Federal Judicial Center Podcast
In Session: Leading the Judiciary
Episode 1: Why Smart Executives Fail

Lori Murphy: Hello. I'm Lori Murphy, Assistant Division Director for Executive Education at the Federal Judicial Center. Welcome to a new podcast from the FJC focused on Executive Leadership in the Federal Judiciary.

Our first episode is about accomplished executives at the top of their game who failed spectacularly. It might seem odd to launch our podcast talking about failure, but studying failure, as our guest discovered, is an excellent way to learn how to be successful. Our host for today's episode is my colleague, Michael Siegel, Senior Education Specialist at the FJC. Michael, take it away.

Michael Siegel: Thanks, Lori. I'm excited to introduce Professor Sydney Finkelstein, author of *Why Smart Executives Fail: And What You Can Learn from Their Mistakes*. Sydney currently serves as the Steven Roth Professor of Management at the Tuck School of Business at Dartmouth University in Hanover, New Hampshire. He's conducted executive training programs all over the world. Thanks so much for joining us, Sydney.

Sydney Finkelstein: Thank you, Michael.

Michael Siegel: Tell us. What was your inspiration for writing the book, *Why Smart Executives Fail: And What You Can Learn from Their Mistakes*?

Sydney Finkelstein: Well, you know, I had heard and read, many of us have so many books from CEOs about how great they were and successful they were or by consulting, talking about a couple of their clients and giving us yet another formula for success. And when you go and look at the companies everyone was writing about two or three or five years later, they discover they weren't doing so well. And so we were really missing something big, and I thought everyone knows people make mistakes. Companies, organizations struggle and stumble sometimes. Why isn't anyone analyzing that? Why isn't anyone writing about that? That really was the major impetus for me to get in to this topic.

Michael Siegel: So an important addition to the research, and the research for the book began in 1997 and included 197 interviews with the executives and their associates and some 50 organizations. Can you describe the range of organizations, maybe some of the names you encountered and the kinds of executives you interviewed?

Sydney Finkelstein: Yes, absolutely. It was a really broad range of organizations from different countries, different industries, companies like Rite Aid in pharmacy, to Sony, from

Japan to Wang Labs in the U.S., and many others. The senior executives themselves were very, very successful. That was one of the hallmarks of what I discovered. They're really successful until they weren't and they ended up doing a bunch of things that were mistaken. And sometimes people say, you know, but senior executive, they never saw it coming or it was a random event and they had to deal with it and didn't work out so well. But what I realized from talking with senior executives and doing the research we did is how often was a case pretty much always that they were culpable. They had done something they shouldn't or they had not done something that they should have.

Michael Siegel: Amazing. And what other common characteristics of these executives did you discover?

Sydney Finkelstein: Well, tremendous self-confidence, and I'm not against self-confidence. I think you need to be self-confident to be successful at pretty much anything, but I think they probably went a little too far on that direction. They were off the charts. Big egos, of course. They really believed they were the ones that had -- they knew more than everyone else. I talk about them is people that felt like they all had the answers, that felt like they had to be the center of attention, that just refused to learn new things. They thought they had it worked out. They're not really focused on learning.

And all of those things really came out to bite in a pretty bad way when they face changeling circumstances.

Michael Siegel: Yeah. Boy, that comes through in your book. And when I read your book, I found myself shaking my head in disbelief about how smart executives failed to respond to changing conditions in the market. They believed that what worked for them in the past would continue to work for them in the present and the future. You offer examples, for instance, of executives from Barneys Clothing Store, Wang Laboratories and Rubbermaid to name just a few. Can you elaborate on one or more of these examples?

Sydney Finkelstein: Sure. Well, take the Rubbermaid. I mean what a brand, what a product, what a company making literally hundreds of rubber-based toys and products. And they were flying high. They were known as an innovative powerhouse and throughout the '70s, '80s and into the '90s even, they were doing great. In fact, in the early '90s, they were listed by *Fortune* magazine as America's most admired company. They were more admired than GE at that time or IBM or Microsoft

What happened to them is that they thought that their model, their formula of being innovative and continuing to do what it always got them to the winner circle, they thought that was the right answer without any limits. And what happened is that the world changed, in particular if you get into the midand late '90s. The rise of the Big-box retailers, Kmart, but obviously Walmart, Carrefour in Europe, and these are giant companies and Walmart would go to Rubbermaid and they said we love your innovation. It's great. Keep it up, but your price is too high and you're not able to deliver in a way that is consistent with our warehousing and logistics system and you need to fix that. And the Rubbermaid, they had just total turmoil because their formula, again, innovation. What they were discovering is that that actually wasn't the pathway to success moving forward because the world have changed and they were unable to, adapt to adjust. Rubbermaid quickly plummeted in the *Fortune* rankings and in fact, ended up being acquired by another company. It's now a division of a conglomerate of all things.

Michael Siegel: Well, reminds me of Bill Gates' statement, what's the biggest threat to Microsoft? His answer was success.

Sydney Finkelstein: They're up to that actually, Michael.

Michael Siegel: Yes. Well, one of the reasons executives fail, Sydney in your book is due to the wonderful concept you introduced of organizational rigidity. In your book, you state all organizations have an installed base of ideas that define the managerial mindset, and this installed base - I love that concept - is hard to overcome. You described, for instance, how

Motorola and other companies suffered from this malady. Can you explain this concept and how it stymies leaders?

Sydney Finkelstein: Yes, absolutely.Rigidity is when you think you have a system in place a set of routines. And again, it often have led to your success. Certainly, that was true at Motorola, but you start to believe your own press report. You start to believe that you’ve got it right and the irony is, and this is a challenge for all organizations, to be really, really successful especially if you get bigger. You have to develop strong processes, things that work almost automatically and you have to be really well organized. But as you build those things into an organization and they become deeper and more entrenched, they start to become not just kind of processes to help you smooth your way through the company and the organization to get things done. They start to become rigidity. They start to become hard facts and walls that you can’t break through.

Motorola is a good example, being very successful, of course, for a very long time. But they pretty much lost the game to Nokia and Ericsson when those two companies brought in their own cellphones and brought in digital mobile phones that Motorola, while they were really strong in innovation, you had to do, you had to make digital mobile phones, chose not to do so because of that mindset that said 43 million analog customers can’t be wrong. That’s a real quote by the way from the person running the cellphone division in Motorola. And the irony about this also is history repeats itself with time with Motorola.

Let's just fast forward to BlackBerry, Research in Motion. What happened to them? They were the hot product for the long time and they were unable to adapt to iPhone and Samsung to some extent. So you kind of see a pattern happening over time where you have this success, and you start to build systems and structure to support that, and it creates this rigidity, this thing that makes it difficult to change and adapt and locks you in to where you are already.

Michael Siegel: Wow, it's so interesting. And let me give you another organizational rigidity example from your book, which again I found really hard to believe. Apparently, the Boston Red Sox refused to appreciate the benefits of including African-American players on their team for many years. This rigidity based on racial prejudice led to the Sox rejecting players like Jackie Robinson and Willie Mays "The Say Hey Kid" and to the deterioration of the team's performance at that time. This really does seem hard to believe. How did this happen and what can we learn from it?

Sydney Finkelstein: Yeah. There are bunch of headshaking examples in the research and in the book, and the one you're mentioning is particularly unfortunate one because, of course, it was due to underlying racial bias. And it's not that the

Boston Red Sox were the only team or only sports team to experience that, but they were one of the most well-known certainly. And yeah, Willie Mays, not considered good enough. Jackie Robinson, not quite the right guy. How do these things happen? So, of course, race and other bias, gender bias and other biases and [indiscernible] biases, they play a part of how humans think, some people think, and not everybody can break out of some of the things that they learned a long time ago. And maybe they know it's wrong. I hope they do, but they find it difficult to do.

You know what also happens is you start to surround yourself with people that are reinforcing what those rigidities are. They're reinforcing what your biases are. And so there's no one around you that's kind of stand up and raise their hands and say, you know, why are we doing this? Why aren't we considering someone who's obvious talent of Willie Mays? The talent is so off the charts. Why we're so narrow-minded? And people are afraid to speak up.

You know, when we were talking about Motorola a moment ago, it's a really good example. Where was the senior executive, where was the board member that raised their hand and said you know, we need to think about this. No one did that, and it's a statement about human nature I think.

Michael Siegel: Yeah and it has an applications to the political world in many organizations. We're going to take a quick break. When we come back, we'll talk with Professor Sydney Finkelstein about the importance of strategy and how it can lead to success or failure in executive leadership.

Female Voice: Have you visited the Executive Education page on fjc.dcn? The Executive Education page is a one stop shop for all things related to Executive Leadership Education. This is the place for chief judges and court executives to find the latest up-to-date leadership information from the Federal Judicial Center. On the Executive Education page, you can explore leadership competences and behaviors, access current training programs and content, and learn about upcoming Executive Education programs. Now, that we've piqued your interest, how do you get there? Go to the education tab on fjc.dcn and click or tap on Executive Education. See you there.

Michael Siegel: I'm talking with Professor Sydney Finkelstein, author of *Why Smart Executives Fail: And What You Can Learn from Their Mistakes*.

Sydney, let's talk about executive strategy for a minute. Leadership gurus and scholars frequently discuss the importance of strategy, and yet you find that one of the causes of executive failure is what you call strategic mis-intent. What do you mean by this?

Sydney Finkelstein: Yeah. Good strategy goes a long way, I think there’s no question about that. But you can think you’re right when you’re really actually quite wrong, and that’s when strategic misintent is really all about. It’s this idea that says we’ve analyzed the market, we understand what the customer needs and we’re going for it, but in fact, we’ve fooled ourselves. We haven’t fully understood just how the situation may have changed or how we’ve not understood what we’re really great at. There’s a lot of different forms that it takes, and the net result is that you start to follow down a path, and you realize sometimes it’s way too late that you have a real struggle with that.

And a really good example today is so many of the department stores and even the entire retail sector, is it a secret that Amazon is out there? Not at all. Everybody knows about that. Of course everyone knows, but where are the new strategic analyses? Where are the new ways to think about your strategy that puts you in a position to actually compete against a company that takes no prisoners, is unbelievably good in a digital and online format, and is really riding a wave of millennial generation that is much more comfortable buying things online than just showing up in a store? And if you keep following the same old store strategy, retail strategy, which many departments sort of have done for a long time, they're going to end up in big trouble and I think we're seeing that today.

Michael Siegel: Indeed. One of the surprising findings of your research is that vision can be detrimental to organizational success. This finding seems to contradict a good deal of conventional wisdom. In fact, we teach this at the Federal Judicial Center suggesting the need for executives to have a strong vision. How can vision get in the way?

Sydney Finkelstein: I don't want to leave the impression of vision of a mission is a bad thing. The problem is that you get leaders that craft a vision that -- well, there's no other way to say it, but that is wrong. In the book, I talked about some companies or some executives that crafted a vision and they were really good at fulfilling that vision except it was the wrong one.

You take a company like Saatchi & Saatchi, the giant advertising firm. They crafted a vision of being the biggest and the best in their world and they had no constraints around that and they ended up -- this goes back into the '80s. In fact, they ended up making a bunch of deals that weren't just in advertising where they had real strength, but in human resources and consulting and even tried to buy a big bank of all things.

And so I used them as an example of brilliantly fulfilling the wrong vision. So it's not the vision. It's the bad idea. But let's be honest and let's be clear and let's kick the tires on this. And the other thing I would say about vision that became really clear in looking at the companies like Motorola and a bunch of others is that sometimes vision could be too narrow. If your vision is to produce the world's best mobile phone, let's just say, based on your ability to marshal a great quality and continuous improvement in technology, you better be right with that vision because you're making a 100 percent bet that that's the right answer, and the world is pretty complex so I'd like the idea of a vision, but I like the idea that translates maybe if you take it one step lower into two or three fundamental goals because if you end up making -- again, you bet on only one possible solution to your world and your problem. You're betting everything and you better be right and many of the companies and leaders I studied actually were not right at all about that.

Michael Siegel: Well, so they became kind of obsessed with their own vision.

Sydney Finkelstein: Absolutely.

Michael Siegel: I'd like to come back to the idea we previously discussed about executives failing to introduce change when conditions in their environment were almost begging for it. Using the Schwinn Bicycle or Levi's Jeans examples, can you elaborate on this?

Sydney Finkelstein: Yeah, absolutely. Schwinn is a great example because everybody knows Schwinn. Growing up, most people had a Schwinn, but what happened to them? Well, what happened to them is that they did not adapt or adjust to really make a change in their industry. In fact, if you look at the rise of mountain bikes, the beginning of mountain bikes as a category, this is a tiny bleep on the screen. In fact, there's this guy name Gary Fisher out in California that he and his friends invented the mountain bike if you will, and it turns out that senior Schwinn managers somehow discovered Gary and they flew out to see him and they talked to him.

Now, Gary was this kind of counterculture hippy guy, and the Schwinn managers in their suits and their ties took one look and said this guy is nothing and they turned back to Chicago and went home to head office and didn't do anything about that. And so what kind of mindset is that because Gary became a pretty big company and every one of Schwinn's competitors went into the mountain biking business at some point and Schwinn was pretty much the last company to do that. So to me, if we can extract kind of not just a lesson, but what you can do about this.

I've always thought that there are three key elements required to change and to change in any significant way and

Schwinn illustrates a lack of ability in all three, but especially the first. The first is you have to be willing. You have to be willing to change. The Boston Red Sox were not willing to adapt to the change in their talent pool, which is the rise of great African-American ball players. Schwinn wasn't willing to adapt to the change of the rise of mountain bikes. So you have to be willing and sometimes we think, well, that's an obvious. That's a no-brainer, but it's not. A lot of people aren't actually quite unwilling to change.

So that's absolutely the first thing you have to do, but then you have to know what you're going to change into. You have to know a better answer, a new strategy, a new technology, new innovation, a better plan. In the case of Schwinn, again, they did have that. They had the mountain biking option. They chose not to do them.

And then, finally, and anyone running any part of any organization, any manager listening to us knows this one very, very well. You have to be able to execute on it. Whatever your plan is, whatever your goal is, whatever your strategy is, you got to be really good at execution. So change is hard. You got to be willing, you got to have a good idea, and you got to be able to execute on it. Schwinn is an example. I was about to say a great example, but I suppose given the result because they did go bankrupt, it's a terrible example of failing in all three.

Michael Siegel: And I suspect going back to an earlier point that having people around you to encourage your willingness to change could be very helpful.

Sydney Finkelstein: Oh yeah, absolutely. Every one of us, every manager, every leader, you can just ask yourself, how often is it the case that somebody in your team is coming to you to kind of push back and challenge and disagree with you and some people of course, that happens every day and they're getting worn out and when people tell me that, I say great, you're lucky. I think the real problem is when no one is really speaking up to you, and each of us can make that assessment for ourselves. If no one is disagreeing with you, you don't have the right team or you haven't created a culture in the team that enables them and give them some safety, psychological safety if you will to speak up and not fear the repercussion of doing so.

Michael Siegel: So important. Toward the end of your book, you discussed the seven habits of spectacularly unsuccessful people. I had a chuckle when I thought about Stephen Covey's popular book, *The 7 Habits of Highly Successful People*. I'd like to discuss three of these habits. One, they think they have all the answers; two, they ruthlessly eliminate anyone who isn't a hundred percent behind them, which we're just talking about; and three, they underestimate the major obstacle to success. Would you choose any of these to elaborate on for a minute?

Sydney Finkelstein: Yeah. They are rather remarkable how often I saw exactly the same things that you're describing, these seven habits if you will. Let's talk about the obstacles one. The fact that they underestimate obstacles and the importance of those obstacles, and as a result think they can plow to do everything. There's an interesting insight here about leadership in general, things that are really good for you, things that help you become successful. If you continue to do them and you don't adapt to and change and grow, then they can actually hurt you.

It's almost like the ancient Greek tragedies. What was the scene? Those things will get you to the top, if left unchanged, will also lead your eventual downfall. Well, this point about obstacle is exactly that because no one is going to be successful as soon as you ran into some interference. As soon as you ran into some difficulty, we turn back and we don't have the resilience. We don't have the perseverance to kind of figure things out. We have to have that. We have to have that ability and I bet we couldn't find a successful person that hasn't figure out a way to get through barriers in the past. But at some point, the data are overwhelming and you need to start to listen and recognize, you know what, perseverance and resilience is not the right answer now. Adaptation, agility and change are the right answer.

Michael Siegel: At the end of your book, you say the smart executives profiled in this book did not intend for disaster to strike, but it did because they weren't aware of the insidious and sometimes complex ways in which failure emerges in organizations. The executives you described were decent, mostly highly successful as you mentioned and intelligent people who certainly did not intend to fail. How could court executives learn from their mistakes?

Sydney Finkelstein: There are a lot of things that are possible I think. Number one, let's get serious about practicing some humility. I said earlier I love and believe self-confidence is important, but so as humility. In fact, it's another good example of how combining the opposite. It's kind of a paradox. It's really critical. You got to believe in yourself, but you also need to be humble enough to listen what other people have to say and process that information. I think that's a big thing.

I think, second, be on alert for data for information especially coming from the users of your product and services, customers and others. Don't hide behind a desk or a cubicle and think you're going to figure out what's going on. You have to be out in the field talking to real people that are using products and services that are benefiting from it and ideally finding out what could go wrong or what the problems are and how you might be able to fix it.

And then I think third, you know, when we surround ourselves with world class talent, and we help them get better, and we create environment where they continue to learn, we create this kind of learning culture that people talk about. I think that's as powerful of a vaccine, if you will, you can have against some of these underlying causes for failure. I think all of those things will make a big difference for people.

Michael Siegel: Thanks so much. I know that judiciary could learn a lot from this and we, at the FJC try to help them fulfill that third strategy of learning and you have really helped us learn today.Thank you so much for talking with us, Sydney.

Sydney Finkelstein: Oh, thank you, Michael. I really enjoyed it.

Lori Murphy: Thanks, Michael. If you're interested in learning more about Professor Finkelstein or his book, *Why Smart Executives Fail: And What You Can Learn from Their Mistakes*, be sure to visit the Executive Education page on fjc.dcn and click or tap on podcast. In Session is produced by

Jennifer Richter and directed by Craig Bowden. I’m Lori Murphy. Thanks for listening. Until next time.

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