

WHEN SMART LEADERS FAIL, THEN THOSE THEY LEAD—LEAVE

Why have some very smart executives failed in recent years, bringing down whole companies, costing billions of dollars, and causing incredible losses to shareholders, customers and employees? What can be learned to avoid such huge failures?

Recent corporate scandals and bankruptcies reveal that some CEOs fail on such a scale that they bring the company down with them. Enron, Iridium, Webvan, WorldCom, and Tyco are examples. CEOs at GM, Motorola, Rite Aid, Mattel, Quaker, and Saatchi & Saatchi have led their companies to the brink of collapse at one time. These companies were led by executives with stellar track records of previous success.

CEOs are now lasting just 7.6 years in office on a global average, down from 9.5 years in 1995, according to consulting firm Booz Allen Hamilton. Two out of every five new CEOs fail in the first 18 months (*HBR*, January 2005).

“We live and work in a world where organizational failure is endemic—but where frank, comprehensive dissections of those failures are still woefully infrequent; where success is too easily celebrated and failures are too quickly forgotten; where short-term earnings and publicity concerns block us from confronting—much less, learning from—our stumbles and our blunders.” —Jena McGregor, *Fast Company Magazine*, February 2005

The same underlying explanations can be seen as the cause of failure for all businesses and their leaders—whether they occurred during the 80s, 90s, or more recently. While the corporate cultures of failed businesses vary widely, there are visible patterns of similarity across CEOs.

TRACKING UNDERLYING CAUSES OF FAILURE

Sidney Finkelstein, author of *Why Smart Executives Fail* (2003), researched several spectacular CEO failures and their causes over a six-year period. He found several patterns that explain what went wrong.

At some point, every successful organization is a victim of its own success stemming from a distorted view of reality. Many executives saw the signs—competitors or customers were asking for a change—and yet they chose to ignore them.

Why did they fail? What are the patterns and warning signs? How can we detect the warning signs in organizations before it is too late?

FOUR EXPLANATIONS

Finkelstein offers four explanations for CEO behaviors that lead to failure:

1. **Executive Mindset Failures** - Breakdowns in how executives perceive reality for their companies
2. **Delusions of a Dream Company** - How people within an organization face up to their reality
3. **Lost Signals** - How information and control systems in the organization are mismanaged
4. **Patterns of Unsuccessful Executive Habits** - How organizational leaders adopt unsuccessful behaviors

In the CEO failures he studied, Finkelstein emphasizes that it was not unforeseeable events that brought their companies down. In all cases, these CEOs of failed companies knew there was trouble coming, but they *chose not to act*.

SEVEN DEADLY HABITS

Finkelstein identifies seven patterns of faulty behaviors, each with a warning sign. He arranges these into seven habits which are:

Habit #1: They see themselves and their companies as dominating their environment. On the positive side, this attitude is seen as highly optimistic. Optimism is a primary trait of successful leaders and it contributes to the ability to inspire and communicate vision. Carried to extreme, it causes one to lose touch with reality.
Warning sign: A lack of respect.

Habit #2: They identify too closely with the company, losing the boundary between personal and corporate interests. On the positive side, this trait means that an executive works long, hard hours over and above what is expected. However, carried to extreme, a leader gains a sense of entitlement to compensate for his or her sacrifices. It paves the way for unethical decisions.

Warning sign: A question of character.

Habit #3: They think they have all the answers. High intelligence and an ability to solve problems quickly and decisively are essential for leadership. When one forgets to ask for input or adequate information before making and acting on a decision, decisions can be inappropriate.

Warning sign: A leader without followers.

Habit #4: They ruthlessly eliminate anyone who isn't completely behind them. While knowing who to promote and who to reassign or fire is an essential responsibility of any leader, decisions based on favoritism are irresponsible and risky. When the senior team is comprised of 'yes' people, there isn't enough dissention to evaluate risks appropriately.

Warning sign: Executive departures.

Habit #5: They are consummate spokespersons, obsessed with the company image. While getting press coverage is seen as good for share prices, when CEOs appear to be promoting themselves more than the company, beware.

Warning sign: Blatant attention-seeking.

Habit #6: They underestimate obstacles. Optimism is the underlying trait that works for motivating and inspiring, but carried to extreme, it can obliterate adequate risk evaluation and reality checks.

Warning sign: Excessive hype.

Habit #7: They stubbornly rely on what worked for them in the past. The problem is, nothing stays the same. It is human nature to go back to what worked before when things get tough. But applying yesterday's solutions to tomorrow's problems can't work. Knowing which problems to solve is a challenge for CEOs.

Warning sign: Constantly referring to what worked in the past.

11 COMMON CAUSES OF DERAILMENT

David L. Dolitch and Peter C. Cairo describe eleven derailers that lead to failure in their book *Why CEOs Fail* (2003). It is important to recognize these characteristics as being a part of one's character, that they can't be eliminated. They are part of the "dark side" of leadership characteristics—there is even some strength in each of these under normal conditions. Under stress, these characteristics lead to errors in judgment that can be fatal to a career and often to an organization. The key is to recognize their existence and to manage them before they become damaging.

1. **Arrogance:** You're right and everybody else is wrong.
2. **Melodrama:** You always grab the center of attention.
3. **Volatility:** Your mood swings drive business swings.
4. **Excessive Caution:** The next decision you make may be your first.
5. **Habitual Distrust:** You focus on the negatives.
6. **Aloofness:** You disengage and disconnect.
7. **Mischievousness:** Rules are made to be broken.
8. **Eccentricity:** It's fun to be different just for the sake of it.
9. **Passive Resistance:** Your silence is misinterpreted as agreement.
10. **Perfectionism:** Get the little things right even if the big things go wrong.
11. **Eagerness to Please:** Winning the popularity contest matters most.

Some derailers are both strengths and weaknesses. The average person has two or three derailers. Some CEOs are more vulnerable than others to derailment. The stress of being at the top, the intense pressures can activate the derailers. In addition, the higher you go in an organization, the less likely other people are to tell you about your failure-producing characteristics.

IDENTIFYING 7 BAD LEADERSHIP STYLES

In another study of executive failure, author Barbara Kellerman identifies seven types of dysfunctional leadership characteristics. In her book, *Bad Leadership* (2004), she says that identifying and studying the seven types teaches us what not to do or reinforce in leaders. Bad leadership is either inefficient or unethical. The seven types of bad leadership are:

1. **Incompetent:** the leader and some of his/her followers lack the will or skill to sustain effective action.
2. **Rigid:** The leader and his/her followers are stiff, unyielding, and unwilling to adapt to new ideas, new information or changing times.
3. **Intemperate:** the leader lacks self-control and is aided and abetted by followers who do not intervene.
4. **Callous:** the leader is uncaring or unkind; he/she ignores or discounts the needs of the rest of the organization, or of stakeholders.
5. **Corrupt:** these leaders lie, cheat, or steal their way to the top position putting self interest above all else.
6. **Insular:** they disregard or minimize the health and welfare of those outside the core group.
7. **Evil:** some leaders and their followers commit atrocities and/or tragedies.

While these seven types of bad leadership may seem obviously wrong, in most cases, dysfunctional characteristics exist in combination with strengths. Reality often masks a personality in shades of grey. There is a fine line at which leaders cross over from right to wrong, and like all humans, they are capable of switching back and forth at any given time. That is why it is difficult to recognize when the line has been crossed, when unethical behaviors become serious, when bad decisions become incompetence, and when a leader begins the slippery slope into bad leadership.

PREVENTING EXECUTIVE FAILURE

There are no universal means for preventing failures, except perhaps for being alert for the warning signals that appear. In all cases of executive failures there have been warning signs that people chose not to heed.

Businesspeople like to think of themselves as realists, but the fact is that wishful thinking, denial, and other forms of avoiding reality are deeply embedded in most corporate cultures.

HOW TO FIGHT FAILURE

Review the list of 11 common causes of derailment. Chances are you will recognize some of them as part of your personality. In fact, some of these characteristics serve you well in getting ahead in your organization.

Here are three things you can do to take a closer, realistic look at your dark side.

1. Do an adversity analysis. Take a long hard look at your five biggest failures in your career. Ask yourself the following questions:

What behaviors in these circumstances didn't serve you well?

What would your worst critics say about how you acted?

Do you see a theme or pattern in your behaviors?

In what way did you contribute to the failure?

2. Do a feedback session with your direct reports. Ask them to report to you with brutal honesty about your behaviors. This can be delivered to you in the form of a confidential anonymous report, or delivered as a group in person, but you must reassure them that nothing will be held against them and follow through with this promise. Ask them these questions:

What do I do that drives you nuts?

How do I force you to work around me rather than with me?

When you get together to complain about me, what do you complain about?

When I'm under stress, what do I do that you think is counter-productive?

3. Work with your own coach, mentor, or trusted confident. An external coach works well for reviewing your dark side, as they are non-judgmental, professionally trained, and not politically involved with your organization. In order to get value from talking with someone, you must have complete trust in the person and process. You must be willing to expose your vulnerabilities in order to grow beyond your usual psychological defenses. Just knowing that other CEOs and executives have these common derailers and that they are not unusual can make it easier to admit them and learn how to manage them.

LEADERS ARE HUMAN BEINGS TOO

We live in a celebrity culture where leaders, and especially CEOs, are expected to be perfect examples. They are held up as icons. We don't like to admit they have flaws, or that the traits that make them special can also lead to failure.

We crave the heroic leader to whom we can look up to and derive a sense of safety and security. We can't do this when we see their flaws. And so we may contribute to the heroic myth and enable leaders to plunge full steam ahead, even when their character flaws can bring everyone—shareholders, customers and employees—down.

We must abandon this hero-worship. People can be great leaders and fallible human beings. Those leaders that don't recognize their dark side greatly increase the odds that derailers will strike. Our greatest leaders, both in business and politics have always been fallible. The key is in accepting rather than denying the existence of flaws and working to manage them.

We are excited to work with you to ensure your leaders and their teams maintain a position of strength. WCI offers programs, consulting and assessments to bring humanity into the workplace.

- Social and Emotional Intelligence Certification for Coaches and Leaders
- Certified Leader and Talent Management Coach
- Respectful Workplace

Cynthia Kivland, M.ED., NBCC
cynthia@workplacecoachinstitute.com

Workplace Coach Institute
Admissions: 800-691-2553
www.workplacecoachinstitute.com