. Everyone, once again from the leader down to the shop floor employee, thinks about how to eliminate accidents, and thinking about eliminating accidents is the first step to actually doing so.

Part of the rationale behind both zero defects and zero harm, apart from keeping customers happy and employees alive, is cost. Producing faulty goods is expensive in terms of lost revenue, compensation paid to customers and reputational damage, and investments in quality nearly always pay back severalfold, leading quality guru Philip Crosby to coin the phrase, 'quality is free'. Similarly, industrial accidents generate huge costs in terms of work stoppages, compensation and, again, reputation. It is far, far cheaper to keep workers safe than it is to deal with the consequences of accidents.

I argue that the same is true of management as a whole. There are necessary investments, in training, education, organization structure and

culture change if we are to reach a point where systemic failure is considered unacceptable, but when we consider the billions of dollars, pounds, euros, yen, rupees and yuan that have been wiped out in the past twenty years alone, we can count any investment along these lines as money well spent. If we can even get to the point where management cultures don't do actual *harm* to organizations, that would be a start; any further value added would count as a bonus.

We've done it with zero-defects manufacturing, we've done it with zero-harm health and safety; why can't we do it more broadly?

What about this for a concept? Zero-damage management?

Managing for success

In order to get to that point, though, we first need to look at where management incompetence comes from and why failures occur, and that is largely what this book is about. In the pages that follow, I present seven factors that lead to incompetence and failure; they are, if you like, the seven deadly sins of management, similar to but not identical to the list drawn up by Catholic theologians. They are as follows:

- Arrogance
- Ignorance
- Fear
- Greed
- Lust
- Linear thinking
- Lack of purpose

Although the book discusses the implications for individual managers and executives, the main focus is on corporate cultures, where these things can take root. For example, there are arrogant managers and leaders, but provided the rest of the organization identifies them and takes steps to deal with them, there is a limit to the amount of damage they can do. Far more dangerous are cultures of arrogance, where companies believe blindly in their own brilliance. These *cultures of mindless superiority* lead companies into several traps, chief among which are

overconfidence, complacency and a belief that they are invincible. There is also what I refer to as the arrogance of good intentions, which happens when companies believe in their mission so fanatically that they are prepared to let the end justify the means.

Ignorance, or literally 'not knowing', starts off as a personal issue, but when a large number of ignorant people are gathered to gather, they create in effect an ignorant organization. I want to be clear that I am not using the word 'ignorant' in a pejorative sense. There are many reasons why people and companies lack knowledge, including inexperience, lack of opportunities to learn and lack of imagination. The inability to learn from the past is a particularly dangerous form of ignorance, highly prevalent among executives who believe that 'the only constant is change'. Ignorance leads to *cultures of unthinking action*, where companies do things without knowing why, and without understanding what the consequences will be. Like a blind person on the edge of a precipice, they are not aware of danger until it is too late.

Fearful companies are aware of danger but don't know how to manage it. Fear of uncertainty, fear of the unknown, fear of people and things outside their own experience or that are different to themselves all create a kind of straitjacket that inhibits action and thinking. Fearful companies don't know how to manage risk; they seek options which they think will reduce risk, but which sometimes have the opposite effect and increase risk to unacceptable levels. Fearful companies are desperately seeking certainty, not knowing or refusing to know that uncertainty in business is impossible. These are cultures of *anxious precision*, where no one will make a move unless they can pretend that they know what will happen next.

Greedy companies are those that privilege growth and competition over all else. Driven by numbers, they grow at rates that are unsustainable. Some go on buying sprees, acquiring more and more subsidiaries until their financial and operating systems collapse. Some become obsessed with scale, others with profits and still others with 'winning' and beating the competition. These *cultures of conspicuous acquisition* are so focused on growing and winning that they forget their true goals and purpose.

Lust can mean sexual lust, and more than one company has been damaged by the sexual behaviour of its executives, but in this book lust

also means the lust for control and power over others. In *cultures of selfish domination*, what matters most is that others should do our bidding; our self-esteem, personally and in a corporate sense, depends on the authority we can exert over others. The lust for power often asserts itself in the form of bureaucracy, where those at the top of the bureaucratic pyramid gather more and more power to themselves, simply for the sake of having power.

The presence of linear thinking on this list may come as something of a surprise, but excessive reliance on linear thinking is a dangerous trap into which entire teams and companies are only too likely to fall. In *cultures of linear logic* people believe that so long as they do the right things in the right order, success will surely follow. These cultures focus on the short term, because short-term results are easier to control. They are wedded to targets, rather than purpose or mission. They cannot make a move without spreadsheets or PowerPoint, those two indispensable tools of linear thinking in the modern day. Their thinking is blinkered, narrow, constrained and, again, dangerous.

Lack of purpose manifests itself in *cultures of emptiness*, in which the organization forgets its purpose. No one cares any more. Executives go through the motions. Leadership is weak, or absent. Teams fall into patterns of groupthink and social loafing. No one is willing to take responsibility. Of all the sins of management, this is the most deadly, for it opens an easy door into a world of corruption and ethical collapse.

In the chapters to come, we will take a look at two classic examples of management failure and see how these 'sins' impact on companies in practice. We will then look at each of them in turn and, at the end of each chapter, discuss what the cures might be. The cures are often simple in nature, though implementing them will not always be easy. Each chapter also has a series of red flags,

the symptoms of potential failure which need to be watched out for. Most organizations will have one or two of these, but it is when large clusters of red

flags start to appear that managers need to sit up and take notice, and start thinking about the cure. I append a list of all fifty red flags at the end of the book.

Business academia has a role to play in the cure too, and in Chapter 11 I look at changes that are badly needed in that world too. Finally, in Chapter 12 I offer a summary of the key lessons and some steps to be taken if we are to move towards a philosophy of prevention of failure, rather then relying solely on cure.

A personal note

So that there should be no confusion, I would like to make my own purpose clear. I have run my own business for twenty years, and have been involved in studying and researching business around the world for nearly as long. For the last dozen years I have taught MBA students at a business school in the United Kingdom. I am emphatically *not* a management basher. The good men and women who work hard every day to create value, serve customers and help even if only in a small way to make the world a better place have my great respect. My critique is aimed at the few, the dangerous few, the incompetent people who undermine the efforts of the others, and the rigid, dysfunctional and toxic organizations that force even the good managers down the road to failure. The damage that they do sickens me.

I believe absolutely in business as a force for good in the world. Forget Ivan Boesky's nonsense about 'greed is good' or Milton Friedman's utterly misguided view that the only duty of a business is to return value to its shareholders. When it comes to business and management, my household gods are philosophers, not economists, and I call on a tradition of thinking which goes back to Confucius, Plato, Ibn Khaldun, Ishida Baigan and St Thomas Aquinas which tells that business is an integral part of society. Businesses exist because society needs things; businesses flourish when they provide the things society needs; businesses fail when they stop providing what society wants. If I had my way, I would paint that mantra on the wall of every office of every manager in the world.

Look at any business today which has been successful over the long term, and you will find this concept right at the core of their thinking and their values. Remember that basic principle, and you cannot go too far wrong.

But incompetent managers lose sight of this principle. Incompetent managers, for a variety of reasons that we shall come to shortly, make decisions that are not in the best interests of their customers or of society, very often in the naive belief that these decisions *are* in the best interests of the organization, or themselves. This is a myth. As Peter Drucker famously said, 'there is only one valid purpose for a business – to create customers'.[9] No business will survive, at least for very long, if it neglects its customers. Yet managers persist in ignoring this fact. They set out on expansion programmes that they cannot afford. They cut costs in the wrong places. They invest in uninvestable projects. They gamble on new products without ever determining whether the market wants them. They create mergers between entirely unsuitable organizations which then fail. They abuse their positions of power in ways which are often unethical, sometimes even illegal. All of these and many other things are the symptoms of managerial incompetence.

And the result? You could say that managerial incompetence is less serious than the military incompetence. After all, the latter kills people. Business is not so serious a matter as war. But is that really true? Think, again, of the billions in value that has been destroyed by the actions of incompetent managers and companies. Think of the damage done to national economies. Think of the jobs lost, the homes repossessed, the educations cut short, the poverty and deprivation that have resulted. And yes – think of the dead, drowned on the *Titanic*, burned to death on the *Deepwater Horizon*, smothered by toxic gas at Bhopal, dying a slow death from mercury poisoning at Minamata. Managerial incompetence is not consequence-free. It kills companies. And sometimes, too, it kills people.

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1 Norman Dixon, *On the Psychology of Managerial Incompetence*, London: Jonathan Cape, 1976, p. 17.

2 A further note on terminology is also in order. I refer variously to managers, leaders and executives; I am in fact referring to the same people in each case because, as I make clear later in the book, managers also lead and leaders should also know how to manage. I also refer to companies, corporations, firms,

businesses and organizations. These terms too are used synonymously. This will offend purists, but I made this deliberate choice for two reasons: (1) to encompass as many types of organization large and small as possible, and (2) to avoid wearying repetition of the same term.

3 Dixon, *On the Psychology of Military Incompetence*, p. 17.

4 Sun Tzu, *The Art of War*, Oxford: Oxford University Press, 1976, Chapter 8, full reference to follow.

5 *Treatise on the Court*, reference to Enron.

6 Satyajit Das, *Traders, Guns and Money: Knowns and Unknowns in the Dazzling World of Derivatives Trading*, London: FT-Prentice Hall, 2006.

7 Charles Lindblom, 'The Science of Muddling Through', *Public Administration Review* 19 (1959), pp. 79–88.

8 Ram Charan and Geoffrey Colvin, 'Why CEOs Fail', *Fortune* 21 June 1999, http://archive.fortune.com/magazines/fortune/fortune_archive/1999/06/21/261696/index.htm

9 Peter Drucker, *The Practice of Management*, New York: Heinemann, 1954, p. 37.

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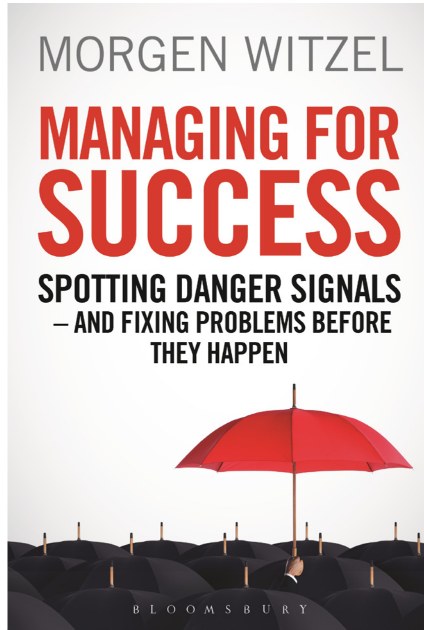

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