ROBERT F. HART

Management Mistakes

SECOND EDITION

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MANAGEMENT MISTAKES

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CHAPTER 1

Introduction

These cases represent classic management mistakes, some of which have been widely publicized. For example, the Edsel case is perhaps the most widely known mistake of all time. A variety of firms, industries, problems, and mistakes are presented. Most of the firms and enterprises are familiar to you—for example, Gillette, STP Corporation, the World Football League, Coors Beer, Adidas, Chrysler—although the details of their problems may not be. The time span ranges over several decades, although most of the cases involve fairly recent events. In cases where the mistakes occurred several decades ago—such as the Edsel, and Montgomery Ward's dictatorial and no-growth management—still the circumstances and what can be learned are far from dated.

ORGANIZATION OF CASES

These cases have been especially chosen to bring out certain points or caveats in the art of decision making. They have been selected to give a balanced view of the spectrum of business problems. Some of the mistakes are those of commission, in which wrong actions were taken; other cases involve mistakes of omission, in which no action was taken and the status quo was contentedly embraced amid a changing environment. We have sought to present examples that provide somewhat different learning experiences, where the mistake, or at least certain aspects of it, differs from the other mistakes described in the book. We have endeavored to classify the mistakes under the important management functions of planning, organizing, leadership and strategy implementation, controlling, and, finally, ethical and social responsibility problems. Admittedly, however, some of the cases cannot be neatly compartmentalized into, for example, errors of planning or of controlling, because they involve broader and more pervasive mistakes.

Errors in Planning

We have included four examples of errors in planning. One, the World Football League, illustrates a travesty of overly optimistic and imprudent planning. It attempted to enter a relatively saturated market, against a powerful and established competitor, with an inferior product and inadequate financial and other resources. Rash and unsupported optimism has no place in the sober business environment.

At the other extreme, the J. C. Penney Company evinced a planning so conservative that no changes could be contemplated from what had been successful in the past, even though the environment for doing business represented a whole new ball game. Only the audacious action of a staff executive—who bypassed his superior in going to the board of directors, thereby violating one of the sacred dictums of organizational theory—opened the eyes of the company to the need for change.

Then there is Adidas. Here was a firm in the catbird seat, utterly dominating its industry at the beginning of the running boom. But somehow, incredibly, it let its advantage slip away. And hungry interlopers—Nike, among others—starting from scratch, carved up the burgeoning market for themselves, while Adidas in its planning continued to underestimate the strength and durability of running's popularity, as well as the growing strength and aggressiveness of its American competitors.

DuPont's Corfam—what seemed like a breakthrough with a substitute leather akin to the breakthrough with nylon a few decades before—depicts how even the most careful planning may be in error due to unforeseen contingencies and result in $100 million losses. How could such problems occur, and what can be learned that might prevent such multimillion dollar mistakes in the future?

Organizational Mishandling

We may not always realize the importance of an organization in paving the way for growth, but its failure can loom important and cause monumental mistakes. Part Two deals with three examples of organizational mishandling of major proportions. With Korvette we see how an organization must change, must adapt to increasing size, complexity, and distance. No matter how brilliant and innovative the founder, sober realities and sound management principles must be faced and adopted as the enterprise grows beyond the ability of one person to supervise directly.

The Edsel case could also have been placed under the planning section, because it provides us with the thoughtful realization that even the most detailed planning does not ensure success. We have placed this case in the organizational section, because it graphically illustrates the fallacy of creating an organization suited for the most ambitious plans and expectations without sufficient evidence that such expectations are likely to be realized.

One of the saddest cases in the book is that of the W. T. Grant Company, a large and mature firm founded in 1906. In the early 1970s it went on an expansion binge, far beyond the capabilities of its organization or its managerial and financial resources. The result was one of the worst business disasters in recent U.S. history.

Flawed Leadership and Strategy Execution

Part Three describes errors in leading and executing. One of the oldest cases in the book is that of Montgomery Ward: it completely shunned any expansion and hoarded its money after World War II in the mistaken belief that a severe depression would occur and that it could expand at much lower cost at that time. But more than this error in judgment, the Ward case evinces the dictatorial power and devastating consequences of one man, Sewell Avery, whose leadership style brooked no disagreements with his views. As a consequence, Ward lost ground to its major competitors, ground that has never been regained.

The Gillette Company's strategy permitted its dominance in the razor blade industry to be eroded by a stubborn reluctance to introduce its own stainless steel blade (because it thought this might cannibalize or take away sales from its highly profitable Super Blue Blade). Thereby, the door was opened for smaller, hungry competitors to gain an advantage they never could have otherwise.

The Coors case at first poses the question of whether a firm can be virtually invulnerable to competition. Coasting on a mystique that had somehow been built up for the product, Coors enjoyed great success, only to find it diminishing. With little advertising, no fear of competition, and aloof public and employee relations, the company's fortunes faltered badly in the face of more aggressive competition. The mystique that had been Coors' proved to be ephemeral.

As the decade of the 1980s began, U.S. industry found itself faced with a problem never before encountered in such severity. Foreign firms, especially those of Japan and West Germany, were producing better quality products for less cost than we were able to do. They were invading our domestic markets and placing many of our firms at a competitive disadvantage, resulting in hundreds of thousands of U. S. workers being laid off. In few industries was this invasion of foreign products more severe and disruptive than in the auto and steel industries.

Chrysler in the late 1970s and early 1980s epitomizes the dilemma facing many other U. S. firms, although the financial straits of Chrysler, brought on partly by bad management decisions in the past, made its position the more precarious. In this case we examine the background that made such foreign incursions possible and effective, and describe the situation facing the savior, Iacocca, when he took over.

The A. C. Gilbert Company is a case of a firm unable to handle a crisis. Although this toymaker should have recognized the environmental factors leading to its crisis long before it did, the greatest mistake was frenzied reactions that made matters worse. This case illustrates practically every mistake imaginable: successive rash decisions aimed at correcting the problem with no weighing of consequences or prudent evaluation of alternatives, along with a continual upheaval of the formerly stable organization. In the space of only 5 years, bad crisis leadership caused the 58-year-old company to fail.

Lack of Adequate Controls

Part Four deals with firms that were abysmally careless in their monitoring and controlling of certain aspects of their operations. The fast-food franchise operation, Burger Chef, showed unwise expansion even though it was under the auspices of a large and seasoned firm, General Foods. But the irresistible temptation to open hundreds of additional outlets over a few years' time, without proper operational fundamentals and without imposing strict controls over a far-flung organization, soon forced severe retrenchment. The Burger Chef division of General Foods never became a money maker, and was finally sold in 1982.

The Osborne Computer case represents perhaps the most extreme example of success and failure in the annals of American business. First on the scene with an inexpensive portable computer packaged with an abundance of software, sales rose to $100 million in only 18 months, only to come plummeting down as lack of systematic controls and feedback resulted in major miscalculations and huge and unexpected losses. And eager competitors quickly moved in to mitigate the initial Osborne product advantage.

The last case in this section concerns a conglomerate, Boise Cascade

Company, which for a while was the nation's biggest force in recreational land development. However, in following a policy of decentralization—but without imposing adequate controls—the company found that questionable selling tactics, coupled with a disregard for environmental constraints on the part of the recreational land subsidiary, were arousing great consumer and governmental resentments and pressures. The firm was forced to give up this part of its business altogether, incurring a loss of several hundred million dollars in the process.

Ethical and Social Responsibility Problems

No firm today can violate social and environmental constraints with impunity. The reputation or public image of a firm—how it is perceived by its various publics—can play a crucial role in success or failure.

Deceptive promotional claims made by the producers of STP were finally challenged by the media and eventually by the Federal Trade Commission. But this was after a useless product (as generally agreed upon by petroleum engineers and automotive experts) had achieved widespread success because of its macho association with racing and race drivers. In the case, we are confronted with the issue of whether an organization—and most appropriately, its board of directors—should exercise ethical controls over deceptive and otherwise misguided practices.

The Nestle case shows the impact of image problems coming from social irresponsibility and callousness. The firm marketed its infant formula in underdeveloped Third World countries that did not have the sanitation or educated public necessary to make the product safe. Nestle's stubborn persistence in doing so brought worldwide criticism and, eventually, boycotts and profit damage.

RISKS AND REACTIONS

Many decisions are made under conditions of uncertainty. We can seldom predict with any exactitude the reactions of customers or the countermoves and retaliations of competitors. Estimates of the success of new ventures become more "guesstimates" the further in the future we try to forecast. Business conditions, the environment of doing business, sometimes change slowly and predictably; they may change so subtly as to be practically unnoticed until a situation becomes critical, as with foreign import incursions; at other times, conditions change suddenly and with little warning. Yet firms can fail to predict and adjust to both gradual changes and the more sudden ones.

In looking at sick and failing companies, or even healthy ones that have experienced failures of certain aspects of their operations, the temptation is to be unduly critical. It is easy to be Monday-morning quarterbacks, to criticize decisions and actions with the benefit of hindsight. Mistakes are inevitable, given the present state of the art of business and the dynamic environment.

Granted that mistakes of omission or commission will occur, alert and aggressive management is characterized by certain actions or reactions:

1. There should be quick recognition of looming problems or present mistakes.
2. The causes of the problem(s) should be carefully determined.
3. Alternative corrective actions should be evaluated in view of the company's resources and constraints.
4. The chosen corrective action or response should be prompt. Sometimes this may require a ruthless axing of the product, the promotional approach, or whatever may be at fault.
5. There should be some learning experience coming from such mistakes; the same mistakes should not be repeated; the future operation should be improved as a result.

In reading these cases, you may want to judge them not only by how the problem or mistake could have been avoided, but also by how alert and aggressive management was in reacting.

Where possible in these cases, we have depicted the major personalities involved at the time. We invite you to imagine yourself in their positions, confronting the problems and decisions they faced at their points of crisis, or at the times when actions or lack of action led to a subsequent crisis. What would you have done differently, and why? We invite you to participate in the discussion questions and role-playing episodes appearing at the end of each case. We urge you to consider the pros and cons of alternative actions.

For Thought and Discussion

1. Do you agree that it is impossible for a firm to avoid mistakes? Why or why not?
2. How can a firm speed up its awareness of emerging problems so that it can take responsive action? Be as specific as you can.
3. Large firms tend to err more often on the side of conservatism and are slower to take corrective action than smaller firms. Would you speculate as to why this is so?
4. Which do you think is likely to be the more costly to a firm: errors of omission or errors of commission? Why?

PART ONE

PLANNING GONE AWRY