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The Emergence of the Hapless Executive

The mind can only see what it is prepared to see.
—Edward de Bono

Think of all the headlines that you've read over the past few years reporting that this company or that has missed the mark in one way or another. Their shares tumbled furiously, or they closed stores, or they were acquired, or they declared bankruptcy. Merrill Lynch, one of the world's leading financial management and advisory companies, is suddenly sold to Bank of America; Lehman Brothers, an innovator in global finance founded in 1850, is forced to go under and sell a major portion of its assets to Barclay's Bank. Mervyn's, a 59-year-old chain of 175 department stores, most of which are located in California, is liquidated, and the same happens to Linens N' Things and CompUSA. The Big Three auto giants are no longer at the top of the heap, and one or two declared bankruptcy. And how many of the Fortune 500 companies of the 1990s are still on that list?

Where were leaders of these industry giants when the wind was knocked out of their sails? Where was all the collective knowledge and wisdom that guided these companies? Is it possible that all of those executives had a communal lapse in judgment? Could they not have seen the signs?

It is easy for us, in hindsight, to believe we would have seen the warning signs and taken appropriate action. But for those experiencing these setbacks, it's not quite as simple. What about you? What do you do—deliberately—to stay current and aware? Do you hear or even listen to information about your industry that surprises you? Do you learn about events *after* the fact? Is your company more reactive than proactive? These are dead giveaways that you're not getting the information and intelligence that you *must* have to make the best decisions for your business.

Executives Today Know Less about More and More about Less

What is going on? We are, after all, living in the information age, where anyone can know (or learn) everything about anything, anytime they want to know it.

The answer is that while we have increased access to information, most executives are not getting the intelligence they need for strategy or to make better decisions—or worse, they are dismissing or underestimating it. We receive a plethora of new information on a daily basis, yet it's often ignored. Why is that? Perhaps there is too much information; perhaps the information does not conform to our preconceived notions; perhaps there just isn't enough time to take it all in.

Regardless of the reason, however, the result is the same: Company executives and board members are no longer quite as adept in their decision making in a business environment that is increasingly complex and one that requires more information and better intelligence.

These are undoubtedly bright, skilled executives. What then lies behind their failings in judgment? Well, like everyone, they have their blind spots that usually result from one or more of the following:

1. *Success breeds overconfidence and arrogance.*

   Successful companies and executives start to believe in their own invincibility and stop doing their due diligence. After all, it's very difficult to relinquish the knowledge and behavior that resulted in past successes and brought them to their current lofty positions, even when the present is different. Executives tend to think that they know it all and therefore don't put forth much effort to keep abreast of current trends and changes in their industries.

   The problem is *the past*. Author Leslie Poles Hartley said, "The past is a foreign country. They do things differently there." Yesterday's success is only that—yesterday's success. I've never forgotten a reality check comment that I read many years ago and is even more applicable: *Today's success only entitles you to compete tomorrow*. To continue on that same roll of success, you need to constantly monitor your environment to be sure you can repeat those successes.

   The domestic auto industry offers the best (or worst) example. For decades the auto companies have consistently claimed that *they* know what customers want. After all, every one of us can recite the testimonial, "What's good for General Motors . . ." Yet when the gas crunch hit in the 1970s, the Japanese gained a significant toehold in the U.S. market by offering the small, well-built, fuel-efficient cars that Detroit said Americans would never buy.

   It appears that being blindsided once wasn't sufficient to get the message across. Come the late 1980s, the Japanese scored again by going after the high-end luxury market. Once more, Detroit miscalculated, relying on its internal knowledge, and the result is that Detroit now "owns" less than 50 percent of the domestic car market. Can this industry finally relinquish its arrogance? Will it?

2. *Executives don't want to hear bad or contrary news.*

    Companies that discourage contrary or negative input tend to blame or punish the messenger, or they may underplay or block news the executive needs to hear, thus exposing themselves to a false reality or getting a pasteurized version of the unfavorable news so that it does not appear quite as dire.

    Letting only the good news in is a surefire way to keep your company ignorant about the true—and not always pleasant—state of your business. Refusing to acknowledge problems merely ensures that they won't be solved. The idea of management in denial has been a recurring theme in business, no less so during economic downturns, and one that is likely to continue if they remain closed to all the information, good or bad.

3. *They are unaware of the daily issues that their employees face.*

    Higher-level executives are too far removed from day-to-day operations or staff to hear about current, developing problems. Executives tend to be surrounded by human filters whose job seems to be to keep those executives isolated from reality. Sure, some of them report a portion of the intelligence, but most of it just does not get through.

    At a conference I attended featuring a panel of three CEOs, one remarked that the same day he received his appointment as CEO, a colleague told him that "today is the last time you will ever hear the truth." Does that ring a bell for you?

    Contrast that with the story told about Wal-Mart founder Sam Walton, who established a rigorous management effort to keep his ear to the ground. Walton and his executive team made twice-weekly visits to stores and distribution centers. They talked to customers and staff; they observed merchandise on the shelf and movement across the distribution system; and they discussed their findings at weekly staff meetings.

4. *Executives are not exposed to the same realities their customers face.*

    How many times have executives used the company's call center or their own internal help desk? How often have executives personally (and anonymously) served their customers? How many have gone on sales calls in the past few years? How many doctors have actually been patients in the same hospital where they work and experienced the service their patients receive?

The reality is that most managers don't experience quality breakdowns as equipment ages; they don't deal with the frustration of scheduling service calls; they aren't subjected to surly and inconsiderate staff. In fact, in one large company (more than 15,000 employees) with a robust help desk, the executives have their own dedicated technician to take care of every issue they face, so they don't even have to experience what their employees do. And when these issues are reported to executives, they usually defend their company's response.

5. *Executives today may be blindsided by the history, myths, and conventional wisdom related to the industry, competitors, and customers.*

"Managers who have been successful develop a vested interest in maintaining things the way they are," says Robert Sternberg, professor of psychology and dean of Arts and Sciences at Tufts University. He refers to this tendency as "the cost of expertise" in *Inc.* magazine.

It is indeed a phenomenon that has reared its head in recent times. Immediately after the financial meltdown in October 2008, Alan Greenspan, former chairman of the Federal Reserve, stated in his testimony to Congress, "I did not forecast a significant decline because we never had a significant decline." In other words, how could we know something would happen when it's never happened before? At the very least, more and *different* questions need to be asked.

In a changing world, conventional wisdom is not likely to provide the guidance that is needed. Prepare to experience situations that have not previously occurred; that is today's norm.

6. *The premise upon which the decision is based is weak or insufficient.*

Some ideas sound good the first time we hear them. In the excitement of considering the idea based solely its on merits, companies will occasionally skip the due diligence process. It's not uncommon for some of these ideas to gain support and enthusiasm for proceeding without having been fully vetted.

For example, one client had developed a smaller, portable, less expensive version of a business-to-business product that they had been selling successfully for 12 years. Employees suggested, during internal discussions, that a second and different customer base (distribution channel) was viable. Their thinking and strategy appeared reasonable in their presentation to us.

However, it wasn't long into our investigation that we learned why this alternative distribution channel could *never* be successful. The company had never considered those other elements that would preclude success. They relied on a similar strategy for the new distribution channel and they did not realize how different each channel was. It would have been a disastrous decision. As outsiders, we don't rely on a single approach, so we were able to offer plan B, two other viable markets, albeit not as attractive to the client.

Bottom line: Insufficient information or erroneous assumptions can easily put a company on the wrong track. This reality check clearly proved that this particular company needed more information, insight and intelligence. Our experience and readings in the business press reveal that this same mistake is repeated far too frequently.

7. *Executives and their staff become too engaged in or passionate about new offerings, and aren't able to see the flaws. The result is groupthink.*

   When a company has invested both time and money into a specific product or service, and there is a lot at stake, the momentum for an idea tends to roll over input that might derail it. As a result, the executive lead and support staff tend to reject the ideas that a reality check may reveal. New information threatens the project and the schedule, so the group marches in lockstep until it's revealed that the emperor has no clothes.

   It should come as no surprise that managers will staunchly support an endeavor that brings their company the most money. But what makes money for your company *now* may be short term. Again, the Big Three automakers, General Motors, Ford, and Chrysler, were so committed to their popular SUVs that they did not want to shift production to smaller and less profitable vehicles. They rationalized decreased customer demand for more fuel-efficient cars as a temporary situation. Unfortunately for them, it wasn't.

   Similarly, Sony spent billions building and rebuilding its Walkman while consumers were moving on to MP3 players. Sony and so many others simply would not or *could* not abandon their formerly best-selling products in favor of developing a brand-new car, gadget, or whatever might be more efficient or in greater demand from customers.

Executives need to remember the value of the product life cycle and the existence of an arch to sales data. Products don't stay equally hot or profitable forever. There *is* a time to let go.

8. *Executives don't see or hear as much as necessary about the forces operating outside their industry.*

   According to Shell's vice president of Global Business Environment, "The big decisions that failed at Shell didn't fail because of our operations or because of project management. They failed because we misunderstood the external world." When outside information is not included in product development, the likelihood of surprise increases, and it's rarely a pleasant surprise.

   In the words of famed management consultant Peter Drucker, "Ninety percent of the information used in organizations is internally focused, and only ten percent is about the outside environment. This is exactly backwards." The outside world must be factored into all decisions. After all, that's where your products or services will be sold. Lew Frankfort, CEO of Coach Leatherworks, a high-end leather and accessories company, regularly and deliberately seeks out what he needs to know. "He runs the business on an 'exception basis.' To the extent that there is a significant variation better or worse than expected, we drill in to understand that." That is, he pays attention to what's different from his own beliefs, to find out whether the variation indicates a market change or different customer preference.

9. *Executives narrow their focus to very specific aspects of their industry.*

   There is so much information available today, and so little time to digest it all, that some executives focus on only what they *believe* they need to know. They don't look for, and therefore don't see, the bigger picture or the information that may not be obvious. It then becomes much easier to miss problems that are just out of sight.

   They focus on the product itself and ignore or underestimate issues relating to packaging or delivery, design or sizing, and attitude or demeanor of those selling or delivering it. A product or service is not simply the end result; it's also what the customer experiences on his or her way to receiving it. Executives need to make themselves aware of the entire buying process, via sufficient due diligence.

10. *Some executives suffer from too much experience.*

    Can too much experience hurt your judgment? Occasionally, it can. Familiarity with a particular product or process can blind executives to new, different, or foreign information, which they may dismiss as irrelevant. That can be a very costly mistake. How often have you heard an executive proclaim, "I know what my customers want and need"?

    Executives fiercely believe that they know their industry—their customers, competitors, market drivers, how and where the industry is growing, and more. And they truly believe they know it better than anyone else. The reality, however, is that they probably know their industry through a filter, a filter of yesterday's truths and assumptions, and the filter of an insider. Customers, whether B2B or B2C, have a very different view. That's why new companies enter the market—to respond to this alternate view. Competitive intelligence clarifies that filter and accurately reveals what is happening today and what buyers want. Understanding this is the difference between the company's deep knowledge of their product and reality. Reality is where you sell your goods or services.

11. *Executives can experience information overload.*

    Executives have the opportunity to know more than ever before and therefore to include better input in their decisions and strategy. The downside to this is that the enormity of available information may result in "closing the door" to protect oneself from being bombarded by the oft-stated sense of information overload. They may prefer to rely on what's known, even if it's outdated or untrue. On the other hand, the mere presence of information does not translate to having the right information. Accurate information may be dwarfed by what's less important but more readily uncovered.

    Information benefits companies and executives only when they have the *right* information, *and* analyze it to produce intelligence—insight, understanding, implications, and actions for their company.

Curse of Knowledge

Finally, hapless executives may find themselves trapped by the "curse of knowledge." In other words, once you know something, it becomes hard to imagine not knowing it. These facts appear so obvious to the owners of that knowledge that they cannot even imagine that others don't "get it."

Thus, armed with what we know unquestionably to be true, it becomes even more difficult to make a decision that does not support that knowledge. To quote business journalist Janet Rae-Dupree, "It becomes nearly impossible to look beyond what you know and think outside the box you've built around yourself" ("Innovative Minds Don't Think Alike," *New York Times*). We don't consider information other than what we know because what we know has become word and law. However, if executives can resist this inclination and acknowledge that they live in a changing business environment, it follows logically that they will accept that information of relevance to their business must also be changing. Therefore, what they've come to accept as "facts" may no longer be true, and if they're no longer true, then decisions and strategy going forward must operate from a different knowledge base and point of view:

1. Their customers' positive response to change is their way of declaring a desire for new, improved products or features; smaller or larger sizes; less expensive, lighter-weight, or easier to use products or services.
2. Executives proclaim that they are "keeping up" by responding to customer's desires. If that were true, customers would continue buying from you. Customers hold up a red flag that your company's products or services aren't satisfying them by buying from another. This is how customers tell you that your company is not keeping up. In other words, by not offering customers what they want, you are driving them to a competitor.
3. The shift in mind-set that customers regularly and constantly exhibit must be met with a comparable shift in mind-set from the company.

Curse of Success

The curse of knowledge is comparable to the curse of success. It's very difficult to not feel some degree of complacency when you're successful. However, that outlook results in a decreased ability to recognize change or see how change will impact your company. Success breeds an attitude of continuing to do what you've done and what has brought you success. How can you let go of what worked even if it's not working as well? This is a direct path to being blindsided.

So, should hapless executives trust what they know? Or should they start from scratch at each decision point? The best suggestion is likely to strike a balance between these two: As President Ronald Reagan famously said, "Trust but verify." While Reagan used this phrase in reference to U.S.–Soviet relations in the 1980s, it is equally apt for executives faced with making business decisions upon which the potential success and failure of their business rests.

Be the executive who is prepared and open to input about market changes. It's the key to smarter decisions, better strategy, and greater success.

Moving from Hapless to Happening

How do you move ahead? How do you continue yesterday's success and maintain that momentum? How, when, and what do you or should you verify?

In the chapters that follow, we help you understand the broad differences between information and intelligence and what is available. We cover what every forward-thinking executive should know about better input for strategy and planning. We detail how competitive intelligence offers direct and immediate value to you, along with dozens of examples.

We clarify the differences between market research and competitive intelligence, between competit***or*** and competit***ive*** intelligence, as well as between scenario planning, knowledge management, and business intelligence. We draw distinctions between data, information, and intelligence and delineate why these differences matter—big-time. We explain what information is useful and address the severe limitations of web searches. And we give you a good list of information resources to start your own intelligence gathering.

Final Thought

Do you still believe you know enough about your market?

Do you know what's new and changing?

Do you know what's no longer true?

Do you know what's changing from the outside that could impact your company?

If you do, what are you doing about it?

If you don't, could you be missing an opportunity?

Have you been surprised when a competitor or new entrant enjoys success with a product or service or improvement that you never considered?

These are all signs that you need to update your knowledge base—with competitive intelligence.