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Profit Can Be So Elusive

By Daniel Akst

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Is your company shedding senior executives like dandruff? Does the board's compensation committee meet more often than its audit committee? Did it just pay a fortune to puts its name on a ballpark?

If so, watch out: A meltdown may be under way. These are some of the warning signs identified by Sydney Finkelstein in his fascinating "**Why Smart Executives Fail**" (Putnam/Portfolio, 319 pages, $26.95). A management professor at Dartmouth, Mr. Finkelstein spent six years studying the question in his book's title. He and his researchers investigated 51 companies in detail and an additional dozen briefly, interviewing 197 executives and others to figure out how such billion-dollar blunders as Motorola's Iridium satellite system or Quaker's acquisition of Snapple could have occurred.

The result is a marvel -- a jargon-free business book based on serious research that offers genuine insights with clarity and sometimes even wit. Mr. Finkelstein begins by demolishing the myths usually associated with corporate failure: that chief executives are dumb or crooked or that they couldn't have known what was coming. On the contrary, he found that most of the CEOs are intelligent, ethical and, in the case of failure, blind to the evidence all around them.

"One of the first things you realize," writes Mr. Finkelstein, "is that many great corporate mistakes were due to managerial inaction as much as to inappropriate managerial action." Motorola, for instance, failed to embrace digital cellular technology until its competitors had already rushed into the field. Schwinn derided mountain bikes, even though customers clamored for them.

Many of the failures had to do with mergers and acquisitions, whose promised synergies so often prove elusive. Big mergers in particular seem so prone to disaster -- Mattel's acquisition of Learning Company, AT&T's purchase of NCR and, most recently, Time Warner's sale of itself to America Online -- that their persistence in the business world can only be explained by Samuel Johnson's comment on second marriages: the triumph of hope over experience.

Mr. Finkelstein dissects such debacles with admirable brevity and uses them to buttress a set of insights. My favorite, among the lists he offers, is "The Seven Habits of Spectacularly Unsuccessful People." No. 2: "They identify so completely with the company that there is no clear boundary between their personal interests and corporate interests."

Mr. Finkelstein's research suggests that disasters are most likely to occur when there is a self-involved or hubristic CEO, a culture that stifles dissent, a slack board and a record of such success that people in the company start believing their own PR. But there is more to the book than that, which is why it should be required reading not just for executives but for investors as well.

In "**Why Companies Fail**" (Crown Business, 292 pages, $27.50), Mark Ingebretsen, a veteran financial journalist, offers 10 reasons, and in general they are good ones, including letting stock price dictate strategy, ignoring customers, fighting wars of attrition and planning too little for executive succession.

Unfortunately, Mr. Ingebretsen's book is filled with padding that bears little relation to his Big 10. And while he is laudably scrupulous about crediting other journalists, citing articles in Fortune, Business Week and other publications, he often tells us what someone else said in print instead of what he himself thinks. At one point he repeats nearly two full pages of what he wrote earlier in the book, almost verbatim.

In "**The Timid Corporation**" (Wiley, 252 pages, $45), Benjamin Hunt argues that companies are too risk-averse. He has his work cut out for him, given the dot-com meltdown and the scandals surrounding Adelphia, Enron, Tyco and WorldCom. He doesn't help his case by dismissing such catastrophes with an authorial wave of the hand.

But his argument grows on you, even if only as an interesting exercise in devil's advocacy. By the end of the book Mr. Hunt has made a provocative case that business today is quite timid, especially when it comes to radical innovation. He is concerned that regulation, fear of scandal and an obsession with keeping customers happy undermine management confidence, sometimes disastrously.

Mr. Hunt says that corporate executives have lost faith in themselves and in capitalism, and he does a nice job of exploding "the myth of unpredictable markets," noting that for all the cant about today's risky environment, companies in the 19th and early 20th centuries had to cope with much more radical change and risk brought about by the railroad, the telegraph, the telephone, electric motors, urbanization and internal combustion engines. Today, "the pace of change is much too slow."

The corporate obsession with branding, in his view, is entirely defensive. As for listening to the customer, Mr. Hunt argues that such efforts limit firms to incremental changes and stifle the imagination. As Bill Gates and others have noted, the customer doesn't dream up the next great thing -- someone in business does.

In the end the author can't prove his case, and without data on research-and-development spending, venture-capital investments or new-product introductions, he ends up making an argument that seems somewhat rhetorical. Still, the job of devil's advocate is an important one, and Mr. Hunt is owed a debt of gratitude for taking it on.

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