



JACKSON LEADERSHIP
SYSTEMS INC.



Show: In the Money
Air Date: August 30, 2003

CAFFERTY: No shortage of mishaps, mistakes and miscalculations in the corporate world over the last couple of years. We here on IN THE MONEY work for AOL Time Warner. From accounting scandals to misguided mergers, there's enough material to fill a book, and don't you know that's what our next guest has done. His book is called, "Why Smart Executives Fail, and What You Can Learn From Their Mistakes." Sydney Finkelstein is a professor at the Amos Tuck School of Business at Dartmouth University. Joins us now from Manchester, New Hampshire. Professor, it's nice to have you with us. Thanks for joining us.

SYDNEY FINKELSTEIN, AUTHOR: It's my pleasure.

CAFFERTY: We all like to look at train wrecks. What are the biggest boobos in the book?

FINKELSTEIN: Well, there's a whole book full of them running from hundreds of millions of dollar mistakes, to billion-dollar mistakes. Samsung, in the auto business, where they decided to go into autos, to the large extent because Chairman Lee loved cars, believe it or not. I spoke to a good half dozen people who gave me the same type of story, \$5 billion mistake. Iridium, if you remember, terrestrial, satellite-based cell phone system developing a cell phone that would cost you \$7 a minute to talk.

CAFFERTY: That was a good idea.

FINKELSTEIN: Yes. Well, the truth is it may very well have been a good idea at the time they thought of it, which was in the late 1980s, but by the time they launched those satellites, everyone had a cell phone in their pocket and it didn't cost you \$7 a minute to do that.

TULLY: Sydney, one of the most fascinating things about your study is the psychology of the kinds of leaders who have these problems. You pointed out that they're not dishonest people, they're not unethical people. They're certainly very smart people, but they get into a trap where they just deceive themselves and they make these horrible mistakes. And you kind of give the profile of the kind of person or the kind of leader who falls into this trap.

FINKELSTEIN: Well, we can think about Jill Barad at Mattel, the former CEO. She was a superstar within that company. She's the one that had built the Barbie brand into literally a \$2 billion global brand. And that was what got her the job as CEO. Once she becomes CEO, she decides to adopt essentially the same strategies and techniques that have always used -- that have always worked before for her, which were all about promotion, marketing, branding, and even some hype. Unfortunately, her marketplace was not 10-year-old girls. It was Wall Street, and they didn't really go for that very well.

LISOVICZ: Well, let's go out to the ballpark now, Sydney, because I've enjoyed your book as well. The Boston Red Sox. Here I was thinking that the team has lost all these decades because of the curse of the Bambino, when Babe Ruth was sold to the Yankees. But it's really another factor, and it really figures very prominently in some of the biggest errors committed in business.

FINKELSTEIN: That's right. The Red Sox story, and you know, living in New England, it's always dangerous to talk about the Red Sox at all on any given day, but I'm going to risk it. The Boston Red Sox were the last team to integrate with African-American ballplayers. In 1959, actually in the middle of

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July in 1959, that's a good 12 years after Jackie Robinson broke the color barrier for the Brooklyn Dodgers. And the question is, well, why were they the last team? And everyone knows the short answer. The short answer is racism.

But what is racism? If we want to -- if we strip away just for the moment the egregious nature and the unethical nature of what racism is, we could say that the Boston Red Sox made a conscious decision not to adopt a major change in how their industry was operating, which, of course, was the addition of talented ballplayers who just happened to be African-American. They were the last team to do that and they paid a huge price.

CAFFERTY: To what degree is the kind of failure you're talking about a cultural phenomena? What I mean by that is, particularly during the last decade of the '90s, we began to deify CEOs and corporate executives. They became larger than life, people like Bill Gates and Jack Welch at GE. And many of them very successful. But is it not unreasonable to expect that a certain percentage are going to succumb to this sense that they are omniscient, that they are some sort of omnipotent force that can do no wrong and begin to run roughshod literally over their own boards of directors, over the recommendations of their financial people. I mean, was that a factor in any of this, do you think?

FINKELSTEIN: I think it absolutely was a factor. And you know, the people responsible are people like me in the business school world, people like you in the media world...

CAFFERTY: Sure.

FINKELSTEIN: ... and lots of others who would create this myth of the heroic celebrate CEO, of the CEO who could do no wrong. And we all know that that is just not possible, but we built that up. The stock market was booming, and we naturally attributed that success to the CEO, when in fact there were a lot of other reasons, not just the individual company but the overall economy and the technological revolution, the Internet, and many other things. CAFFERTY: And the stupidity of individual investors willing to buy stocks in companies that had no earnings.

FINKELSTEIN: Well, that's another book, I think.

TULLY: One of the things that was most egregious during the whole period of the boom was the huge premiums paid in mergers. And you could tell up front that the amounts paid over what investors the day before the merger was announced though the company was worth. Here's a company comes along, and pays 80 percent more, 50 percent more, even 30 percent more. Most of those deals were kind of dead on arrival, if you really ran the numbers. How did boards and CEOs ever approve those deals? Did they really do any due diligence, really run any numbers? Because the company stocks all suffered.

FINKELSTEIN: Let me say two things about that. Number one, I refer to a study in the book on managerial hubris. And in that study, we found that those CEOs that had the most positive press about them, those CEOs who ended up paying themselves more than anyone else, were more likely to actually pay higher premiums when they when out and made an acquisition. In other words, the more you built yourself up or others built you up, you believed that you could make it work, that a 70 or 80 percent premium was not undoable.

Now, why did it happen? The board of directors is obviously the number one culprit, and we've had and are may be in the midst still of a board revolution in terms of trying to understand what the appropriate methods of corporate governance need to be, but in company after company that I looked at, the board was sitting on the sidelines.

LISOVICZ: Hey, Sydney, we're almost out of time. We've heard so much about the seven habits of

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successful people. What are the seven habits you found in unsuccessful people?

FINKELSTEIN: Well, there's a whole bunch, and a couple of them real quick. The belief that you have all the answers. We think that CEOs should have answers, but when it goes over the line to the extent that you think you've got to have all the answers, and no one else could help you, no one else could provide any insight, we run into trouble. That happened at Rubbermaid, it happened at Mattel and the Jill Barad story.

Another one is, when the CEO believes that the company becomes an appendage to himself as opposed to he or she working within the company. When you become an appendage to yourself, when the company becomes an appendage to yourself, you believe that you can do almost anything you want with that company. And I think that's part of the story behind some of the corporate scandals at companies like Tyco and Enron and ImClone.

CAFFERTY: Professor, we're going to have to leave it there. I appreciate you joining us on **IN THE MONEY**. Thank you for being here today. Professor Sydney Finkelstein, author of "Why Smart Executives Fail," and professor of management at Dartmouth University. Thanks a lot. **FINKELSTEIN:** Thank you.