ONE

Flawless Leadership

Learning the Lessons Without Paying the Price

He was lauded as one of America's greatest business leaders after he transformed a small, unremarkable regional company into one of the nation's most prominent organizations. Under his leadership, his company became a Wall Street superstar. He became one of the highest paid CEOs in the United States. He owned lavish homes across the country. In February 2001, *Fortune* magazine's ranking of America's most admired companies listed his company as number one for "innovativeness" and number two for "quality of management." Moreover, *Fortune* rated his company as "America's Most Innovative Company" for six consecutive years. He became personal friends with the president of the United States and was an advisor to world leaders.

What added to his aura was his rags-to-riches story. He became the poster child for living the American dream. He had a less than modest childhood, growing up in poverty. Even though his father worked multiple jobs, the family did not have running water in their house. He, too, had to work multiple jobs to help his family survive—even though he was just a child. But he always dreamed of having a better life. He once told a reporter that spending hours performing manual labor gave him time to think about that life, about how he would get into business rather than create a future similar to his past.

As a young man, he obtained the support of a local university professor, who described him as an "outstanding student," based on the strong work ethic he had learned out of necessity as a child. This same professor figured out a way to fund him to earn a master's degree in economics.

After serving four years in the U.S. military, he took a job with the U.S. government to learn how policies were made. He then decided to continue his education and received a Ph.D. in economics. Armed with a solid work ethic and a good education, he was on his way. Shortly after entering industry, he quickly realized success beyond his wildest dreams, ultimately attaining celebrity status as one of the greatest leaders in industry. Some even called him a hero.

As an individual, he was described as an extraordinarily giving man. What was most unique was his ability to support issues without having an obvious personal agenda. He supported numerous charities, including everything from ballets and museums to the Urban League. He also funded numerous scholarships and provided millions of dollars to political campaigns for *both* Republicans and Democrats. And most impressive—even with all of his successes and recognition—he donated a considerable amount of his time, serving as chair for numerous worthy causes.

Leadership gurus described him with terms like "cutting edge," "trustworthy," and "supportive." His leadership philosophy was to hire the brightest people possible and then have them "push the business envelope."[1]

His confidence was one of his greatest sources of strength. His employees described him as mild-mannered and quiet, but stern and demanding when necessary. In fact, the views of his employees were so strong that his company was ranked by *Fortune* as a Best Company to Work For from 1999 to 2001. He had a knack for picking the best employees and then giving them freedom to do their jobs without micromanaging.

Ultimately, his leadership approach was profiled in newspapers, magazines, and leadership books. We became enamored with his success story. We read about him and we admired him. And when “leadership experts” said that to become a great leader, all you need to do is mimic great leaders, we even sent our aspiring managers to executive-development forums to hear about him.

But have you ever noticed that many “successful” leaders profiled in leadership books have failed when faced with challenging situations?

The leader we just profiled was Ken Lay, the former chair and CEO of Enron—the man at the center of the largest business scandal in the United States in its time. In the final years at Enron, President Jeffery Skilling and CFO Andrew Fastow used accounting loopholes and unethical financial reporting to hide billions of dollars in debt incurred through failed ventures. When mistakes—failed deals and failed projects—were brought to Lay’s attention, he had two choices: (1) admit the mistakes, move on, and try to learn from them in order to improve performance on future ventures; or (2) hide the mistakes and look the other way. He chose the latter path—the way that meant he wouldn’t have to admit failure. Subsequently, Lay not only approved the unethical actions of Fastow and Skilling, but he also refused to know the details. Not only did Lay fail to learn from his mistakes and the mistakes of others, but he also misled Enron’s board of directors by using misrepresented earnings and falsified financial statements to show inflated performance. Ultimately the company went bankrupt, bilking shareholders of $11 billion.

In the end, Ken Lay’s leadership style became synonymous with lying, disgrace, and humiliation. The same man that so many aspired to be today is profiled in books like *The Book of Bastards: 101 Worst Scoundrels and Scandals from the World of Politics and Power.*

Following convictions on fraud and conspiracy, Lay died of a heart attack in 2006, a few months before he would have been sentenced to prison for the rest of his life. Lay's example of how *not* to be a leader resulted in fundamental changes in how U.S. companies view leadership, governance, and accountability.

Lay's path is a spectacular example of the fact that there are two sides to every story: it was the best of times, it was the worst of times; you take the bitter with the sweet; every rose has its thorn. But when it comes to great leadership, we tend to tell ourselves only half of the story—there is a discernible gap in our fundamental understanding of what it takes to be an effective leader. There are thousands of books written about leadership success, books that want us to believe the sky above the great leader's head is always blue and her road is always smooth. These books make us feel good. Unfortunately, they also lull us into a false understanding of what it means to be a great leader. What about the flip side? Great leaders *don't* always have blue skies or smooth paths—not by a long shot. The reality is that we don't—and can't—learn how to be great leaders by just imitating great leaders' accomplishments. It's not that easy. Being a great leader isn't exclusively about making the "right" decisions; often, as illustrated by the case of Ken Lay, it is about how to proactively avoid making the wrong decisions. He made plenty of right ones. And then he was seemingly unable to avoid making some catastrophically wrong ones. Why?

TWO LEADERS, TWO STORIES

In terms of their backgrounds, the similarities between Ken Lay and Jim Owens, former CEO of Caterpillar Inc., are remarkable. Lay and Owens were born less than two years apart, grew up in households where money was scarce, went to public schools, worked numerous jobs to help their families, went to state universities, and ultimately earned their Ph.D.s in economics before becoming CEOs of Fortune 50 companies. They both developed as leaders during the same period of American management reform. Business, both financial and manufacturing, was growing a greater footprint in the world's economy. Big companies were aggressively getting bigger by selling to an increasingly larger number of consumers and countries.

Although the similarities of background, position, education, and opportunity are remarkable, in terms of their leadership stories, the differences are distinct. Specifically, Owens achieved numerous successes in large part by learning from his own mistakes as well as the mistakes of others, and became the "smartest guy who's ever been in the job."[2] In 2001, Lay attempted to hide his mistakes and those of others and as a consequence went from the top of the charts to ending as one of the most catastrophically flawed leaders in U.S. business history.

Owens earned a tremendous reputation in the business community by successfully navigating one of the largest companies in the world through some of the stormiest economic conditions known to business. In an interview, Owens told us, "Black swan events [global structural failures] have given us invaluable learning opportunities. Leaders need to use these learning opportunities in ways we have historically never done." And it was his ability to observe and learn from these failures, not only his own but those of others, that helped make him such an effective leader.

In the early 1980s, Owens was a mid-level manager at the construction-equipment company Caterpillar. He recalls, "I started paying close attention to the whats and whys of the company's mistakes." At one point in an '80s recession, Caterpillar was losing up to $1 million a day. As the domestic market was spiraling downward, other issues, such as labor costs and union issues, were consuming the attention of Caterpillar's leaders. While the industry as a whole was evolving into global outsourcing, Caterpillar leaders were looking inward and stubbornly hanging on to strategies that had worked in the past. Owens paid particular attention to these errors, and he thought about what he would do differently if given the chance.

This story isn't just about the evolution of the construction-equipment industry. It's about what Owens observed early in his career and his resulting actions as a CEO. The attention he paid to mistakes made by others in the '80s created the foundation for his strategies during the 2008–2011 world recession—strategies that proved remarkably successful and put Caterpillar in a very select group of companies that were celebrated by Wall Street as weathering the recession relatively unscathed.[3]

In the 1980s, Owens experienced the innovation block common in big corporate bureaucracies—a focus on maintaining the status quo. At that time, most of the Caterpillar management team had operated in the boom years of the 1970s. Leaders at Caterpillar assumed that the secret to their success was that they ensured quality by "making everything" rather than outsourcing certain processes. Owens recalls how leaders were "stubbornly attached" to the way they had always done business. When he tried to challenge the status quo, namely by suggesting the company reduce costs by outsourcing products, he hit brick wall after brick wall. But he wouldn't back down. Once he was even warned by a senior executive, "Jim, you can be an officer at Cat someday, but you may get fired first!"

What Owens was learning throughout this period was that pushing for change in a conservative company—without data to back up the idea—did not work, even when it was a "good idea." One important lesson he learned at that time would become invaluable decades later—the fact that change in the form of outsourcing could create flexibility in a downturned economy, allowing the company to limit losses from idle equipment and labor.

Years later, when he became CEO, Owens and his management team regularly studied the data and reports on world economic conditions. He also met throughout the prerecession year with world leaders from government and business. Management weighed the impact of indicators predicting the decline of economic conditions. Some Wall Street analysts have suggested Owens and his management team had great intuition. Owens' take is more concrete: "Our management team recognized a pattern from past experience and previous mistakes."

When the Great Recession hit in 2008, Owens and his team had developed a playbook to preserve cash and maintain relationships with outsourcing partners. Everything had to be cut to just the right size. Major equipment buyers had huge orders on the books and would be financially hurt for years to come if they were forced to honor their purchases. To maintain these relationships, Cat allowed the orders to be cancelled without penalty. Owens made hundreds of huge high-stakes decisions—decisions that were influenced by the mistakes he observed as a young manager in the early '80s.

In 1982, Owens had observed that leaders at Caterpillar had maintained the status quo when the world around them was changing. So when the recession hit in 2008, instead of focusing on trying to maintain the status quo, Owens aggressively pursued data-based change. "Corporations are bureaucratic," he said. "In crisis times, executing strategy quickly often prevents the bureaucracy from stagnating implementation." And although many of his decisions were not popular, Owens decided that he needed to be transparent.

At the other end of the spectrum, Ken Lay buried information. He was caught up in a perceived "hot streak" of successes that corrupted his decision making. Rather than learning from his company's mistakes when things started to unravel, Lay decided to cover them up. In contrast, Jim Owens used his company's previous mistakes to unwind Caterpillar's stubborn attachment to existing practices. He then leveraged this knowledge gleaned from mistakes to create a new reality for Cat, based on what he and his management team saw as evolutionary changes in the market.

GREAT LEADERSHIP: SHAPED BY OPPOSING FORCES

We have found a common theme among industry's greatest leaders: Their most important lessons have come from trial and error. Unfortunately, yet understandably, many of us don't pursue the trial because we are fearful of making the error.

In a recent interview with the *Harvard Business Review,* A. G. Lafley, former CEO of Procter & Gamble, was asked "Can leaders learn as much from success [as they can from failure]?" His response was, of course, "No." He went on to say: "My experience is that we learn much more from failure than we do from success. Look at great politicians and successful sports teams. Their biggest lessons come from their toughest losses. The same is true for any kind of leader. And it was certainly true for me."[4] Lafley refers to his failures as "gifts," because they have given him tremendous growth opportunities as a leader.

Mistakes are part of taking healthy risks. They provide us with new ways of thinking and give us new insights into how we can improve as leaders. Real failure doesn't come from making mistakes; rather, it comes from avoiding errors at all possible cost, from the fear of taking risks to the inability to grow. Being mistake-free is not success—in fact, it's not even possible. Still, we often avoid risks and ignore (and sometimes even hide) our mistakes. We don't like to talk about our mistakes and bring attention to them. It feels safer to look the other way or sweep them under the rug. But doing so stifles growth and dooms us to repeat our mistakes—it's why so many leaders have the same struggles over and over again.

So why is it that we don't embrace challenges and become accepting of mistakes, learning from them and ultimately growing from them? And if learning from mistakes has so much value, why is it taboo to even talk about mistakes in the context of business and leadership? The answers aren't hard to find.

The Performance Review Trap

We are all evaluated on how well we perform our jobs. Companies pay their employees to succeed, not to fail. The better the performance review, the better we are compensated. However, performance reviews tend to reward us for our short-term success and penalize us for our short-term mistakes. Rarely does someone receive a performance review spanning several years. And personal growth from mistakes is an evolutionary process. It takes time. Mistakes made today usually hurt our performance evaluations in the short term. So we avoid them.

Consider Thomas Edison's remark: "I have not failed. I've just found ten thousand ways that won't work." Do you think he would have lasted in today's corporate environment? We have created an evaluation platform on which successes are celebrated and failures are not. Remember, "failure is not an option." To be a fast-track leader in this environment, you can't afford to make mistakes. If you do, you may feel pressured to bury the evidence or blame someone else in order to avoid any negative consequences.

A Culture of Perfectionism

Fear of failure isn't limited to performance reviews. Our entire culture values perfection. As children, we were told "practice makes perfect." We learned that making mistakes was bad, that we needed to always color inside the lines. We learned that to succeed we needed to strive for perfection. Perfectionism is one of the biggest deterrents to learning from mistakes. We become so fixated on not failing that we never move forward. We focus on the upside risk associated with failing, rather than the downside risk of not trying.

Losing Balance Between "What" and "How"

We are also a very goal-oriented culture in which status and success are paramount. We're proud when we're at the top of our game and when others see we're there. But we probably don't spend enough time considering how we got there. Jennifer Robin, coauthor of *The Great Workplace: How to Build It, How to Keep It, and Why It Matters* and research fellow with the Great Place to Work Institute, tells us that in great workplaces, rather than focusing exclusively on goals—the "what" of success—leaders also take time to focus on process—the "how." Like management and leadership, or tactics and strategy, both are necessary, and so is paying attention to both. Attending to how goals are achieved, rather than the goals themselves, builds strong relationships and solid business acumen—and knowing how we achieved what we achieved (or failed to) can educate us about the real basis of our success.

THE FAILURE PARADOX

While every great leader makes mistakes, it's just as true that there are only a limited number of mistakes you can make before proving yourself an unworthy leader—you can fall off the corporate ladder only so many times before your climb is finished. And the higher you get, the more severe the fall; the more failure becomes unthinkable. This is where the downward spiral of "winning" at all costs can begin—even if it means hiding mistakes, blaming subordinates, and even lying, as in the case of Ken Lay. Simply put, at a certain level, failure is not an option. Yet in order to succeed, we need to know failure. This is the failure paradox. In this book, we are going to talk frankly and instructively about the things that are hard to talk about.

There is a way around the problem, and it's right in front of us. We'll all make our own mistakes, true, and ideally we will learn from them. But the real opportunity comes when we are able to learn from others' mistakes before we are confronted with similar challenges ourselves; we can actually learn the lessons without paying the price. And this perspective is starting to gain significant momentum.

There is an increasing awareness of the fact that what makes leaders effective is their ability to learn from mistakes—their own mistakes as well as others'. In 2011, *Harvard Business Review* devoted the entire April issue to the importance of learning from mistakes and failure. And a substantive body of academic research has demonstrated the considerable value of looking at how leaders react to mistakes, especially when they result in undesirable consequences.[5] Recently, Max Bazerman and Ann Tenbrunsel completed a study illustrating that over the last twenty-five years there has been a dramatic increase in our preference to learn from failures rather than from successes. They argue, "How much do we talk about learning from failure? How much about learning from success? The gap between them is growing—which suggests we prefer to learn from flops."[6]

A PERFECT STORM: EMPIRICAL RESEARCH, UNFORESEEN TIMING, AND UNTOLD STORIES

Business leaders have strived for years to find the secret to business success. Unfortunately there is no one secret, no 100-percent rule, no list of the right things to do. To become great leaders, we need to develop disciplined leadership acumen, which often is crafted from lessons hard learned. Great leaders embrace the learning they get from mistakes (both their own and others'). As best-selling author Stephen M.R. Covey puts it, smart people have the ability to "see mistakes as feedback that will help them improve, and they become expert in learning how to learn from mistakes."[7]

We built the foundation for this book on the results of a seven-year-long study in which we surveyed almost a thousand managers. Although it is grounded in data-driven research that we have already published in academic journals, we qualitatively confirmed results through subsequent interviews with some of the country's most well-known business leaders. And the timing of our interviews happened at a most interesting time—the global economic downturn. This gave us an unusual opportunity to hear untold stories of mistakes and failures that had been buried under prosperity for decades—revenue growth hides a lot of mistakes. The recession stripped away the cover-ups to reveal the unvarnished truths necessary to be an effective leader. As with a tide that has gone out unusually far, we were able to see a part of the ocean floor that is rarely seen. Rather than sweeping mistakes under the rug, the leaders in our interviews were unusually candid in sharing stories and insights, not only into the mistakes you need to avoid but, more important, into how to avoid them.

In the end, we were able to leverage a perfect storm, starting out with empirical research that verified the importance of learning from mistakes, and then digging deeper to hear the untold stories that numbers alone couldn't tell.

The research for this book can be broken down into three distinct phases:

- Investigating the efficacy of learning from mistakes
- Identifying the most damning mistakes
- Verification, takeaways, and insights

We detail these in the following sections.

Phase One: Investigating the Efficacy of Learning from Mistakes
In the first phase of our research, we set out to determine whether learning from mistakes was as effective as we suspected. The key research question we were trying to answer was whether learning from mistakes actually improved performance— both at the individual level as well as financial performance at the firm level.

We asked 857 managers across 21 industries—including manufacturing, service, retail, professional, and not-for-profit—to agree or disagree with thirty-five statements, broadly focusing on cultural attributes such as their sense of the value of mistakes, their acceptance of mistakes as part of doing their job, and their ability to create a safe environment in which employees were not afraid to make mistakes as a result of taking healthy risks. Anonymity and confidentiality were ensured for all respondents because mistakes in business are such a sensitive issue.

The results of our research provided strong statistical evidence that the ability to embrace mistakes can lead to improved individual performance. Specifically, we found that leaders who learn from mistakes:

- Proactively deflect potential problems
- Have a higher level of confidence when taking action and making decisions
- Possess a more accurate understanding of their environments
- Think more strategically
- Are more creative

These traits and capabilities also translated to higher levels of financial performance for the organizations, such as increased revenue growth and increased profit growth. To study the impact of learning from mistakes on various aspects of performance, we lagged performance over a five-year period; our reasoning was that when a leader learns from mistakes, the benefits may take several years to be realized.

Phase Two: Identifying the Most Damning Mistakes

In the second phase of our research, we ran thirteen focus groups, recruiting and meeting with 115 leaders, from CEOs to frontline managers from numerous industries and functions—human resources, IT, sales, engineering, and so on—and from around the country.

The focus groups were designed to validate the significance of the original research findings and identify the most damning mistakes. They were also designed to help us see firsthand how people deal with these important issues. Our hope was to capture some of the intense emotions that leaders express about failure and what they do to cope with the frustration of not seeing their people and their companies work most effectively.

The meetings were originally scheduled for ninety minutes, but sometimes they went on for hours. At times we felt like we were leading group therapy. Leaders shared with each other stories that made us think, "I wonder how your company actually survived with all these mistakes?" Other times the discussion was very pointed and direct, as if we were in the middle of a high-stakes sporting event. Participants would bark out observations. Occasionally one of the leaders (usually a CEO) would say, "How could you not see that coming?" It was our intent in these groups to keep the conversation civil and constructive, so we'd rein them back in and get refocused on how common the mistake was or how detrimental (measurable) the negative action was.

One of the major findings was how much leaders struggle, and how much time they invest in this topic. When we asked the groups how much time each day they spent working on "fixes" for the company, the response was dramatic. Some said "I spend most of my time," whereas others said "I have people who focus on that; I focus on strategy." When we probed more deeply with the "I have people" leaders, all of them admitted to devoting a tremendous amount of intellectual energy to thinking about how to avoid failure.

After the focus group portion of our research was concluded, we had a great inventory of stories, processes, and validation, which served as the next step of our research. We now knew what the most common, hidden, and expensive mistakes were. And we heard hundreds of ways to proactively avoid or deliberately eliminate them. All the participants recognize that mistakes are going to happen in any organization. We were ready to move on to the C-level interview phase of the project.

Phase Three: Verification, Takeaways, and Insights

For the final phase of our research, we conducted personal interviews with dozens of industry's most experienced leaders to flesh out our statistical findings and results from our focus groups. Sitting CEOs confirmed the important lessons from our original research; still, the topic of our conversations was a hard one. The CEOs were often uncomfortable, and sometimes they asked to remain anonymous. Some would say, "You know, this may help people, but don't make me look bad." After several of our interviews, we got calls from the interviewee saying, "Hey, I just don't feel comfortable talking about this. Don't put me in the book."

To overcome this problem, we started interviewing retired CEOs—the true sages of business—with very different results. The retired CEOs shared great insights with almost no reservations. Typically, these leaders' roles have shifted from day-to-day management to sitting on national and international boards. They have evolved a keen ability to help other leaders learn from their experiences and observations and a willingness to share invaluable stories, of themselves and of others, that hold key takeaways and lessons.

The one thing we found in common across all of our interviews was this: learning from mistakes, whether you made them yourself or you observed them in others, is invaluable in becoming a great leader—whether you are a retired CEO of a Fortune 100 company, an aspiring leader, or a small-business owner.

Putting It All Together

We wanted to make the results of our research useful for you and your managers. Having said that, you may find the results of our research a bit thorny and controversial. Our findings challenge the traditional paradigm established by conventional leadership wisdom—that to become a great leader, you need to simply imitate great leaders' successes. But there is a duality to effective leadership that is seldom discussed in leadership books—that although there are paths you should follow in order to be an effective leader, there are also paths you should *not* follow in order to be an effective leader.

Leadership ability actually results from two distinct practices—following patterns of successes *and* developing skills to avoid failures. An apt comparison is the study of history, wherein we take note of what has worked in the past in order to replicate successes *and also* consider challenges and failures in order to avoid making the same mistakes over and over again. We need to understand what has worked in the past—and why; we also need to understand what has not worked in the past—and why. And we need to learn both through our own direct experience and through clear-sighted analysis of others' failures. Although great leaders will still make mistakes, they only make "original" mistakes—they are not doomed to repeat the lessons they've already learned, whether directly or indirectly.

A TAXONOMY OF LEADERSHIP MISTAKES

The remaining nine chapters of this book explore the most common leadership mistakes by groups—at the organizational, team, and individual levels. But before we delve in, it's important to note that not all leaders' mistakes are created equally. There are small, inconsequential challenges that have little effect on a leader's career, and then there are the big ones—the high-visibility, devastating challenges that can destroy careers. And the higher up you go in an organization, the bigger the mistakes can become.

Consider rock climbing as an analogy. Beginning rock climbers, like beginning leaders in business, start with skill development and technique. They practice tying knots. Mistakes result in scrapes and bruises. Even a long fall, although possibly more serious, is almost always recoverable. As climbers mature, teams or "ropes" start to form. Now climbers literally depend on one another for survival. A single misplaced piton could result in the death of a team member.

Ultimately, the leader of the rope team develops even more specialized skills. Through experience—trial and error—rope leaders can develop a recognizable "sense of path" up a mountain. To an outsider, this sense of path may seem like instinct, but experienced climbers know that it comes from the wisdom accrued from a set of successes and, more important, from valuable lessons learned from failures. The rope leader keeps the mission and progress—the path to the top—identifiable and achievable. But if the rope leader makes a mistake, the entire team could perish.

In business, the same relationships exist. Many young leaders, like young rock climbers, are consumed with attaining technical skills. Their amount of resource responsibility is usually limited, and so are the impacts of their actions beyond their individual success or failure. At the other end of the spectrum, senior-level leaders have much more responsibility and greater reach, and consequently their failures are magnified—even multiplied.

Based on our interviews with business leaders—from small-venture entrepreneurs to Fortune 500 CEOs—we have identified three critical areas in which aspiring leaders fail. These fundamental categories of mistakes reveal significant opportunities for effective leaders to observe and learn in order to continuously improve. Because these categories represent the material causes of wrong direction, wrong decisions, and wrong behaviors, rather than just symptoms, they travel well—once you understand the underlying error, you can identify it in almost any setting. The categories are:

- *Unbalanced orchestration* at the *organizational* level—misuse of talent and resources in the short term coupled with inability to focus on the future vision.

- *Drama management* at the *team* level—lack of discipline, pace, and appropriate communication, leading to dysfunctional teams.
- *Personality issues* at the *individual* level—personality faults and disconnects with reality that inhibit the ability to lead effectively.

Leaders from both our focus groups and our interviews contended that mistakes in these three categories are responsible for numerous leadership failures. Notably, the categories are equally important sources of leadership error. For example, if you have a great vision but can't effectively manage your top management team, failure will usually result. Any one of these weaknesses can lead to failure, even if you are doing everything else right.

Unbalanced Orchestration

Effective leaders guide companies—it's their most critical responsibility. That's why they are the ones at the top of the organizational chart. Failure to effectively orchestrate a strategy can sink the ship, whereas successful orchestration of a strategy can create the resilience to prosper in both good times and bad. It is the leader who creates and holds onto the vision, the strategy, and ultimately the roadmap to move a company forward. Without balanced, sustained, engaged strategic direction from a leader, a company can drift like a boat without a rudder, changing direction as the tides change, never getting anywhere—except perhaps washed up on the rocks. Unbalanced strategic orchestration exposes companies to considerable risk, and our research and analysis shows it arises from three particular leadership errors:

- Trying to be all things to all people
- Roaming outside the box
- Putting efficiencies before effectiveness

Each of these is described briefly in the following section, and then treated in depth in one of the chapters that follow.

All Things to All People

Often, ineffective leaders lack the disciplined business acumen to say “no.” They start giving in to requests from potential customers that don’t fit with their strategic direction. Why? Because there is an opportunity to generate revenue—in the short term. As they start chasing these alluring dollars, their strategic direction slowly erodes. The truth is, saying no to money is hard.

Dick Blaudow—chairman and CEO of ATS Corp., an industry leader in managing manufacturing processes—knows this very well. He has had to turn down potential new business because the company was expanding too fast. “It’s awfully hard to say no to new customers sitting on your doorstep wanting to give you money,” says Blaudow. “But if we continued trying to be all things to all people, we would have lost our sight on our purpose—and eventually it would have buried us.” Chasing dollars may work in the short run, but in the long run it can destroy your ability to lead strategically. Fortunately for Blaudow, he recognized the point where his company was starting down the wrong path and he made the right (tough) call before it was too late.

Roaming Outside the Box

Failing leaders are tempted to start “thinking outside the box.” Invariably they find that business dictums about boxes and creative thinking are cheap, but randomness in leadership is expensive. The received wisdom of thinking outside the box is entrenched. When we address audiences, inevitably an attendee asks something like, “To be a good leader, don’t you need to think outside the box?” Everyone else in the room nods in approval as if they have just heard the gospel truth. It’s been written about in books, everybody talks about it, so it must be correct—right?

We usually respond to the question by asking: “What box?” And usually the audience is silent.

Although the idea of thinking outside the box sounds provocative, it is in most circumstances without substance. To begin with, how can you think outside the box if you don’t know what the box is? It could represent your current product line, your company’s boundaries, maybe even your industry’s boundaries—all essentially arbitrary designations. When a leader commits to thinking outside the box, it leads to unbalanced orchestration—often involving innovation for the sake of innovation, a situation in which the innovation hammer is searching for new nails. A leader needs to have a vision and a strategic direction, and thinking outside the box slowly erodes that direction every bit as much as trying to be all things to all people does. It also violates the leadership principle of valuing effectiveness in all endeavors.

Efficiencies Before Effectiveness

Another harbinger of unbalanced orchestration is a focus on efficiency rather than effectiveness. Efficiency involves “doing things right”—trying to improve on something you already do. It is internally focused and has little to do with growth. In contrast, effectiveness involves “doing the right things.” It is strategically focused. It considers an organization in the context of its markets, rather than in the context of itself. Stated differently, a company may be very efficient at making a product, but if it’s the wrong product to meet customer needs, the company fails to be effective, and risks failing altogether.

Consider the debacle of Circuit City. Casual observers might blame Circuit City’s demise on a bad economy. But on closer inspection, it’s clear that failure was caused by an unbalanced focus on efficiency over effectiveness.

“Circuit City was successful in the 1980s and 1990s, but they never changed after that,” says David Schick, an analyst at Stifel Nicolaus.[8] Circuit City was successful in the ’80s and ’90s by operating effectively (doing the right things); in the 2000s this focus was replaced with an overemphasis on efficiencies (doing things right). Phillip Schoonhover, CEO of Circuit City, became so concerned with cost management that he lost sight of the company's sources of competitive advantage. While Best Buy was securing prime real estate in locations convenient to customers, Circuit City acquired real estate in stressed shopping centers—based on price. Similarly, when Best Buy and even Wal-Mart moved aggressively into gaming, Schoonhover took his eye off the ball. But Schoonhover's biggest mistake was his "transformation work" initiative. In March of 2007, he cut 3,400 knowledgeable sales people to decrease costs, ignoring the fact that customers want knowledgeable sales people when making an electronics purchase. Moreover, this move ultimately helped Best Buy, by giving them ready access to a large pool of knowledgeable sales associates. In each case, Schoonhover literally gave away his competitive advantages to focus on efficiencies.

The result? Circuit City saw a significant decline in sales that year, whereas Best Buy easily surpassed all of its sales and profit projections. If Schoonhover had continued to focus on *doing the right thing*, like Best Buy did, the company could still be in business today. Instead, it collapsed, and Herb Greenberg of the *Wall Street Journal* picked Schoonhover as the worst CEO of 2008.

Drama Mismanagement

If unbalanced orchestration is the source of a leader's failures in managing an entire organization, drama mismanagement derails a leader's ability to manage teams. Leaders who experience failure in this category literally manufacture unnecessary drama for their employees. And although drama is great for movies, it is not an effective tool to motivate most employees. According to our interviews, unnecessary drama is prevalent in industry, and it has the effect of driving people away, be they good employees or reliable customers.

Our research identified three key leadership failures that contribute to overly dramatic atmospheres in organizations:

- Bullying management
- Dysfunctional harmony
- Distracted purpose

Bullying Management

High school is full of bully drama. Remember the teacher who used to throw erasers at students during class? Or the big kid who picked on smaller kids on the playground? Bullying management isn't much different. It's a leadership style that creates a highly dramatic work environment. Bully leaders abuse their authority by using fear to motivate employees rather than using real leadership techniques based on empowerment, appropriate accountability, and respect. Bullying is a corrosive force inside organizations, and unfortunately it is more common than you may think. As you will see in the following chapters, bullying takes on many forms, from overt intimidation tactics like yelling to covert tactics such as subliminally demeaning comments.

Dysfunctional Harmony

It's lonely at the top. Not everyone will like you. As a matter of fact, there are countless examples of great leaders who are not liked much at all—Jack Welch, for example. But some people will try to be liked at any cost, and that spells disaster for leadership. Being an effective leader means that sometimes you will not make the most popular decisions. By doing what is necessary, you will sometimes make some people angry. That's okay. It's part of the job. If you are in a leadership role and you try to be liked by everyone all of the time, you will inevitably create drama and undercut your own authority and effectiveness. You are pursuing dysfunctional harmony—harmony at the cost of business effectiveness.

It gets worse. The biggest mistake that leaders make regarding dysfunctional harmony is the desire to have everyone like *each other* all of the time—to be "one big happy family." An insistence on a "happy family" leads to passive-aggressive behaviors because there's no healthy, up-front way to resolve normal conflicts. On the surface, everyone appears to get along, but behind closed doors, things can get downright ugly—much, much uglier than they need to. And leaders who desire an appearance of harmony above all else not only enable passive-aggressive behavior, they encourage it. If you have ever worked in such an environment, you know what we mean by drama.

Distracted Purpose

A leader can create unnecessary drama by losing sight of the fact that a team is more than a collection of individuals. Although there are advocates of intrateam competition, mismanaged competition within teams—a form of distracted purpose—can create divisiveness and ultimately destroy well-functioning work units. There is a wealth of research that supports this. Other failures involving distracted purpose include playing favorites and overreliance on individual talents instead of leveraging synergies of the team.

Personality Issues

Some leaders have personality attributes that lead to highly visible failure. These failures stem from personal traits that, in less extreme forms, can serve a leader well. Young leaders often show attributes of courage, confidence, and a bit of company celebrity that factor into their risk taking and their rise. When these attributes become exaggerated and distorted, they create leadership failure. Three types of failure can be attributed to personality issues:

- Hoarding
- Disengagement
- Self-absorption

Hoarding

Have you ever known a leader unable to delegate to her or his employees? When a leader has such a sense of superiority that letting go of responsibility becomes difficult, if not impossible, it is the team—and the organization—that suffers. Leaders who hoard responsibility fail in three different ways. First, they don't give employees a chance to develop the necessary skills to be effective team members, resulting in long-term stagnation. Second, what may work when an organization is small doesn't work when an organization grows, and entrepreneurial leaders who cannot delegate responsibility hold back their own organizations from opportunities to grow. Finally, for organizations of any size, when leaders hoard responsibility, they tend to micromanage. Rather than giving responsibility to their team, they become involved in every minor decision. Because they are constantly looking over the shoulders of their employees, they are unable to lead their organizations, and at the same time they alienate their team.

Disengagement

Burnouts who stay on the payroll too long, bosses who have no interest in their jobs, and celebrity CEOs all have one thing in common: all are disengaged from their company's culture. They become lost in their own world, unable to communicate with key stakeholders in their own organizations or to effectively lead.

Rod Blagojevich was elected governor of Illinois by overwhelming popular support. Over the following six years, he slowly created his own reality. He lost sight of his responsibilities, alienated his own staff, and ultimately became incapable of communicating with the public. He eventually made irreparable mistakes that not only cost him his job but also led to his being sentenced to federal prison.

Celebrity is often part of a leader's experience; however, when you let it get too big, it can lead to disengagement from your real work, which in turn leads to leadership failure.

Self-Absorption

Ego can get in the way of a lot of things, including effective leadership. Sometimes successes can actually lead to failures, especially if leaders feel as though they are on a roll. Business acumen and a sense of reality take a back seat.

Some people are narcissistic by nature, and their leadership style will reflect that. But others, without even realizing what is happening, slowly fall into the trap of self-absorption. For a variety of reasons, their egos get out of check, and they start to feel invincible.

Isaiah Thomas, former point guard for the Detroit Pistons and a Hall of Fame basketball legend, let his past success give him a feeling of infallibility. For several years he was the general manager of the New York Knicks basketball franchise. During that time he made some of the worst investments in NBA history. He slowly assembled a team of all point guards. His sense of infallibility led him to believe that because he was so successful as a point guard, five players similar to him would be five times as good. Needless to say, this strategy was unsuccessful, and he was soon fired. A self-absorbed leader will make bad decisions most of the time, simply because he can't see past himself.

NEW DISCOVERIES

We have been speaking to audiences for the last several years, sharing our research and analysis with thousands of executives all over the world. Now we want to share it with you. You are not going to find the "correct answer" at the end of this book. What you will find is an array of stories, examples, analyses, and step-by-step guidelines that demonstrate the qualities of both great leaders and failed ones. Learning from others' mistakes works, and it is a necessary part of the journey of leadership. It's our belief that you will walk away from reading this book armed with action-based tactics, a sense of the benefits of a balanced approach to leadership, and new insights on the most potent leadership virtues and vices (which, as we'll see, can sometimes be hard to distinguish from one another).

The research that underpins this book was broad-based, so we do not limit our examples to stories of Fortune 500 companies (clearly, though, there are some classics that would have to make it into any book on leadership failure). We also include many examples of leaders in mid-sized and entrepreneurial businesses. While leaders in entrepreneurial firms can learn from leaders in large multinationals, the reverse is true as well.

Certain ideas in this book will appear to be common sense—which doesn't mean, of course, that many or even most leaders may act accordingly. We'll also introduce some ideas that you may find controversial, even radical. We hope that these ideas will provoke you to challenge your current thoughts on leadership growth.

THE REST OF THE STORY

Leadership success doesn't just happen. It takes a lot of the right kind of work. As previously discussed, we have identified three major categories of leadership lessons emerging from our research: unbalanced orchestration (leadership failures at the organizational level), drama management (leadership failures at the team level), and personality issues (leadership failures at the individual level). The rest of the book takes these lessons in turn, with three chapters each on specific lessons in unbalanced orchestration, drama management, and personal issues. Each chapter concludes with practical ideas and key takeaways to help you identify the potential for failure and proactively avoid mistakes.

It doesn't matter what kind of business you are in—large or small, public or private, manufacturing or service, profit or not-for-profit. These insights were carefully developed by studying thousands of executives in hundreds of varied companies. This rich pool of experience doesn't yield cut-and-dried answers about leadership success and failure, but it can allow you to learn from others' failures *without* having to experience those mistakes and thereby risk the survival of your organization or your career.

We've seen "how-to" business books for years. This book provides the rest of the story. It's the "how-not-to" business book—with stories every bit as compelling and no less important in ensuring the success of any leader.