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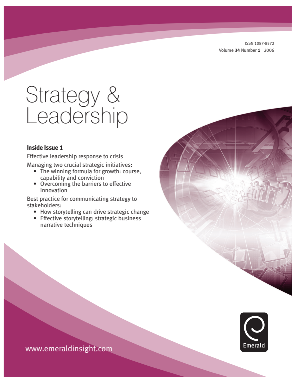
Patterns of disaster

Helio Fred Garcia
President of Logos Consulting Group and Executive Director of the Logos Institute for Crisis Management & Executive Leadership



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The strategist's bookshelf

Patterns of disaster

Helio Fred Garcia

Helio Fred Garcia is the president of the crisis management firm Logos Consulting Group (hfgarcia@logosconsulting.net), and executive director of the Logos Institute for Crisis Management & Executive Leadership. His book, *Reputation Management*, written with John Doorley, will be published by Routledge later this year. His article ''Effective Leadership Response to Crisis'' appeared in Vol. 34, No.1 of *Strategy & Leadership* (January/February 2006).

Will Your Next Mistake Be Fatal? Avoiding the Chain of Mistakes that Can Destroy Your Organization

Robert E. Mittelstaedt, Jr, Wharton School Publishing, 2005, ISBN # 0-13-191364-6

Will Your Next Mistake Be Fatal? by Robert E. Mittelstaedt, Jr focuses on patterns that he calls mistake chains. These are predictable sequences of human inattention to signals that indicate something is amiss. As the incremental mistakes combine they compound, and the result can be crises that put the franchise at risk.

Mittelstaedt is Dean and Professor of the W.P. Carey School of Business, Arizona State University, and former Vice Dean and Director of the Aresty Institute of Executive Education at the Wharton School of Business, University of Pennsylvania. He has written an important book that puts leaders on notice that they have both more control of and more responsibility for their organizations' destinies than they may imagine. Mistakes don't just happen; they're allowed to happen, sequentially, and with increasing severity.

Mittelstaedt provides an encyclopedic review of mistake chains, including errors of strategy, execution, and culture. He uses examples ranging from the Titanic to Enron; from plane crashes and space shuttle disasters to strategic blunders by Xerox, American Express, and McDonalds. He notes that physical disasters have root causes that are similar to management blunders. Although the specifics may be different, the human behaviors, interpersonal dynamics, and preconceived notions play out in similar ways. He writes, ''mistakes, both in business and nonbusiness settings across industries, reveal patterns that are so repetitive that every manager should recognize them as potential red flags.''

Such mistake chains often involve some combination of the following:

- Failure to correct a seemingly minor or isolated problem.
- A subsequent problem that compounds the effect of the initial problem.
- An ineffective corrective action.
- Disbelief that the situation is getting out of hand.
- Denial (or self-denial) about the truth of what's happening.
- Sudden recognition that an extreme situation exists and is out of control.
- The ultimate disaster.

Mittelstaedt's examples help readers learn the patterns that lead to bad trouble. He shows how pilots' inattention to flying a plane while trying to figure out whether they had a landing gear problem led to a preventable crash; how Coca-Cola's inattention to its customers led to a self-administered black eye when consumers protested the sudden elimination of their favorite product; how both Ford and Firestone missed critical signals that safety problems put customers' lives at risk; and how Xerox failed to capitalize on its development of the computer mouse and other technologies that Apple and others subsequently harnessed to produce easy-to-use portable computers. And he shows how each of these (and dozens of others) shares common characteristics.

Mittelstaedt introduces a process he calls M^3, or Managing Multiple Mistakes. M^3 is based on the observation that nearly all serious accidents, both physical and management, are the result of more than one mistake. M^3 aims to break the chain of mistakes as early as possible, to prevent the damage that compound mistakes inevitably cause.

The earlier one can intervene and break the mistake chain, the easier it is to regain a successful course. But failure to break the chain causes the damage to increase exponentially. And problems that are initially operational, over time and unattended, become strategic mistakes. As in all crisis management, the first, and most effective, defense is vigilance. He notes, ''the greatest challenge in most organizations is not figuring out how to fix a problem but recognizing that there's a problem that needs to be fixed.''

Mittelstaedt notes that mental preparation is critical. Leaders and those they lead need to be taught to recognize patterns of mistakes and to extrapolate implications from other situations to their own. Among the factors that cause otherwise intelligent and successful leaders to miss predictable crises are:

- Failure to believe information that is unwanted or that is inconsistent with their experience.
- Failure to evaluate their own assumptions – about the problem, their own abilities, their customers, their competitors, etc.
- Previous successes that cause leaders to believe in their own invulnerability – and that causes arrogance that interferes with effective decision making.
- Failure to communicate or listen to others both internal and external, who may be calling attention to early problems.
- Lack of standard procedures, or failure to follow existing procedures.
- Cultural barriers, that penalize challenges to prevailing thinking, or that inhibit initiative and information-sharing.
- Ignoring economic laws and cycles.
- Not internalizing lessons from prior failures.

Execution mistake chains often play out quickly, but strategy mistake chains unfold over time. One compelling example of a strategy mistake chain concerns Motorola. Over a span of 65 years Motorola was able to reinvent itself several times, and to weather changes of technology, competitors, and consumer preferences. But its wining streak was broken in the 1990s and early 2000s, as its revenues and return on equity declined significantly. Mittelstaedt recounts Motorola's case, and concludes with Motorola's mistake chain:

- Ceding leadership in the cell phone sector to Nokia, which was able to transform cell phones in consumers' minds into fashion accessories.
- Being slow to shift from analog to digital technologies, allowing Nokia and other upstarts to steal market share. Motorola also failed to recognize that customers like newer technologies because smaller phones use less power, and batteries last longer.
- Losing money in the semiconductor business for several years as new market entrants commoditized the market.
- Being unable to keep up with demand for parts for new generation phones with color screens, thus allowing competitors to steal market share.
- Relatively frequent CEO turnover after three decades of stable leadership.
- Sinking a disproportionate amount of resources into the Iridium satellite phone business

Its Iridium satellite phone business had its own mistake chain:

- Too long a development lag from conception to announcement (10+ years) and from announcement to market (another 8 years).
- Exaggerated estimates of customer demand.
- Unrealistic pricing: ranging from $2 to $7 per minute, with phones that cost $2,500 plus monthly fees.
- Large capital requirements requiring complex financing.

These mistakes, which played out over years, were multiplied by each other, and put the company in a precarious position from which it is only now extricating itself. Similar patterns, largely resulting from being initially so successful that over time the firm developed cultural rigidity, eventually caused the company to miss important shifts in its markets; these conditions also existed at Kodak, Xerox, and other respected companies.

Mittelstaedt summarizes each chapter's insights at the end of the chapter, and lists all 38 insights in a separate section at the end. These insights, by themselves, are worth reading. Among the most compelling:

- *#2*: Fly the airplane. Don't get so distracted by a minor problem that you forget to do your job.

- *#6*. Make responsibilities clear. Mistakes are more likely to be caught and stopped when people know who's responsible for what.
- *#8*. If something does not make sense or feels confused, STOP and figure out what's going on. In most of the examples, confusion was evident but left unaddressed. Mittelstaedt advises calling a ''time out'' to take stock.
- *#9*. People are usually at the root of the problem. Even in technology failures, the chain of mistakes that contribute to or compound a technology breakdown can be traced to human decisions or inattention.
- *#16*. A very successful business can blind you to opportunity. Success can produce arrogance, a sense of invulnerability, and an inability to see both challenges and opportunities ahead.
- *#25*. Believe the data. In case after case managers rationalized away warning signs. Repeated warnings were ignored that could have prevented disasters including Titanic, Three Mile Island, the space shuttles Challenger and Columbia, and more routine business calamities.
- *#27*. Train for the ''can't happen'' scenario. A mindset of invulnerability is dangerous.
- *#28*. Open your mind past your blinders. Perhaps the hardest insight to follow, it requires challenging assumptions and developing high degrees of self-awareness and situational awareness.

The Wall Street Journal's Business World columnist Holman Jenkins once warned, ''Organizations need defenses against their charismatic leaders. Otherwise such individuals can too readily bully or seduce others into supporting their vainglorious illusions[1].'' Mittelstaedt's book is one of these defenses. It helps leaders, and those they lead, see patterns that can have a profound impact on their organizations. And it helps them overcome individual or organizational arrogance and inertia to take control when it can do the most good.

Note

1. Holman Jenkins, Business World Column, *The Wall Street Journal*, August 19, 1998, page A19.

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