LESSON #1

FACE REALITY, STARTING WITH YOURSELF

It didn't take long to encounter my first big crisis in business. As a twenty-seven year old going into my first line assignment, I was packing my bags and moving to Minneapolis to become assistant general manager of Litton Industries' microwave oven business, when the news came over the radio. "The Surgeon General has just declared that microwave ovens may be hazardous to your health," the announcer said.

The next morning I arrived at my new office to find chaos and fear wreaking havoc with people in the fledgling organization, just as its first consumer products were being launched. We had only one product: the microwave oven. If the Food and Drug Administration (FDA) pulled it from the market, we were out of business. This event became the ultimate test for a young organization already suffering from weak leadership and a lack of confidence.

A week later, the corporation's executive vice president arrived on the scene. He arbitrarily directed us to recall the first one thousand products shipped, much to the dismay of our customers. My first instinct was to challenge him because we thought the products were safe.

He was correct, of course. He may not have had all the facts, but he had the wisdom to take the more conservative course. His decision may have saved the business. It forced us to recognize that our designs were not robust enough to meet the pending FDA standards. Nor did we have the disciplined quality control procedures to produce consistent products.

Before I moved to Minneapolis, my bosses and I thought responsibility for these shortcomings belonged with the head of operations. After being inside the organization for just a few days, I recognized that the real problem was the general manager's lack of leadership. He was frozen in place by constant conflicts within the organization and his own inexperience.

Instinctively, I jumped into the breach and brought my new direct reports together to face the reality that we had serious problems. We committed to work together until the problems were solved.

It didn't happen overnight.

As we struggled to meet the emerging federal standards for microwave emissions, I learned just how tough a crisis can be. Several nights I went into our factory at 3:00 A.M. to work with the engineers and quality experts to determine whether we could start the production line the next morning. After nine months of wrestling with the problems that ensued, I said out of exasperation, "In business school, I never realized it was this hard to make money."

The lessons from this experience have stayed with me throughout my career and were especially useful years later at Medtronic. I found out the hard way how important it is to get to the bottom of a problem rather than fixing it on the fly. I also recognized how easy it is to underestimate its consequences, especially when you're receiving so much negative publicity.

I learned firsthand the importance of understanding the mind-set of regulators and government officials and building a cooperative, problem-solving relationship with them instead of being defensive. I realized as well that in a crisis, you have to set aside your near-term profit plans and get the problems fixed, no matter how high the cost. Most important of all, I learned not to judge leadership from the outside before understanding what is going on internally.

FACING REALITY

In *Leadership Is an Art,* Max DePree writes, "The leader's first job is to define reality. The last is to say thank you." Before you can lead your organization through a crisis, you have to acknowledge that you are indeed in one. Next, you have to get everyone else to acknowledge it as well. Only then can you define the problems accurately and develop plans to deal with them.

Why is this so difficult? Leaders often go into denial about the urgency and severity of the challenges they are facing. Or they tend to blame external events, people, or organizations for their problems. Without accepting that the problem is theirs to fix, they cannot understand what they are dealing with.

Often the hardest part is to acknowledge your role in the origins of the crisis. Even when leaders acknowledge their responsibility, they may face significant resistance from their organizations in solving it because people have great difficulty in admitting their mistakes. This is why crises require so much skill on the leader's part.

Philip McCrea learned the hard way how difficult it is for a young entrepreneur to face reality in his fledgling business. Founding San Francisco–based Vitesse Learning in 2001 at age thirty-two, McCrea saw only upward possibilities for his Web-based sales training company. McCrea was highly skilled in bringing in contracts, which often contained significant amounts of custom software for his young software team to develop.

Starting with only $1.2 million of capital, Vitesse made money its first two years. When it missed its 2003 targets by 40 percent, McCrea was forced to raise an additional $500,000. Vitesse rebounded strongly in 2004, thanks to expanded agreements McCrea negotiated with numerous divisions of Johnson & Johnson, as well as moving into financial services and a custom contract with Corning.

McCrea was a born optimist whose entire life had been successful. He noted, "I sometimes get too aggressive about the results we will achieve. It has been a challenge for me to open up and see that I don't have all the answers."

In 2005 McCrea's business turned down once again, shortly after he moved his family to New Jersey to be closer to his customers. With software programmers left behind without clear leadership, software costs escalated, leading to a new cash flow shortfall. McCrea hesitated in addressing the core problem of leadership in his software group. Strapped for cash, he instead searched for external options and decided to sell Vitesse to a Canadian company with a software team in Nova Scotia.

The merger did not go well, as attempts to migrate software development to Nova Scotia led to sharp reductions in quality and extensive customer complaints. Eight months into the merger, McCrea resigned, feeling the business had no future. Six months later, the Canadians declared bankruptcy and shut down the company, and 175 people lost their jobs.

McCrea described the previous two years as an "emotional rollercoaster." For the first time in his life, he had to acknowledge he had failed. "I had to look myself in the mirror and accept my failure," he said. "My greatest growth came through learning that failure is okay. During this time I was intolerable. Although I wouldn't admit it, I was depressed and got angry very easily."

After reflecting on what went wrong, McCrea became CEO of ClearPoint Learning, a sales training software firm with low-cost operations in India. Having learned from his mistakes at Vitesse and how important it is to face reality, he felt well positioned for success at ClearPoint.

It isn't just entrepreneurs who struggle with facing reality. Veteran leaders have an equal amount of difficulty. In 1991 Salomon Brothers faced possible criminal prosecution for submitting false bids to the U.S. Treasury, but its management was in complete denial about what had happened. This caused its largest shareholder, Warren Buffett, to take control of the company. Buffett's first task was to get the organization to face reality. He immediately forced top management to resign, although its leaders were denying any knowledge of the false bids. Then he went against the advice of the company's lawyers and public relations specialists and agreed to provide complete transparency to the U.S. government, even if the information could be used against the company in a criminal prosecution.

Buffett understood the company would almost certainly face criminal indictments if it continued to stonewall investigations by the U.S. Treasury and Justice departments. That would have precluded Salomon from bidding in government auctions and put the company into bankruptcy. By putting his personal credibility on the line, Buffett spared Salomon from criminal indictments and was able to restore its operations. Salomon shareholders were fortunate that Buffett was so willing to step into this messy situation and keep the firm from going under.

That's what courageous leaders do when faced with a crisis.

DE-NIAL IS NOT A RIVER IN EGYPT

An example of organizational denial can be found in the difficulties pharmaceutical maker Merck had with its $2.5 billion pain-relief drug, Vioxx. After an intense battle with Merck over indications of cardiovascular effects from the drug, the FDA approved Vioxx for general marketing in 1999. As large numbers of patients began using the drug and additional studies were completed, concerns continued to arise about Vioxx's safety for cardiovascular patients.

Skeptical because the concerns were based on nonrandomized data, Merck executives decided to conduct a three-year randomized trial of high-risk cardiovascular patients while continuing to market the drug. In September 2004, Merck halted the study at the midway point because results showed Vioxx patients were twice as likely to suffer a heart attack or stroke as those on placebo. Merck CEO Ray Gilmartin courageously pulled the drug from the worldwide market for all users, not just those at high risk of cardiovascular disease.

By then Vioxx was linked to more than twenty-seven thousand heart attacks and sudden cardiac deaths and a rising flood of lawsuits from plaintiff's attorneys. Merck wisely chose to defend Vioxx on a case-by-case basis, which may have saved the company from insolvency. After three years of fighting the attorneys to a draw, Merck announced a $5 billion settlement with the plaintiffs in 2007. The company had finally put its agony behind it.

Why did Merck, a company known for its scientific prowess, not take the more conservative course of restricting access to Vioxx? From the outside, it appears that Merck was so committed to using Vioxx to compete in the pain-relief market with Celebrex and other painkillers that it waited until proof was in from its own scientific study. When the study confirmed the problem, management immediately took action. By then, the damage was done.

WHY IT'S SO HARD TO FACE REALITY

Denying reality has destroyed more careers and organizations than incompetence ever did. Instead of asking yourself why it is so difficult for other leaders to face reality, ask yourself instead, "Why is it so hard for *me*?"

The first reason is that people always prefer good news or a quick fix. Rarely are they willing to acknowledge that their organization is facing a crisis. Crises often start out in relatively benign ways, and then seemingly minor events escalate into major ones. Unless leaders face reality early, they can easily miss the signals of the deeper crisis that is waiting ahead. Until its leaders acknowledge the crisis, their organizations cannot address the difficulties.

Many people find reality is just too horrible to face or they are too ashamed, so denial becomes a convenient defense mechanism. If you feel yourself getting defensive, ask yourself, "What am I defending against? How might denying reality make the situation worse?"

DON'T SHOOT THE MESSENGER

In January 2009 I was chairing a panel on "Crisis, Community, and Leadership" in Davos, Switzerland, when panelist Jamie Dimon, J. P. Morgan's CEO, shared this vignette: "At a management meeting a woman got up and said, 'If you're a leader, you need one person who tells you the truth every time something goes on.'" To which Dimon noted, "If you have ten people around you and only one of them is telling you the truth, you have a real problem, because everyone has to do it."

Why aren't there more truth tellers in organizations? The reason is that they are afraid of getting in trouble with a boss who won't accept bad news. Leaders who are approached by a bearer of bad news may wind up shooting the messenger, because reality is just too painful to face. Look at what happened to Enron's Sherron Watkins when she took her concerns about financial misstatements to chairman Ken Lay. She was not only rebuffed but ostracized within the firm. No wonder many employees hesitate to tell the truth to their bosses.

Sadly, most organizations operate more like Enron than J. P. Morgan. Instead of building an organization of truth tellers, many leaders surround themselves with sycophants who tell them only what they want to hear, rather than sharing the stark reality. Without a culture of openness and candor, leaders are highly vulnerable to missing the signals of big problems ahead. By the time they acknowledge how deep their problems are—or outsiders like government agencies, consumer watchdog groups, or the media do it for them—it is too late. Then they find themselves forced to defend their companies against charges that are even worse than reality.

I used to tell people at Medtronic, "You'll never get fired for having a problem, but you will get fired for covering one up. Integrity is not the absence of lying. Rather, it is telling the whole truth, so that we can gather together the best people in the company to solve the problem."

It is important to publicly express appreciation to the truth tellers so others in your organization will follow suit. Only with a culture of candor and openness can organizations cope with crises and act in unison to get on top of them.

IT'S HARD TO ADMIT YOUR MISTAKES . . .

As a young civilian in the Office of Secretary of Defense Robert McNamara in 1966, I saw firsthand the consequences of an organization where people could not admit their mistakes. In the early years of the Vietnam War, McNamara was in complete denial about the war's progress. He used his intellect to intimidate the military and civilians to produce quantitative analyses showing the United States was winning.

Given his quantitative proclivities, McNamara saw Vietnam as a war of attrition. To measure progress, he tracked the ratio of enemy troops killed to American troops killed, under the assumption that the North Vietnamese and Vietcong would eventually run out of guerrilla fighters if enough were killed.

Since we knew the number of American troops lost, and the figure was rising rapidly, the only way to improve the ratio was to increase the number of enemies killed. This led to a systemic overstating of the number of North Vietnamese and Vietcong killed. My college ROTC buddies were telling me that dead bodies of enemy troops were counted three and four times by different units, just to improve their kill ratios.

To verify the data, my boss, the Pentagon's chief financial officer, forced the military intelligence community to remove the numbers of estimated enemies killed from their force strength. In the eleven months leading up to the Tet offensive in January 1968, official reports showed that the numbers of Vietcong had dropped precipitously. After inflated reports that thirty to forty thousand enemy troops died during Tet, the report's fallacies were exposed, and the report was never published again.

What I saw up close in Secretary McNamara was a leader in agony. He knew intuitively that the war was not going well but was unwilling to admit it. This resulted in those around him providing misleading information. The Pentagon never acknowledged that the United States was losing the war, and tens of thousands of brave American soldiers gave their lives for a poorly defined goal. In his acclaimed documentary, *The Fog of War*, producer Errol Morris captured McNamara in his sunset years, a man tormented by what went wrong but still unable to admit his mistakes.

Sound familiar? In 2003 Vice President Richard Cheney used similar tactics to generate data about the threat in Iraq from weapons of mass destruction, including false information about uranium supplied to Iraq by Nigeria. As British philosopher Edmund Burke said, “Those who don’t know history are destined to repeat it.”

. . . UNTIL YOU ACKNOWLEDGE YOUR ROLE IN THE PROBLEMS

In 2007 Amgen, the world’s largest biotechnology company, faced growing safety concerns over Aranesp, its highly successful anemia drug with $4 billion in annual sales. After six years on the market, a series of studies conducted by Amgen, Johnson & Johnson, and others revealed problems with off-label use of Aranesp.

To deal with the growing crisis, CEO Kevin Sharer tasked his key executives with developing a plan to address the problems. But he found they wouldn’t move until he acknowledged his own role in the crisis. “For a deeply reflective hour, I asked myself what I owned of this problem. I came up with a long list,” said Sharer.

When he met with the executives to go over his list, they were stunned that their CEO would admit his errors. This freed them up to address their roles in the crisis and take necessary actions to get out of it. Well aware of the Merck experience with Vioxx, Amgen voluntarily agreed to more restrictive language on Aranesp package inserts. As a result, sales dropped by 26 percent, or more than $1 billion, but the company recovered. Aranesp is still on the market, albeit with a reduced patient population, and Amgen's relationship with the FDA is healthy once again.

Reflecting on what he learned from this crisis, Sharer noted, "The toughest thing was to embrace the reality that we had to take action because so many stakeholders had questions about the safety of Aranesp."

> *Our first reaction was to blame these problems on the FDA. We had to get above the fray and recognize that public health officials had legitimate questions about what was happening. First, I had to acknowledge my role in the crisis. Then we could face reality together by owning the problem and looking realistically at the decisions we had made.*

Sharer stresses the importance of being adaptive to new realities in a crisis. He notes that many CEOs fail to adapt because they get stuck in a comfortable mind-set with their version of reality. He cites his favorite analogy from biology: "What species survives? The biggest? The strongest? The fastest? No, it's the most adaptive."

> *In today's world, the penalty for non-adaptive behavior is severe. With the velocity of information on the internet, reaction times must be much shorter as the failure to adapt will be quickly noticed, amplified, and punished.*

Far too few leaders are willing to accept responsibility for their mistakes. Instead, many ignore problems and hope they go away. But like tumors growing inside the body, problems left unaddressed only get worse. If you face a similar situation, ask yourself, "What's the worst that could happen?" Whatever your answer, it is not nearly as bad as compounding your errors by denying the problems.

LESSON LEARNED

The crisis isn't going to fix itself, so denying its existence can only make things worse—much worse. That reality must start with you and your acknowledgment of your role in the crisis itself. Then you have to guide your organization to face reality as well. As we will see in the next chapter, you cannot do it by yourself, so don't try to carry the problems on your shoulders alone.