WHY SMART EXECUTIVES FAIL
AND WHAT YOU CAN LEARN FROM THEIR MISTAKES

CHAPTER 9:
Seven Habits of Spectacularly Unsuccessful People

The Personal Qualities of Leaders Who
Preside Over Major Business Failures

To be spectacularly unsuccessful requires some very special personal qualities. We’re talking about people whose failures were breathtakingly gigantic, who have taken huge, world-renowned business operations and made them almost worthless. They have caused thousands of people to lose their jobs and thousands of investors to lose their investments. They’ve managed to destroy hundreds of millions or even billions of dollars of value. Their destructive effect is so beyond the range of ordinary human beings that it’s on a scale normally associated only with earthquakes and hurricanes.

The personal qualities that make this awesome scale of destruction possible are all the more fascinating because they are regularly found in conjunction with truly admirable qualities. After all, hardly anyone gets a chance to destroy so much value without also demonstrating a potential to create it. Most of the great destroyers of value are people of unusual intelligence and remarkable talent. They are almost always capable of being irresistibly charming, exercising
great personal magnetism, and inspiring others. Their faces have typically appeared on the covers of *Forbes, Fortune, Business Week*, and other business publications.

Yet when it comes to the crunch, these people fail monumentally. The list of leaders who have failed spectacularly is not a list of people who weren’t up for the job. It’s a list of people who had a special gift for taking what could have been a modest failure and turning it into a gigantic one.

How do they do it? What’s the secret of their destructiveness? Remarkably enough, it’s possible to identify seven habits that characterize spectacularly unsuccessful people. Nearly all of the leaders who preside over major business failures exhibit five or six of these habits. Many of them exhibit all seven. Even more remarkable, each of these habits represents a quality that is widely admired in today’s business world. As a society, we don’t just tolerate the qualities that make leaders spectacularly unsuccessful; we encourage them.

Let’s look, then, at The Seven Habits of Spectacularly Unsuccessful People. Although these habits are most destructive when it’s the CEO who exhibits them, other managers with these habits can do terrible harm as well. Learning to recognize these habits is the first step toward finding ways to compensate for them.

**Habit #1: They see themselves and their companies as dominating their environments.**

“Wait a minute,” you might say. “Where’s the harm in that? Don’t we want leaders who are ambitious and proactive? Shouldn’t a CEO seize the initiative and create business opportunities, not just react to developments in his or her industry? Shouldn’t the company try to dominate its business environment, shaping the future of its markets as well as setting the pace within them?”
The answer to all these questions is, of course, “yes.” But there’s a catch. Successful leaders are proactive because they know they don’t dominate their environment. They know that no matter how successful they have been in the past, they are always at the mercy of changing circumstances. They need to generate a constant stream of new initiatives because they can’t make things happen at will. To be successful for more than a fleeting moment, every business venture needs to be one that customers and suppliers interact with voluntarily. This means that no matter how successful the company, its overall business plan will need to be continually re-adjusted and renegotiated.

Leaders who see themselves and their companies as dominating their environments forget these things. They vastly overestimate the extent to which they are controlling events and vastly underestimate the role of chance and circumstance in their success. They think they can dictate terms to those around them. They think they’re successful and that their company is successful because they made it happen.

There are some deep psychological reasons why many leaders begin thinking this way, the most important of which is the human need to feel responsible for what happens to us. We need to feel we can influence our fate when things are going wrong, and that we deserve our success when things go right. Yet CEOs are constantly faced with threats that are in some respects beyond their control, and they are successful in some respects beyond what they deserve. Under these circumstances, many business leaders need to believe they are dominating their environments in order to cope with the stresses of their jobs.
The Illusion of Personal Preeminence

Many CEOs believe that he or she is personally able to control the things that will determine the company’s success or failure, a tendency labeled the Illusion of Personal Preeminence. Rather than scrambling to keep track of changing conditions, the CEOs who succumb to this illusion believe they can create the conditions under which they and their company will operate. What’s more, they believe they can do it by their own personal genius and force of personality. Like certain film directors, they see themselves as the auteurs of their companies and sometimes even as the auteurs of their industry. They imagine that their job is to realize their creative vision, imposing their will on unruly collaborators and inert raw materials. As far as they’re concerned, everyone else in the company is there to carry out their personal conception of what the company should be.

When CEOs actually do possess a measure of genius, they are especially prone to slide into this illusion of personal preeminence. An Wang, for example, knew he was a technical genius. This led him to believe he could master business situations by employing the same intelligence and diligence that had allowed him to master technical problems. Mossimo Giannulli had a touch of genius when it came to expressing popular trends in clothing designs. This led him to believe that he was also a business genius, one who had little need for qualified and experienced managers. In the opinion of Merrill Lynch analyst Brenda Gall, Mossimo “bought into his own image too much” and believed that he could do anything.1 It wasn’t until his rapid growth plan fell victim to cost overruns, late shipments to major customers, and inadequate systems – stripping his company’s stock price by 90% – that he finally stepped down.

Executives with a degree of business genius are just as susceptible to this illusion as those with a more technical kind of genius. Samsung CEO Kun-Hee Lee was so extraordinarily

successful with semiconductors and electronics that he thought he could repeat this success with automobiles. Webvan CEO George Shaheen had been so successful in his earlier job as CEO of Andersen Consulting that he was completely oblivious to the fact that he wasn’t communicating effectively with his managers in Webvan. “He operated 20,000 feet above everyone else,” explained a former Webvan executive. “I liked him,” commented another Webvan manager, “but he was the wrong man, particularly for a public company.”

**Behavior That’s a Little Too Preeminent**

Leaders who suffer from the illusion of personal preeminence often reveal this in the way they treat the people around them. To these leaders, the people they interact with are instruments to be used, materials to be molded, or audiences for the leader’s performances. When business leaders think this way, they often use intimidating or excessive behavior to dominate the people who surround them. In most cases, it’s not unconscious or unintentional. They want to be “larger than life,” “legendary,” “awe-inspiring.” The subtlest practitioners of this intimidating personal style are those who achieve it while speaking softly and making small gestures. They revel in the contrast between the little things they do and the huge effects they can get by doing them. But there is no shortage of leaders who prefer the other alternative – speaking *loudly* and carrying a big stick. Whichever style they chose, leaders who believe in their personal preeminence can achieve a remarkable level of intimidation.

As co-founder and CEO, Bob Levine of Cabletron was famous for his flamboyant, confrontational style. He was also famous for his bodybuilding regimen, right-wing politics, and survivalist mentality. He purchased an abandoned grocery store near the company’s offices so

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he could lift weights during his lunch hour. His lighter side is illustrated by the fact that he bought a working army tank to keep in his yard. Legend has it he once used it to scare a pizza deliveryman. As a salesman, he was known for aggressive motivational stunts. At one Cabletron sales meeting, he arrived brandishing a knife to teach employees about killing the competition. At another, he appeared dressed in combat fatigues and swinging a machete.  

Few CEOs could match Bob Levine when it came to colorful antics, but many CEOs whose companies suffered major breakdowns could match him when it came to sheer intimidation. Roger Smith of GM had such a ferocious disposition that the EDS executives who witnessed one of his outbursts say he turned red, shouted, pounded on the table, and literally foamed at the mouth. Jerry Sanders of Advanced Micro Devices (AMD) intimidated those around him by his temper to such an extent that they were afraid to tell him any news they thought might upset him. Enron leaders Jeffrey Skilling and Andrew Fastow were known for their toughness and arrogance. Sir Richard Greenbury was feared for years by his underlings at Marks & Spencer. Rubbermaid’s Wolfgang Schmitt could be “a very engaging and personable guy,” but he adopted a personal style at work that was described as “very blunt and intimidating in dealing with people.” Inside the company Schmitt “was known as the ‘U-boat Commander’ because he had a very tough, take no prisoners style about him.” These aren’t people who occasionally get angry; they are people who have made displays of anger and other intimidating behavior part of their basic management style.

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8 Interview with former executive, Rubbermaid, August 30, 2002.
The Illusion of Corporate Preeminence

Executives who succumb to an illusion of personal preeminence often succumb to an illusion of corporate preeminence too. This is a belief on the part of the CEO that his or her company is absolutely central to suppliers and customers alike. Rather than looking to satisfy customer needs, the CEOs who believe they run “preeminent companies” often act as though their customers are the lucky ones, fortunate to be able to have their needs satisfied so effectively. It’s almost as if the entire customer relationship is turned on its head so that it is the customers’ job to please the company by showing themselves worthy of the company’s products.

Leaders who suffer from an illusion of corporate preeminence often believe that the superiority of their company’s product makes it invulnerable. An Wang, for example, believed that Wang would eventually dominate its markets because its products were simply so much better than any others. Bob Levine believed that rivals like Cisco were producing such inferior products he had little need to take them seriously. If the customers didn’t immediately see this, he thought it was the job of Cabletron’s sales force to make them see it. CEOs like these become so proud of their company’s product, they believe its sheer excellence will give them the latitude to do anything they please. After all, they tell themselves, if you make the best product in the world, customers must either come to you or settle for something inferior.

Even when competitors who offer better designs or better prices challenge the company’s products, executives who suffer from an illusion of corporate preeminence will continue to believe that their company is secure simply because of its status in the business world. Kun-Hee Lee, for example, believed that Samsung’s corporate preeminence more-or-less guaranteed its success. “We, at Samsung, used to believe that we could do better than anyone else,” one of

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Samsung’s managers later confessed. “Samsung believed that it could not fail.”

Wolfgang Schmitt of Rubbermaid has said, “Our success had it’s own form of seductiveness. It made us pretty self satisfied and not inclined to ask the tough questions.”

At Schwinn, managers boasted, “We don’t have competition. We’re Schwinn.”

**Habit #2: They identify so completely with the company that there is no clear boundary between their personal interests and their corporation’s interests.**

Like the first habit, this one can readily seem innocuous or beneficial. After all, don’t we want our business leaders to be completely committed to their company? To see the company’s best interests and their own best interests as one and the same? To be as careful with company money as they would be with their own?

Yet, in case after case, a deeper examination of the factors contributing to major business failures suggests that the failed executives were not identifying too little with the company, but too much.

What is going on here? In Chapter Two, we already pointed out some of the problems that arise when the primary shareholder is also the primary manager: that giving an executive too large a stake in the company also gives the executive too much power. If the CEO controls too large a block of stock, there will be no one in a position to take corrective action if the CEO chooses a dangerous or destructive course.

Here we are concerned with something quite different. Identifying too much with the company encourages CEOs to make unwise decisions. Instead of treating the company as

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10 Interview with Samsung managers, May 2000.
something they need to care for, nurture, and protect, CEOs who identify too much with their company treat the company as an extension of themselves. They cause the company to do things that would make sense for a person, but do not make sense for a company.

This is a habit that can be remarkably easy to slip into. CEOs are especially prone to identify too much with a company if they believe they are personally responsible for the company’s success. This means that leaders who succumb to the illusion of personal preeminence are also likely to fall into this related trap. If the CEOs are company founders or have taken a small company and helped turn it into a very big one, they are in particular danger of confusing their company’s achievements with their own. In extreme cases, the CEO will actually believe he or she IS the company. Mossimo Giannulli liked to say, “I am Mossimo.” Kun-Hee Lee was rumored to be quite pleased to be referred to as “Mr. Samsung.” For many years, in his own mind and in the minds of his employees, An Wang was Wang.

When CEOs and their employees are unable to separate the CEO from the organization, they’re well on their way to a “private empire” mentality. The CEOs begin to behave as though they own their companies, when they don’t, and they begin to act as though they have the right to do anything they want with them, which isn’t true.

CEOs who succumb to this mentality often use the corporation to carry out personal ambitions when these are not a good way to generate profits. Samsung CEO Kun-Hee Lee decided to enter the automobile industry mostly because he liked cars. The Saatchi brothers pushed their company to become bigger and bigger, regardless of whether or not this resulted in more profits, because of their own aggressively expansive egos.

Once they’ve launched a project, leaders like these often invest in it with no sense of proportion or restraint because they feel that betting on the project is betting on themselves.
Roger Smith’s plan to make GM factories as worker-free as possible became so much a part of his own identity that he was incapable of stepping back and evaluating it critically. A succession of Motorola CEOs made Iridium so much a symbol of their imaginations and boldness in envisioning the future that it became difficult for them to stop and re-evaluate the venture when circumstances changed. Mossimo Giannulli couldn’t get any critical distance whatsoever from the company he had named for himself, so its activities all became an expression of his own megalomaniac ego. In cases like these, the CEO becomes unable to acknowledge that the pet project has become a losing proposition, because to do so would seem like a declaration of personal inadequacy.

Legendary automotive executive John DeLorean provides a stunning demonstration of how thoroughly identification with a company can ruin its chances of success when he tried to launch a new car company. At first, the prospects for his venture seemed excellent. But as soon as DeLorean decided to name the car he would manufacture after himself, the whole enterprise took on a different tone. He changed the design of the company’s first model from a vehicle for the middle classes to the “super-car,” later featured in the *Back to the Future* movies. He also greatly increased the amount he was spending to build his Northern Ireland automobile factory. Essentially, his ego demanded that everything associated with his own name be first class. This made the environment he created for his workers into a model for factories everywhere. But it also made him almost psychologically incapable of controlling costs. Later, when it became increasingly obvious that DeLorean’s automobile company was in serious trouble, DeLorean couldn’t bear to recognize it because it would have seemed as though he was betraying himself.

**Decisions Express the Executive’s Personality**
When CEOs identify too much with the company, they tend to make business choices to suit themselves, not the company. Cabletron neglected marketing largely because co-founder Craig Benson (who is now Governor of New Hampshire) never liked marketing. Stephen Wiggins, CEO of Oxford Health Plans, saw himself as too much of a computer expert to be running a company that would settle for mass-market software. Said Michael Kornett, Oxford’s President in 1992 and 1993, “He’s computer-literate and a systems jockey. His mindset was ‘We aren’t a vanilla company and we can’t buy a vanilla managed-care processing system.’”13 This fixation on avoiding vanilla ended up costing Wiggins his job, and the company almost its life.

Executives who adopt this general frame of mind regularly confuse their personal adversaries with the company’s adversaries. An Wang, for example, hated IBM because he felt they had cheated him early in his career, so for a long time, he refused to cooperate with them, even indirectly. This is one of the reasons he delayed entering the PC market and ultimately did it with proprietary software. Jerry Sanders of AMD hated Intel and attacked them for years, sometimes to the obvious detriment of AMD.14 Stephen Wiggins of Oxford Health Plans hated the government so much that he often seemed more eager to score points in his ongoing battles with government agencies than to accept the compromises that would have allowed his company to get on with business. The racist attitudes that permeated the Boston Red Sox in the age of integration is a particularly heinous example of how personal hatreds can get translated into corporate hatreds, and the price you pay for crossing that line.

Perhaps the most surprising thing that happens when CEOs identify too much with their company is that they become less careful with the company’s assets. They take big risks with other people’s money, not because it’s other people’s money, but because they are treating it as

their own money and they happen to be big risk-takers. Very often, it’s making big bets and managing to collect on them that got the CEOs into their top jobs in the first place. Once in charge, these CEOs aren’t likely to abandon the risk-taking style that made them rise above their peers. Bankers Trust CEO Charles Sanford, Jr., is a perfect example. Not only did he have a risk-taking attitude himself; he encouraged it among employees by basing their pay entirely on their recent performance. In the mid-1990s, his high-flying recruits were paid to trade aggressively, innovate aggressively, and sell aggressively.15 They weren’t paid to safeguard company assets. So they didn’t. The push to sell derivatives led to lawsuits, lost business, and Charlie Sanford’s job.16

Unfortunately, this sort of attitude toward company money is more the rule than the exception. Even Peter Guber and Jon Peters, despite their violation of other codes, were mostly guilty of treating Sony Pictures as an extension of their own personalities. If they were extravagant and reckless with Sony’s resources, it was mostly because they were extravagant and reckless with their own resources.

The Darkest Side of Identifying with the Company

When leaders identify with their companies too much, they become increasingly likely to use corporate funds for personal reasons. At the time, most CEOs aren’t aiming to do anything illegal. In nearly every case, they get stuck on a slippery slope. Executives get used to traveling in a cocoon of constant luxury and having their every expenditure on the road treated as a business expense. They work such long hours that they feel they’ve given up their private lives

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for the company. So eventually they come to believe that everything they do is “for the company” and should be paid for by the company.

CEOs find it especially easy to rationalize the use of corporate funds for private purposes when these purposes are philanthropic and involve causes the corporation would generally support. In June 2000, for example, Fruit of the Loom began investigating former CEO William Farley for directing the company to make charitable donations dating back to 1994 to “satisfy his or his family’s personal obligations under pledge agreements.”\(^\text{17}\) The non-profit organizations in question ranged from educational institutions like Boston College, to hospitals such as New York Presbyterian. All of these contributions would have seemed beneficial to the world and at least vaguely in the interests of Fruit of the Loom. Yet they involve questionable expenditures of corporate funds and equally questionable expenditures of the executive’s time and attention.

Once executives are covering some of their personal expenditures with company money, it becomes increasingly difficult to keep the personal and the corporate separate. This accelerates the blurring of boundaries between personal identity and corporate identity. After John DeLorean named the new car his company was going to manufacture a “DeLorean,” people started to call the company DeLorean, and employees said they worked for DeLorean. When listening to DeLorean’s own speech, it was often hard to tell whether he was talking about the car, himself, or his company. Under the circumstances, is it any wonder that he tended to forget which checkbook was which?\(^\text{18}\)

If the executives have been on the job long or have overseen a period of rapid growth, they may come to feel that they’ve made so much money for the company that their expenditures

\(^\text{17}\)McCleary, Carol, “Fruit of the Loom wants to examine former CEO’s donations,” Dow Jones Business News, June 8, 2000.
on themselves and those dear to them, even if extravagant, are trivial by comparison. In fact, by their very extravagance, these executives often seem to be demonstrating to themselves how great the services were that they performed for their company. This twisted logic seems to have been one of the factors shaping the behavior of Dennis Kozlowski of Tyco. His pride in his company and his pride in his own extravagance were not in conflict, but seem, in fact, to have reinforced each other. This is why he could sound so innocent and sincere, making speeches about the need for ethical conduct in business, while simultaneously using corporate funds for personal purposes to an extent that is now becoming legendary. If Kozlowski seemed utterly shameless, it was because in his own mind, these things demonstrated his worth to his company and to society.\footnote{Kozlowski spent more than $2 million of company money on a birthday party in Sardinia for his wife, commissioned a yacht that would have cost the company millions more, and regularly poured millions of dollars of company money into decorating his houses and apartments. The details of what was charged to Tyco were stunning: $6,000 for a shower curtain, $2,900 for coat hangers, $17,100 for a toiletry kit, $15,000 for a poodle-shaped umbrella stand, $6,300 for a sewing kit, $5,960 for two sets of sheets. Kuczynski, Alex, “Lifestyles of the rich and red-faced,” New York Times, September 22, 2002, Section 9, p. 1; Ross, Barbara, “Tyco pig ducks pen,” New York Daily News, September 20, 2002, p. 3.}

Being CEO of a sizeable corporation is probably the closest thing in today’s world to being king of your own country. The Pressman brothers demonstrated how kings could live if their kingdom were Barneys. Gene Pressman lived in Bugsy Siegel’s former 25,000 square foot home with accessories that included a collection of fine wines – estimated at 100,000 bottles – and a collection of antique cars.\footnote{Strom, Stephanie and Steinhauer, Jennifer, “Haughty couture,” New York Times, January 21, 1996, Section 3, p. 1.} While Barneys slid into a financial crisis, Pressman’s daughter Nancy spent $1.2 million remodeling her home, made a practice of removing money from the store’s “money room” for personal use, and regularly helped herself to extravagant outfits from the store racks, which she gave to her boyfriends. In 1994 and 1995, as the company operated tens of millions in the red, the Pressmans took what a former executive estimates to be “at least
$14 million to $15 million out of Barneys and possibly much more.” Gene embarked on a
million dollar renovation of his Westchester home. Then, right before declaring bankruptcy,
Gene and Bob Pressman went on vacation and withdrew an additional $5 million from the
company for supposed retroactive salary increases. From an ethical and business standpoint,
this might sound self-destructively insane. But it is really just an extreme case of executives
failing to distinguish between themselves and their company.

Habit #3: They think they have all the answers.

It’s hard not to be impressed with business leaders who continually dazzle us with the
speed with which they can zero in on what’s really important. They always seem to have a deep
acquaintance with the relevant facts. They can instantly make sense out of complex situations.
Above all, they have a gift for sheer decisiveness.

Altogether, this is the image of executive competence that we’ve been taught to admire
for decades. Movies, television shows, and journalists all offer us instantly recognizable
vignettes of the dynamic executive making a dozen decisions a minute, snapping out orders that
will redirect huge enterprises, dealing with numerous crises at once, and taking only seconds to
size up situations that have obviously stumped everyone else for days. At the higher levels of
business, there actually are many people who resemble this stereotype or seriously aspire to
resemble it. Their personal styles may vary, but underlying all their conduct on the job is this
ideal of an executive who has all the answers and who can articulate those answers as fast as his
or her associates can ask the questions.

The problem with this picture of executive competence is that it is really a fraud. In a
world where business conditions are constantly changing and innovations often seem to be the

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only constant, no one can “have all the answers” for long. Leaders who are invariably crisp and
decisive tend to settle issues so quickly that they have no opportunity to grasp the ramifications.
Worse, because these leaders need to feel they already have all the answers, they have no way to
learn new answers. Their instinct, whenever something truly important is at stake, is to push for
rapid closure, allowing no periods of uncertainty, even when uncertainty is appropriate.

People around the CEO sometimes encourage this sort of “decisive behavior” because they find it reassuring. They want to follow a leader who has all the answers. The fact that they are invariably following a leader who doesn’t have all the answers – even though they know logically that this has to be the case – is very frightening.

Leaders who accept this ideal of executive competence tend to relish the sort of performance they are able to give, where they make snap decisions and issue orders at high speed. Rubbermaid CEO Wolfgang Schmitt was especially fond of demonstrating his ability to sort out difficult issues in a flash. A former colleague told us that around Rubbermaid “the joke went, ‘Wolf knows everything about everything.’” This attitude of having all the answers permeated Schmitt’s entire management style. “I remember sitting in one discussion,” this colleague said, “where we were talking about a particularly complex acquisition we made in Europe and Wolf, without hearing different points of view just said, ‘Well, this is what we are going to do.’ He made it sound as if it was obvious to him and should have been obvious to the rest of us.”22

No industry seems immune from choosing CEOs who exhibit this executive style. Roger Smith of GM visibly reveled in being crisp and decisive, even when he had only a limited idea of what the implications of his decisions might be. George Shaheen of Webvan was at his best when demonstrating his ability to be quick and incisive. The only problem was that he had never

22 Interview with former executive, Rubbermaid, April 12, 1999.
stopped to figure out if his company’s business plan was a workable one. Dennis Kozlowski of Tyco not only seemed to have an instant answer for every issue his company faced; he also seemed able to articulate the management principle that each decision illustrated. In company after company, the executive leading the way to disaster seems the living embodiment of what the media have taught us a decisive executive should look like.

All of these paragons of decision-making share another quality – they learn only what is a direct extension of what they already know. Wolfgang Schmitt is a good example. When describing him, John Mariotto, former president of Rubbermaid’s office products unit, said: “Wolf’s problem is he will not listen and really hear people telling him things he doesn’t agree with, and he has few left who will dare to disagree with him anyway.”23 Stanley Gault, the earlier Rubbermaid CEO, stated Schmitt’s problem even more simply: “He refused to accept advice and suggestions.”24

One of the critical side effects of a CEO’s fixation on being right is that opposition can go underground, effectively closing down dissent. Once this happens, the entire organization will grind to a halt, whether or not these CEOs were actually right or wrong in their judgments.

Interestingly, Schmitt saw himself as an agent of change at Rubbermaid, and was frustrated by people who “gave you lip service, and [others] who actively undermined the efforts.” As he told us with evident irritation, others in the company said, “We’ve been extraordinarily successful. Why would we need to change? One of America’s most admired companies, blah, blah, blah…”25 The difference in perception between Schmitt and his staff at Rubbermaid is striking, and characteristic of many of the executives described in this chapter.

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23 Yerak, Becky, “Superstar stumbles,” Cleveland Plain Dealer, July 9, 1995, p. H1
25 Interview with Wolfgang Schmitt, former Chairman and CEO, Rubbermaid, June 12, 2001.
For Schmitt, the problem wasn’t his approach. He knew the company needed to change, and he knew how it needed to change. Unfortunately, he was a leader without followers.

**Control Freaks**

Leaders who adopt the ideal of executive competence usually try to have the final say on everything their company does. If, like so many spectacularly unsuccessful leaders, they also feel personally responsible for the company’s success and identify strongly with it, this will increase their desire for control. The more these leaders can control their companies, the less they feel threatened that their success depends on things outside their control. Thus, personal control for these leaders is both an extension of what they see as their executive role and protection against their own vulnerabilities.

It would be hard to find anyone who illustrates this compulsion to control everything better than An Wang. “Control was a big issue,” one of his sales people emphasized. Employees knew that An Wang had to bestow his blessing on just about everything that happened within the company. And if an issue seemed important, Wang would intervene to make the decision himself, often in an ad hoc manner. “There was an autocratic management style from the top down.”

In personality, Mossimo Giannulli seems at first glance to be as different from An Wang as anyone could be, yet in his compulsion to control everything, he is much the same. Besides designing and marketing the merchandise, he made every key decision himself, rather than

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delegating to other managers.\textsuperscript{27} “I don’t think anyone is as capable of running this company as [I am],” he explained, admitting that some have called him a “control freak.”\textsuperscript{28}

Ultimately, executives “with all the answers” trust no one. Only they can be relied upon to make the final call on any issue where the answer isn’t obvious. This is how they put their personal imprint on every aspect of their company’s operations.

**Habit #4: They ruthlessly eliminate anyone who isn’t 100% behind them.**

Like the other habits of spectacularly unsuccessful people, this one can seem like an essential part of the leader’s role. CEOs with a vision believe that a major part of their job is to instill a belief in their vision throughout their company, getting everyone working together to achieve the goals they’ve set out. If a manager, for instance, doesn’t rally around the cause, these CEOs feel their vision is being undermined. After a short grace period, these CEOs will ultimately confront hesitant managers with the choice of “getting with the plan” or leaving.

The drawback of this policy is that it’s both unnecessary and destructive. CEOs don’t need to have everyone in the company unreservedly endorse their vision to have the company carry it out successfully. By eliminating all dissenting and contrasting viewpoints, they cut themselves off from their best chance of correcting problems as they arise.

Executives who have presided over major business disasters have regularly removed or ousted anyone likely to take a critical or contrasting position. Roger Smith of GM was especially successful at getting rid of any executives and board members who saw things differently than he did – sometimes by having them fired, but often by sending them to some

\textsuperscript{27} Johnson, Greg, “Moss the boss; Red-hot designer Mossimo Giannulli shoots for fashion’s big leagues,” Los Angeles Times, September 8, 1996, p. D1.
\textsuperscript{28} Johnson, Greg, “Trying public on for size; Corona Del Mar grad will offer Mossimo shares for sale on stock exchange,” Los Angeles Times (Orange County Edition), December 21, 1995, p. D1.
distant outpost where they’d have no further influence at headquarters. Jill Barad at Mattel removed her senior lieutenants in relatively short order if she thought they had serious reservations about the way she was running things. At Fruit of the Loom, an insider reported, “It almost became a badge of honor to get fired by Bill Farley.” At Rubbermaid, Wolfgang Schmitt created such a threatening atmosphere, firings were often unnecessary. When new executives brought in to effect change realized they’d get no support from the CEO, many of them left almost as fast as they had come on board. Ed Schwinn simply left the room when some senior Schwinn executives began outlining what they saw as the problems in the company. Upon his return, he announced, “Guys, this is not going in the direction that I wanted it to. We’ll pick this thing up at a later date.” One week later, the executive who was most forceful in describing Schwinn’s problems was asked to resign.  

Habit #5: They are consummate company spokespersons, obsessed with the company image.

Leaders who adopt this fifth habit become the sort of high-profile CEOs that are constantly in the public eye. They spend a lot of time giving public speeches, appearing on television, and being interviewed by journalists, performing with remarkable charisma and aplomb. They brilliantly inspire confidence among the public, employees, potential new recruits, and, especially, investors.

The problem is that amidst all the media frenzy and accolades, these leaders risk allowing their management efforts to become shallow and ineffective. Instead of actually accomplishing things, they often settle for the appearance of accomplishing things. Their best energies and

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29 Interview with Barry Ridings, Managing Director, Lazard Freres, May 9, 2002.
attention go into crafting a public image, rather than into running the company. In fact, in extreme cases, they can no longer tell the difference. A meeting where they turn in a great performance seems as good as a meeting that actually gets something done.

The public tendency to judge a CEO’s success by the current price of the company’s stock greatly reinforces this fifth habit, because the fastest and easiest way to improve the share price is to put on a good show for the media and for investors.

The unholy alliance of business media and stock markets also encourages companies to choose “great communicators” for their top positions. William Farley of Fruit of the Loom, for example, was known throughout his career for his ability to dazzle potential investors. As one Chicago columnist wrote, “There has always been something attractive and optimistic about Farley that otherwise savvy investors cannot resist. And there is something about the showman in him that has entranced otherwise sober spectators.”

Dennis Kozlowski of Tyco had a similar ability to impress investors and journalists. He maintained a heavy schedule of speeches and interviews in which he held up Tyco as a model of management practices, often, ironically enough, emphasizing the importance of ethical standards.

Most CEOs achieve this level of media success not by some stroke of luck, but by devoting themselves assiduously to public relations. Jerry Sanders of AMD is just one of the many CEOs who have loved making public appearances and being covered by the press. Maurice and Charles Saatchi devoted so much of their energies to promoting and shaping the public image of Saatchi & Saatchi that it sometimes seemed the main thing their agency was advertising was the advertising agency itself. Sam Waksal, the former CEO of ImClone who pleaded guilty to insider trading charges, was a master at drumming up media interest in his company’s cancer-drug Erbitux.

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Even CEOs like GM’s Roger Smith, who are not ordinarily thought of as media darlings, often fall into this fifth habit of spectacularly unsuccessful people. Despite his famous reluctance to be interviewed for the movie Roger and Me, Smith was proud of his ability to “wow the audience” at business gatherings by presenting a dazzling vision of how GM’s new technological and business innovations were supposed to work. Unfortunately, this vision had little to do with how the innovations actually did work. While Smith was describing how precisely programmed robots would smoothly perform complex tasks, back at GM’s Hamtranck paint facility the real-life robots were spray-painting each other.\(^{32}\)

**Pitching the New Vision**

When a company is being genuinely innovative, it’s especially tempting for the CEO to concentrate most of his or her energies on selling the new vision animating the company’s efforts. During the years when General Magic was struggling to develop a viable product, for example, CEO Marc Porat seemed to be in every magazine and news show. During Enron’s period of rapid innovation and growth, both Jeffrey Skilling and Ken Lay seem to have been more concerned with creating an appearance of trading initiatives at their energy company than with actually implementing these initiatives. But the kind of all-out public relations efforts these CEOs managed to mount not only distracted them from the job at hand; they also raised expectations impossible for their companies to meet. Rather than admit they have fallen short of these expectations, and weaken their standing in the capital markets, CEOs in this predicament often fall into a vicious circle. They bolster each unrealistic conception of what the company is

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doing with another unrealistic conception. They don’t dare let up on their public relations efforts for fear investors and the media will start viewing the company in a more skeptical light.

**Becoming Pop Icons**

Even though their companies may be in a state of crisis, many of these CEOs find time to make themselves not just corporate spokesmen, but lifestyle spokesmen, appearing in TV ads and celebrity news columns. Ed Schwinn seized the opportunity to star as himself in an American Express commercial. William Farley appeared in TV ads for Fruit of the Loom underwear, lifting weights, and briefly considered running for president in 1988.33 Mossimo Giannulli played a role in Janet Jackson’s “You Want This?” video. He signed autographs in department store appearances, dated and later married television actress Lori Loughlin, and was seen around Hollywood with his actor friends Steven Baldwin and John Stamos.34 Are these CEO types really the best media icons to use in promoting the company? And if they are the best icons, should they be trying to run the company at the same time?

Some CEOs achieve a similar celebrity status by making high-profile donations and lavish public expenditures. Steve Hilbert of Conseco was renowned for his philanthropy and his spectacular social affairs. The Indianapolis Symphony’s Hilbert Circle Theater now bears his name, and the local NBA team plays in Conseco Fieldhouse.35 The huge parties Hilbert threw included one where he chartered a jumbo jet to fly guests to St. Martin for his sixth wife’s birthday. The Saatchi brothers made themselves into public figures, not just in the world of business, but also in the worlds of art and politics. They created an important modern art

museum from their private collection and Maurice was knighted by the Queen. If the scale of the philanthropy doesn’t trigger suspicions, the ostentation of the contributions and the way they are so often combined with personal extravagance should.

Don’t Bother Me with Details

In the midst of their public relations blitz, these CEOs often leave the mundane details of their business affairs to others. Dennis Kozlowski of Tyco sometimes intervened in remarkably minor matters, but he left most of Tyco’s day-to-day operations unsupervised. “There is no limit to how big the company could get because of the way we manage it,” explained one of his lieutenants. “It’s a very decentralized company and Dennis will tell you his most difficult job is to get the best managers in the world to manage these companies.”36 Roger Smith, as CEO of GM, was oblivious to what many of his decisions meant at the factory level, and to the lives of the workers.37 CEOs obsessed with image have little time for operational details.

Financial Statements as Public Relations Tools

When CEOs make the company’s image their top priority, they tend to encourage financial reporting practices that promote that image. In other words, instead of treating their financial accounts as a control tool, they treat them as a public relations tool. This, of course, puts the executives on another slippery slope. The resulting examples of creative accounting exist in many variations. Steve Hilbert of Conseco authorized financial procedures that moved acquisitions on and off the company’s balance sheet at the company’s convenience. Ken Lay of Enron presided over a more aggressively creative accounting system that attributed many

unprofitable deals to other “partner companies,” so that these deals wouldn’t appear on Enron’s balance sheet at all. Tyco’s Dennis Kozlowski had his financial officers list an intangible “asset” of nearly $35 billion on the company’s books, which was described as the “goodwill” of the companies Tyco had acquired. When this sum was added into the company balance sheet, it made it look as though Tyco was accumulating assets at an impressive rate, even though what it had actually accumulated was $27 billion worth of debt. Meanwhile, by undervaluing its tangible assets, it looked like Tyco was achieving a remarkably high return on those assets.

Companies like these, which distort or falsify their financial reports, seldom do it to deceive the public. They do it as a result of a general mindset, put in place by the CEO, in which everything the company does is seen as a matter of public relations.

Habit #6: They underestimate major obstacles.

CEOs who succumb to this sixth habit tend to wave aside obstacles as though they are minor difficulties, when many of them are, in fact, major hurdles. They become so enamored with their vision of what they want to achieve that they overlook the difficulty of actually getting there. They assume that all problems are solvable, when many problems, in fact, are either insolvable or else solvable at too great a cost.

Roger Smith, for example, treated every obstacle to his goal of worker-less factories as though each were just a minor difficulty that GM would soon take in its stride. In a characteristic blunder, he assumed that the computer systems necessary to manage robotic factories could be obtained by acquiring a first-rate software house, even though, in practice, the entire resources of EDS were not enough to provide GM with what it needed. Often it seems
that the more fully a CEO can visualize the way he wants his company to look in the future, the less fully he can visualize the obstacles along the way.

Executives coming off a string of successes are particularly prone to underestimate obstacles. Stephen Wiggins is an example of a CEO who got into trouble partly because his previous successes had come so easily. In six years, he transformed Oxford Health Plans from a guest room startup to the second most profitable HMO in New York. At every stage in this process, he employed innovative, technically savvy operating procedures. Computer systems were things he was personally familiar with. So, when he heard about the problems involved in creating the sort of software he wanted, he repeatedly treated them as minor hurdles any competent programmer should be able to handle. He didn’t deny that bad software could be a serious hazard, but he saw it as something that could be easily remedied. Growth was critical, and nothing could slow them down. After all, how tough could it be to remake a company’s computer systems while maintaining ongoing operations?38

Executives who are used to solving technical problems are especially likely to underestimate problems that don’t seem technically intimidating. In the case of An Wang, for example, it wasn’t ever the difficulty of the technical problems that the leader underestimated, but the business problems. Having conquered the technical obstacles, he repeatedly made the mistake of thinking that the business obstacles would be trivial by comparison.

In some cases, the habit of treating all obstacles as minor is an essential part of the leader’s personal style. Executives who employ this approach are able to glide over many obstacles through a combination of charm and momentum. They draw people into their projects, inspire them with the self-confidence to do whatever’s necessary, and let those associates scramble around to keep the enterprise rolling. By refusing to get rattled by potential setbacks,

they help others do the same. Mossimo Giannulli was one of these leaders, which explains why he could treat the huge logistical problems of adding tailored suits and expanding into department stores across the country as if they were almost incidental to his creative vision. Dennis Kozlowski was another leader of this kind. This is why he could wave aside as a minor matter the fact that parts of his company were experiencing declining profits even though the whole rationale for Tyco’s acquisitions was to get more profits out of individual business operations. Later, when his personal expenditures of company money surfaced, this personal style was one of the reasons he waved those matters aside as well, even though the amounts involved apparently ran into hundreds of millions of dollars.39

Full Steam into the Abyss

When CEOs find that the obstacles they had casually waved aside are proving more troublesome than they anticipated, they tend to deal with the problem by escalating their commitment. While the evidence mounted that Roger Smith’s expenditures on robots and other technology were failing to improve productivity, the GM chief kept increasing those expenditures, ultimately wasting much of the $45 billion dedicated to the effort. While Webvan’s existing operations were racking up huge losses, George Shaheen was busy expanding these operations at an awesome rate. While Tyco was struggling to maintain profitability in many of its divisions, Dennis Kozlowski responded to every setback by simply increasing the pace of his acquisitions, earning himself the nickname “Deal-a-Month Dennis.”

Why do these executives respond this way? Why not hold back for a while until it becomes clear whether that line of activity will produce an adequate return on investment? The answers to these questions are once again partly psychological. Some CEOs feel an enormous

need to be right in every important decision they make, partly for the same reasons they feel responsible for their company’s success. If they admit to being fallible, their position as CEO seems frighteningly precarious. Meanwhile, their employees, business journalists, and the investment community all want the company to be run by someone with an almost magical ability to get things right. Once a CEO concedes that he or she has made the wrong call on an important issue, there will always be people who’ll say they weren’t up for the job.

The effect of these unrealistic expectations is to make it exceedingly hard for a CEO to pull back once he or she has chosen a particular course of action. What’s more, if your only option is to keep going in the same direction, then your response to an obstacle can only be to push harder. This is why leaders at Motorola and Iridium kept on investing billions of dollars to launch satellites even after it had become apparent that land-based cell phones were a superior alternative. “People do not like to admit that their past decisions were incorrect,” explains a management expert who has studied the problem in detail. “What better way to affirm the correctness of those earlier decisions than by becoming even more committed to them?”

Proceeding with the same course of action, but with new resources, removes, for the time being, any need to admit that this course of action was wrong in the first place. The renewed investment seems to introduce a new element, so that it becomes easier to believe that the renewed effort will result in success. If there are any doubters, the other habits of spectacularly unsuccessful people will either eliminate them or make them ineffective.

After each round, it becomes harder to pull back or change direction. The psychological scale of the mistake, should the CEO admit to making one, will have grown larger. The financial losses that would have to be declared, should the project be a failure, will have become greater.

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Meanwhile, since the project has been scaled up, the rewards for bringing it to a successful completion are likely to have increased as well. All the pressures on the CEO that led to the problem in the first place still exist, but most of them are now intensified.

**Escalating Commitment**

A classic example of escalating commitment in the face of insurmountable obstacles was RJ Reynolds’ “Project Spa,” the massive development effort that resulted in the launch of the Premier, the first “smokeless” cigarette. The concept sounded brilliant. People liked cigarettes, but hated the health risks associated with tobacco smoke. So RJ Reynolds’ brainstorm was to produce a product that delivered the qualities people wanted in cigarettes – but without the tobacco smoke! To provide more of the flavor, the cigarette would also contain an aluminum capsule that would slowly release appropriate chemicals when it was heated.

Hundreds of millions of dollars were invested in the project. When the first samples were tested on customers, however, they reported that the cigarette smelled awful and tasted even worse. In Japan, researchers learned to translate one sentence in Japanese, “It tastes like shit.”

Nevertheless, having invested so much time and money into the project, the product development team – who were smoking Premiers constantly and convincing themselves that the product was great – worked the numbers to paint a better picture of the market data. The go-ahead came from CEO Ross Johnson, and the Premier made its market entry in October 1988.

The roar of controversy that met the introduction of the Premier was deafening. Federal government safety regulators, including the Surgeon General and the FDA, branded the product a “nicotine-delivery system,” and proposed banning the product. RJ Reynolds was accused of

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42 Interview with former RJ Reynolds executive, October 6, 1999.
perpetrating a sinister plot, and state courts were petitioned to outlaw the device. Meanwhile, word got out that the smokeless cigarette tasted terrible. By December, retail outlets were already returning the product to distributors and discontinuing in-store promotions. Unable to deny that the product was a disaster after spending $1 billion on Project Spa, RJ Reynolds cancelled the Premier.

Recognizing the point at which escalating commitment is getting out of hand can be almost impossible for the person responsible. This behavior can be mistaken for determination or stick-to-it-ness. Quaker CEO William Smithburg, for example, publicly stated he would not give up on Snapple, because, as he put it, “I’ve never run away from a challenge, and I’m not running away from this one.”

We are all taught to admire courage in the face of adversity. In the case of Snapple, it simply meant that inappropriate policies were kept in place longer, doing further damage both to Snapple and to its parent company.

Stephen Wiggins of Oxford Health Plans was caught in this predicament when the software he had commissioned kept taking longer to complete than expected. At each juncture, it seemed that with just a little more money and a little more time, they would have the problems solved. During the five years of the project, Oxford employed more than 100 outside systems contractors and spent more than $100 million. Yet they still failed to produce a software system that could do the job. When should Wiggins have called it quits? Obviously, at every moment from the time the project was launched. But for someone whose reflexive response to difficulty was to escalate commitment, it was impossible to see this.

Habit #7: They stubbornly rely on what worked for them in the past.

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Many CEOs on their way to becoming spectacularly unsuccessful accelerate their company’s decline simply by reverting to what they regard as the tried and tested. In their quest for certainty in a world grown unpredictable, they persist in using the wrong scoreboard. In their effort to achieve stability in a world of change, they seize on yesterday’s answer. In their desire to make the most of what they regard as their core strengths, they cling to a static business model. Like Ed Schwinn of the bicycle company, they insist on providing a product to a market that no longer exists. Like William Farley of Fruit of the Loom, they fail to consider innovations in things like sourcing because that’s not what made their company successful in the past. CEOs like these all end up choosing the wrong option because they almost automatically fall back on a “default response,” an answer from the past.

In place of considering a wide range of options, CEOs with this habit choose their course of action with reference to themselves and the things that made them successful in the past. For example, Jill Barad relied on the same sort of promotional techniques that had been effective for her when she was promoting Barbie dolls. She tried to use them with educational software, a product category that’s distributed and consumed very differently than dolls and doll clothes. Worse, she tried to use them with Wall Street, an audience that’s not as easily swayed as seven year old girls. “Jill is and was very bright, a brilliant marketer,” commented her rival at Hasbro, but, he added, “I am not sure Jill came to grips with some of the difficulties of being a CEO, where it’s not that you can spend all your time on product or talking to Wall Street, but there are many, many other things that go into it.”

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45 Interview with Alan Hassenfeld, Chairman and CEO, Hasbro, June 28, 2001.
Defining Moments

Executives often revert to harmful or inappropriate strategies as the result of a “defining moment” earlier in their careers. At one point, they chose one particular policy that resulted in their most notable success. This becomes their “defining moment.” It’s usually the one thing they are most known for, the thing that gets them their subsequent jobs, the thing that makes them special. The problem is that once people have experienced this “defining moment,” they tend to let it define them for the rest of their careers. And if they become the CEO of a large company, they let their defining moment to some extent define their company as well.

When confronted with a crisis later in their career, these executives tend to do whatever they did in their defining moment. For William Smithburg of Quaker, the defining moment had been his successful promotion of Gatorade. The problem was that he tried to repeat that behavior when it came to dealing with Snapple. For An Wang, the defining moment was probably his successful launch of a word processor with systems that were all proprietary. Unfortunately, he tried to repeat that behavior when it came to PCs.

A particular hazard of defining moments is that they can lead to fallback strategies that are not only inappropriate, but inherently high-risk. The Saatchi brothers are a good example of businesses leaders who learned a risky style of management from their early defining moments. They won their first big clients by violating the standard operating procedures associated with the British Advertising Association. They did this was by aggressively raiding the client and employee rosters of other advertising agencies. Because this worked so well for them, they later assumed that they didn’t have to follow standard operating procedures in other areas either.

Several of the other top executives discussed here developed high-risk management policies as a result of their early successes and the defining moments that produced them.
Charles Sanford, for example, the CEO of Bankers Trust, tried to handle every aspect of banking with the same fast-paced, transaction-oriented style that had made him a successful bond trader. Stephen Wiggins of Oxford Health Plans believed he had to rethink and redo each aspect of the managed healthcare industry, including the software necessary to run operations, because it was this policy that had made him successful in the first place. These and many other highflying CEOs failed, not because they couldn’t learn, but because they had learned one lesson all too well.⁴⁶

**Psychotherapy for the CEO?**

What can be done about these Seven Habits of Spectacularly Unsuccessful People? A whole book could be devoted to ways in which people counter their effects, but to start with, just making CEOs, managers, journalists, and investors aware of them should be a big help. There are many opportunities for CEOs themselves to stop and question their own behavior if they notice themselves slipping into one of these habits. It would also help enormously if those reporting to CEOs realized that these habits shouldn’t be admired or accepted as normal.

Instead, wherever a CEO falls too conspicuously into one of these habits, they should be met with raised eyebrows and, whenever possible, a warning. Finally, whenever these habits begin having too great an influence on the CEO’s behavior and on the direction of the company, it is the corporate board’s job to intervene. The Seven Habits of Spectacularly Unsuccessful People are too dangerous to be left unchecked. Investors in particular need to be on the alert for signs of these habits, as we discuss in the next chapter.

⁴⁶ There is a related academic literature that emphasizes how an executive's background and experiences influence the types of decisions he or she makes. For a wide-ranging elaboration of this idea, see Finkelstein, S. and Hambrick, D.C., Strategic Leadership: Top Executives and Their Effects on Organizations. St. Paul, MN: West Publishing Company.
The Seven Habits of Spectacularly Unsuccessful People

1) They see themselves and their companies as dominating their environments, not simply responding to developments in those environments.

2) They identify so completely with the company that there is no clear boundary between their personal interests and corporate interests.

3) They seem to have all the answers, often dazzling people with the speed and decisiveness with which they can deal with challenging issues.

4) They make sure everyone is 100% behind them, ruthlessly eliminating anyone who might undermine their efforts.

5) They are consummate company spokespersons, often devoting the largest portion of their efforts to managing and developing the company image.

6) They treat intimidatingly difficult obstacles as temporary impediments to be removed or overcome.

7) They never hesitate to return to the strategies and tactics that made them and their companies successful in the first place.