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Why Businesses Fail and What Can Be Done About It Transcript

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Why Businesses Fail and What Can Be Done About It

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Thank you very much for welcoming me here this evening. The title of this lecture is, I hope, self-explanatory: why businesses fail and what can be done about it.

It is a subject that, at least in my view, is of vital importance. We're all familiar with examples of business failures; the newspapers and television bring us news of new ones every month, sometimes every week. Sometimes companies collapse, throwing their staff out of work and losing their shareholders' money, like Northern Rock, or sometimes like Lehman Brothers their collapse precipitates a wider economic downturn that affects all of us, not just investors. Sometimes they are engaged in massive cases of corruption and illegal practice; just recently news came out that the US Justice Department has fined five banks a total of \$5.6 billion, including \$1.2 billion for our own dear Barclays Bank. Before that there was the Libor rate-fixing scandal that cost Bob Diamond his job at Barclays, and of course a long list of others, stretching back to Societe Generale, Sumitomo, Barings, and right back to the South Sea Bubble in the eighteenth century, and beyond. And sometimes they make mistakes that result in loss of life, like the *Deepwater Horizon* disaster that cost eleven people their lives and CEO Tony Hayward his job, or the sinking of the *Titanic*, where over 1,500 people died in an entirely preventable disaster, or there are cases such as Bhopal or the Minemata mercury poisonings in Japan; again, there are many others.

I am not referring here to genuine accidents, which can and do happen and must be allowed for. Nor am I referring to the kinds of small failures that happen as a result of any heuristic, trial-and-error process. There are some activities like innovation where people fail all the time. You could even argue that innovators have to fail sometimes, or else they never learn. But these are small failures in controlled environments, that do no harm to the organisation or its customers and employees.

I am referring to things which were preventable, which could have been stopped if management in the firms responsible had been doing their jobs. There is a tendency to be blasé about business failures; well, it's only money. But not always. Management incompetence and failure kills companies, which destroys value. It throws people out of work, meaning that sometimes they lose their homes, their futures and their dreams. And sometimes, that incompetence kills people too. So, it really does matter.

I attended the European Leadership Conference at IEDC-Bled a few years ago, a very fine institution in Slovenia, where I listened to a colleague give a paper on the distinctions between successful and unsuccessful companies. At the end she quoted Tolstoy's famous line from *Anna Karenina*: 'Happy families are all alike; every unhappy family is unhappy in its own way.' 'We can say the same thing about companies', my colleague concluded. 'Every successful or happy company is alike, but each unhappy or unsuccessful company is unhappy in its own way.'

The more I thought about this idea, the less certain I was that it was true. Surely successful companies are successful because they are able to do things differently from other companies, what the strategy writers refer to as competitive advantage. They try to differentiate themselves through their product offering, or pricing strategy, or business model, really, anyway that they can. And as for unsuccessful companies, it seemed to be that there was an awful predictability about their failure, and that the same problems and the same causes of failure kept coming up over and over again.

I studied history, long ago, before I went over to the dark side and got involved in business and management, and I still tend to view business problems with a historian's lens. I started looking at business failures past and present, going back through the twentieth century and the ninetieth, back to the South Sea Bubble and the collapse of the Society of the Bardi, the great Florentine bank in the fourteenth century, right back to the Egyptian tomb workers at Deir al-Madina in the fourteenth century BC, and I found there were indeed common threads. I could see the same problems emerging over and over again.

Another insight came from Norman Dixon's great book, *On The Psychology of Military Incompetence*, which studied military disasters and their causes. This is a picture of Field Marshal Lord Buller, one of Dixon's classic cases of failure; I drive past this statue each time I go teach at Exeter. Again, Dixon had no shortage of material with which to work. Dixon came to a couple of conclusions. The first is that by far the greater proportion of failures are the result of human agency. Disasters come about as a result of errors and blunders by those in charge, not because of environmental forces or so-called 'acts of God'. Dixon also argued that those who make mistakes are not necessarily stupid. He rejected the notion that the people in charge of disasters were fools; a little serious research shows that many of them were in fact highly intelligent. Incompetence is often highly situational. People who show great ability in one field may fall to pieces when thrust into another field and asked to make decisions. Dixon gives us examples of army officers who were both competent and courageous when commanding small units, but who turned into dithering incompetent wrecks when promoted to higher command.

Dixon's second point was that the reasons for incompetent behaviour are very often rooted in the organisations around us, not in ourselves. The culture of an organisation – its norms, its values, its expectations in terms of attitudes and behaviour – often compel people to behave in ways that they *know* are wrong; yet they go ahead and make mistakes anyway. Peer pressure, the herd instinct and bullying combine personal insecurity and lack of confidence to create a toxic mix that can force even highly intelligent people into making the wrong decisions. So powerful are these forces that surround us in most organisations that Dixon wondered whether people who achieve great things do so *because* of the organisations to which they belong, of *in spite* of them.

That is the point from where I started, and that is the theme of my most recent book, which ironically is called *Managing for Success*. The idea is that if you want to succeed in business, well, first of all you have to avoid failing. That may sound trite, but what it means is that you cannot rely on being able to recover from failure. There is plenty of literature, indeed some quite excellent books out there on how to recover from failure and turn a business around. But some businesses cannot be turned around. There was no coming back for Lehman Brothers, or Enron, or Swissair; others, like Kodak, or Royal Ahold, or Nortel, survive as shadows of their former selves, or only as brands in someone else's portfolio. My argument is that in business as in medicine, prevention is always better than cure. The best way of recovering from failure is to make sure it doesn't happen in the first place.

To return to the point about culture, sometimes – quite often in fact – businesses are dragged down by their cultures. They develop dysfunctional cultures that stifle talent, crush initiative and enforce conformity to narrow, blinkered rules of behaviour and action. When this happens, companies lose focus and they lose their way. They forget their real purpose, the reasons why they were founded in the first place.

When business fail, we tend to blame the people at the top. We point the finger at the chairman or the CEO and say, this is your fault. You must pay. You must lose your job, stand trial for corruption, etc. And, it is right that we should hold business leaders to account. However, we must be careful of assigning them sole blame for what went wrong. Sometimes the CEO or chairman is not the cause of the problem. Indeed, sometimes he or she is the symptom. Let me explain what I mean by citing the example of Lehman Brothers.

Lehman Brothers was founded in 1844 in the state of Alabama by three brothers who had emigrated from Bavaria. Originally they were cotton brokers, but they started a credit operation to help farmers who had no access to banks get through the growing season until they could sell their crops for cash. They played a big part in reconstructing the American South after the Civil War, among other things financing the buildings of railways that were vital to returning the South to prosperity, and then moved to New York. Traditional US banks were only interested in very big firms, and smaller companies found it difficult to get credit. The Lehman family reasoned that these smaller firms were the real engines of growth in the US economy and started backing them. Thanks to their efforts, the economy grew and value and jobs were created. The same thing happened during the Great Depression of the 1930s. Other banks pulled in their horns, but Lehman Brothers lent money to firms considered too risky by traditional lenders. They kept a number of companies afloat, companies like Pan American Airways that went on to become engines of growth in the 1950s.

Lehman Brothers did what all merchant banks should be doing: it supported businesses in their efforts to grow and create value for society. That, according to the Lehman family, was the bank's purpose. It made a profit because it fulfilled this fundamental purpose, efficiently and well. But when Bobbie Lehman, the last of the family to control the bank, died in 1969, things began to change. Lehman Brothers grew more ambitious. It decided to

become one of the biggest banks in the world, and set out on a programme of acquisitions. Instead of focusing on value delivered to customers, it set itself targets for growth and expansion. Its horizon grew steadily more short-term. Senior managers began demanding staff hit performance targets for trading and investment on a yearly, then a quarterly basis. Those who did so, like the ambitious young trader Richard Fuld, were promoted. The culture changed, and instead of pursuing opportunities that would yield long-term value, Lehman began to focus on those that would provide the highest return. [SLIDE 10] Because he was a consistently high performer – and because he was good at playing political games – Richard Fuld was promoted to become chairman and CEO of the bank, a post he held when the bank collapsed in September 2008.

After the crash, fingers were pointed at Fuld. He was blamed for the catastrophe. One newspaper branded him the worst CEO in the world. Yes, he was an authoritarian leader who demanded his managers hit ever higher targets; but wasn't that the kind of leader that Lehman Brothers the organisation actually wanted? Did Fuld create Lehman Brothers, or did Lehman Brothers create Fuld? In reality the influences went both ways; but the seeds of the Lehman disaster did not originate with Fuld. They go back to 1969, when after the death of Bobby Lehman the firm began its disastrous and unchecked cultural drift. And that same drift continues to wreck companies and kill people today. Blaming Fuld for the collapse of Lehman Brothers is a bit like blaming Captain Edward Smith for the sinking of the *Titanic*. Yes, he was responsible in the first instance, but the failings that led to the disaster were built into Lehman Brothers, just as they were built into the structure of the *Titanic*.

In *Managing for Success*, I tried to identify the cultures that destroy or damage businesses, and people, and the signs that indicate their presence. I also suggested ways of preventing these cultures from taking root in the first place, going back to the point about preventing failure from happening rather than repairing the damage. I identified seven cultures, but here for reasons of space I will concentrate on just three.

The first is what I call the *culture of mindless self-belief*. I use the example of Sherman McCoy, the New York bond trader who is the central figure in Tom Wolfe's *The Bonfire of the Vanities*. McCoy has all the trappings of power: money to burn, a flash car, a show-off office, an expensive apartment, a wife, a family, a mistress. Surrounded by the evidence of his own success, McCoy has convinced himself that he is no ordinary man. He is superior to everyone around him. He describes himself jokingly as a 'Master of the Universe' (a reference to a television series of the 1980s), but as the story goes on, it becomes clear that he really does believe in his own greatness. He thinks he can do anything he wants, without fear of consequences. Of course, it all goes horribly wrong, and his arrogance brings about his own downfall.

We think of arrogance and wilful blindness as being conditions that affect individuals. In fact, they can also permeate the culture of an entire organisation. In effect, the organisation – or, at least, the people who make the key decisions in it – becomes infected with a kind of corporate arrogance.

Now, we have to make distinction here between arrogance and confidence. It is right, as we shall see in a moment, that companies are confident and willing to take at least some risks. They need to believe in themselves, of course, and back themselves to succeed. The key word here is *mindless*. Confidence must be tempered with realism, and companies need to be aware of their weaknesses as well as their strengths. At the heart of many of these mindless self-belief is what Margaret Heffernan refers to as 'wilful blindness', deliberately denying the existence of certain facts. Unlike ignorance, which is genuinely *not knowing*, wilful blindness means *choosing not to know*, or at least to behave as if one did not know. In these cultures, managers and employees block out information and knowledge that contradicts their own world-view. Their thinking becomes squeezed, narrower and narrower, and less in touch with reality. When someone comes up behind them and blindsides them, they are completely unaware.

The results of corporate arrogance manifest themselves in several ways. One is rule-breaking, deliberate flouting of the law such as happened at Enron, WorldCom, Parmalat and many others over the years. The thinking here is very much that of Sherman McCoy. The organisation believes it is superior to its rivals and to the world around it. And, because of that belief, the organisation and its executives are not bound by the normal rules of the game. They are above the law. They can do whatever they want.

Another is detachment from the real world, where executives lose touch with not only the business environment but the organisation itself. A division opens up between the upper and lower levels of the company, without the people at the top realising it. They *think* they are still in touch with their junior managers and staff, but in fact

they are not. IBM in the 1970s and 1980s gives us an example. Top executives prided themselves on the fact that theirs was the most innovative company in the sector, perhaps in the world. They boasted about the their, the 'wild ducks', free thinkers and free spirits who roamed around the company sowing creative ideas and driving the innovation process forward. 'Treasure the wild ducks' was a favourite catchphrase of the chairman, Thomas Watson.

The reality IBM had become a bureaucratic cage, where conformity was everything and freedom was no longer tolerated. Creative thinking had largely become a thing of the past. There was a bitter joke in the lower levels of the company: 'What happened to the wild ducks?' 'They all got shot.' The disconnect between top management and the rest of IBM was so severe that it nearly brought down the company, and it took new chairman Lou Gerstner several hard and bitter years to change the culture and free people to become creative once again. Not every new leader succeeds, either. Recall how recently Euan Sutherland stepped down as CEO of the Co-operative Group when he found he could make no headway against an entrenched culture.

Third, there is complacency, a kind of intellectual arrogance that comes with success; if enough people tell a company how wonderful it is, sooner or later the company will start to believe it. The *arrogance of past success* is a classic trap which has been remarked upon by many writers. In *The Innovator's Dilemma*, Clayton Christensen describes how some firms become prisoners of their own past. A spectacularly successful innovation that propels a firm into a position of market leadership can, a few years later, turn into an intellectual strait-jacket. We are the best in the world at what we do, the argument goes; therefore, we have no need to change. We have reached the summit, so there is no need to keep on climbing.

Examples of firms falling into this trap are legion. Kodak was for years the leader in the film and camera market, until the emergence of digital cameras. Kodak stuck to its tried and tested products, and was duly swept away by the revolution. Motorola was famous for its mastery of analogue technology mobile phones, and stuck to that technology in the face of the challenge from digital. It lost much of its market share as a result. Nokia, which took over the dominant position from Motorola, failed in turn to adapt to the rise of the next generation of phones. Motorola survived the transition in diminished form, and so far Nokia has too. Kodak did not.

Finally, there is the arrogance of contempt, looking down on people who are not like us. This can take a number of forms, all of the extremely toxic. One of the most common is contempt for customers. Sometimes companies claim they know better than customers what the latter want, or as Sydney Finkelstein puts it, 'they [the companies] don't just claim, "We know what customers want." They go further, claiming, in effect, "We know what our customers want better than they do, because we know what's best for them, and eventually they'll see it too."' He cites Motorola as an example, continuing to design phones that it thought customers wanted rather than finding out what customers really did want.

And sometimes it comes down to treating customers as a nuisance that gets in the way: 'this business would run just fine, if it wasn't for the blasted customers getting in the way.' The most catastrophic example of this is probably Gerald Ratner, who during a public speech in 1991 managed in a few minutes to destroy the world's largest jewellery retail business by telling jokes about his own products:

We sell earrings that are cheaper than a Marks & Spencer prawn sandwich. But the earrings probably won't last as long.

And

We do cut-glass decanters with six glasses on a silver tray...all for £4.95. People say, 'How can you sell this for such a low price?' I say, 'Because it's crap.'

The other common and dangerous of the arrogance of contempt is contempt for employees. Generally speaking, if you treat your employees with contempt, they will do the same to you, but that lesson doesn't seem to have been learned. Many companies persist in treating human resource management as a matter of 'us' and 'them', management and workers, as if they were on opposite sides of a divide. Often, too, individual groups of employees are singled out for discrimination. Ethnic minorities, the disabled, gay, lesbian and transgender people

are particular targets, but the most persistent and damaging form of arrogance is the treatment of women.

There is not time here to go into detail about women's inequality in the workplace, the glass ceiling and the glass cliff; it would require another lecture to say everything I have to say on this subject. But there are a couple of points about gender relations that do deserve comment. The first is sexual harassment, which continues to be alive and well in workplaces up and down the land. As well as being morally unacceptable, sexual harassment causes disturbances in the workplace and often affects people who are not themselves direct targets; it is not just the human rights of the victim that need to be considered, but the overall harmony of the business.

A serial sex pest can do as much harm to group morale, if not more, than a workplace bully; and that is doubly, triply so when the CEO is the pest. A piece of research from the US published on the City A.M. blog last week suggests that indiscretions on the part of a CEO result in an average 4.1 per cent decline in shareholder value, an average of \$226 million. And what is the most common form of indiscretion? Sexual indiscretion, by a long way, and many of these 'sexual indiscretions' are with employees. Generally speaking, if your CEO is making more headlines for his exploits in the bedroom than in the boardroom, you have a problem.

There will always be bad apples, of course, but the real danger comes when harassment and bullying become accepted, part of the business culture. If you have a company where half the potential talent pool are unwilling to work, or feel unsafe working, then you once again have a culture with a narrow and blinkered world-view.

A high incidence of divorces and extra-marital affairs can also be a sign that not all is well in the corporate culture. One has to be careful here not to intrude on private matters, of course, and sadly many relationships do break down. The time to worry is when you look around a social gathering and see large numbers of 'trophy wives' (or, less commonly, trophy husbands). In the past it was almost de rigeur in some company cultures for men, on reaching a certain managerial eminence, to put away their first wife and marry another, much younger and more glamorous one.

I have lost count of the number of cases where senior managers divorced their wives and remarried, to ballerinas. Why ballerinas? I have a theory, as yet unproven and probably unprovable, that when some men look at ballet dancers gliding across the stage they see their ideal woman: beautiful, graceful, sexually alluring; and completely silent.

Why does this matter? Well, these things are often symptoms of deeper problems. High divorce rates might be a signal that managers are under too much pressure and are failing to manage their own work-life balance. In that case, they are probably underperforming as managers too. Alternatively, we could be looking at a 'macho' culture where men put their own interests first and undervalue women.

The second culture I mentioned is the *culture of anxious precision*. Many companies are affected by an 'unhealthy yearning for precision', a phrase I have borrowed from my colleague Pablo Triana's excellent book, *Lecturing Birds on Flying*. In business cultures, the opposite of arrogance is fear, and fear of uncertainty and fear of the unknown can turn into paralysing forces which freeze a business in its tracks.

Just as with the culture of arrogance, a culture of fear gives companies a false perception of the world. In *The Republic*, Plato explains how people can become so frightened of the world around them that they turn away from the world and reject it. He describes a group of people living in a cave, who believe that the shadows they can see on the cave walls are the only reality. When they are taken into the outside world for the first time, they are shocked, startled – and afraid. Rejecting what they see, they retreat into the cave and stay there, preferring the illusion of the shadows to the reality of daylight.

How many times have you sat around a table with a team and heard someone ask, 'Are we certain this is the right decision?' It is of course the wrong question, for in business as in most of life there is no such thing as certainty. Certainty implies an absence of doubt, and in human affairs there is always doubt. Yet paradoxically, most people do not like doubt; lack of certainty makes them anxious, unhappy, afraid. That is why we ask if we

are *certain* this is the right decision, in the hope that one day, one time the answer might actually be 'yes'.

Our fear of uncertainty manifests itself in a drive to find certainty. We want to know what is going to happen next, and when we realise we cannot find out, we retreat into the cave. Or, instead, we equip ourselves with tools that we hope will tell us what will happen for *certain* in the business environment. It is this that has led to the proliferation of mathematical tools and models in business. Now you may, so what? Surely these are useful decision aids? Well, they are, so long as they are aids that enable *us* to make decisions. Danger comes when we abrogate responsibility and let the models make the decisions for us. Because the models promise us a certainty which is entirely an illusion.

According to Lawrence LeShan and Henry Margenau in *Einstein's Space and van Gogh's Sky*, it is theoretically possible to create models that will tell us what will happen in a closed environment, that is, one where all variables can be measured and accounted for. In an open environment, where other variables can enter at random from outside, this is impossible. Businesses operate in open environments, and anyone who thinks they can account for every possible variable is deluding themselves. No mathematical model, no matter how big the super-computer that produced it, can predict the future of a business with anything more than average confidence, and anyone who tells you otherwise is wrong.

Yet, we keep groping towards precision. Mathematical models for determining risk became popular in the 1980s, most famously in financial services, where the Black-Scholes-Merton model for option pricing and then a whole raft of other models came into common use. This is Robert Merton the economist, who won a Nobel Prize for his work on this model among other things. As Triana describes in *Lecturing Birds on Flying*, by the year 2000 every financial services firm had a team of top-level mathematicians and physicists on staff whose sole job was to come up with ever more complex models. The trouble, says Triana, is that many of these did not work. The Black-Scholes-Merton model was flawed, and Triana assigns to a lead role in the financial crash of 1989. In the 2000s a model for pricing collateralised debt obligations based on the Gaussian copula, which sounds like a species of small reptile but is in fact a complex mathematical formula, proved so misleading that the people mistook high-risk securities for low-risk ones, and vice versa. Value at risk, another model to which financiers clung in the belief that it offered certainty, turned out to be full of holes too. These are a few examples; there are also some very useful and very good models out there, but I will make the point again; none of them will deliver certainty.

Fear of uncertainty and fear of the unknown are two of the most important shackles on management thinking today. Managers try to deal with them by reducing risk and seeking certainty. Paradoxically our attempts to reduce risk may actually increase it. For example, fear leads companies to hold back from doing what they should do, from making key investments in technology or important markets, because they cannot be certain they will get the desired return, and this lack of investment can be detrimental to the company's long-term position. We talked earlier about overconfidence, but underconfidence can be just as damaging.

Executives must get used to the idea that certainty is a mirage. The only certainty is that there is no certainty. If executives cannot get used to this idea and work their way through it, then, well, perhaps they are in the wrong job.

The third culture is the *culture of emptiness*. Every business has a purpose, a reason for which it was founded, and usually that purpose has something to do with creating value, providing things that people or other organisations need. 'All markets cater to the needs of the people', as Ibn Khaldun said back in the fourteenth century, and that is still true today.

But over time in some companies, this purpose gets lost and forgotten. Without a purpose to guide them, these companies become hollow. Sydney Finkelstein refers to some companies as 'zombie companies', by which he means, companies that have systematically lost touch with reality. Their moral core has been hollowed out, and the space filled instead by self-interest, laziness, disinterest, cynicism and, in some cases, corruption. Lehman Brothers lost its sense of purpose in the 1970s, when it ceased to be devoted to supporting businesses and started thinking of nothing but its own profits.

Loss of purpose as I say can have a number of consequences, but I will touch briefly on three: failure to take responsibility, social loafing, and detachment and cynicism. We've just had a classic case of the failure to take responsibility at Thomas Cook, where only after immense public pressure did senior management reverse its position that it was not responsible for the deaths of two children on holiday in Greece, and offer an apology. Time will tell whether this was a case of too little too late. Last year, I wrote a post for *The Conversation* when I suggested that Malaysia Airlines had failed in its duty of care to the relatives of passengers on Flight MH370 – you'll recall the airline which veered off course and disappeared and has never been found. Malaysia Airlines was rather dilatory in offering support to relatives, and in some cases sent them messages of condolence by email. I suggested that this would impact negatively on the airline's image and share price – which it did. However, I was criticised by a number of readers who felt I was being unfair. Malaysia Airlines was not responsible for the disappearance, and could do nothing about it. Therefore, how could the airline be responsible? The idea that when you sell a ticket to someone on an airline, and that person dies, you have a moral human responsibility to help that person's family deal with their grief does not seem to have occurred.

The reason companies do this, of course, is that they are thinking of their own short-term reputation and trying to distance themselves from any possible damage. The result is usually the opposite of what is intended, but there is a larger point to be made. When companies think more about themselves, put their own interests ahead of those of their customers, then they are beginning to lose their sense of purpose. They are thinking about making money, not providing service.

Social loafing is a common sign of lack of purpose. This is the phenomenon whereby, when we are in a group with others, we ease off a little and don't try quite so hard; the others will do the extra work and cover for us. The concept was discovered in 1913 by a French engineer, Max Ringelmann, who observed that when a group of men pulled on a rope, each pulled less hard individually than they did when pulling alone, without the support of the group. The point of working together in groups is supposed to be that, by working together, we can achieve more than we could as individuals; the sum of our total efforts is greater than the sum of its parts. With social loafing, however, the sum of the total is in effect less than the sum of its parts. Social loafing is a clear sign that the group or organisation has lost its purpose. People begin to question whether their own efforts are really necessary, and begin slacking off.

Turning to detachment, it often manifests itself in the form of high employee turnover. Employees leave because they have become detached from the company and wish to go somewhere else where they can find more purpose and meaning. They don't understand why they are doing what they are doing. Either managers have failed to communicate properly, or else managers themselves are no longer sure of their purpose. And from detachment and disinterest, it is fairly short journey to cynicism. (This is Diogenes the Cynic; apologies, I was running a little short of inspiration by this point.) Managers begin to question whether the business really has a purpose that is worthwhile. From there, they go on to question the whole idea of purpose at all. When you hear managers scoffing at the very idea of a 'mission', you know that those managers are no longer very much interested in what they do, and a culture of emptiness is taking hold. They are no longer helping the company towards its purpose; in my view, they are now just parasites sucking value and life out of the business. They need to either re-discover their purpose, or get out of management altogether, because if they remain in their present posts then they are liabilities.

And, of course, when the lack of purpose goes, the door is open to corruption. If people no longer believe in the value of what they do, then there will be some who will put their own interests first, and help themselves to whatever they want; legally or not.

I promised that we would look at ways of stopping these toxic cultures from taking hold, because once they are in place, it is very, very difficult to stop them. Once arrogance takes hold, it is very, very hard to recall people to a sense of reality; it often takes a major seismic shock, a real disaster to bring people to their senses, and as I said earlier, not every company survives those disasters. Equally, it is very hard to persuade people who desire certainty and fear the unknown to embrace uncertainty. In Plato's account, if you attempt to drag people out of the cave into the sunlight, they will sometimes turn violently against you and even attempt to kill you. And how do you give back a sense of purpose to someone who has lost it?

It can be done, but it is much easier to prevent these cultures from taking root, and that in turn requires that managers – especially senior managers, the executives at the very top of the organisation – pay close attention to the culture and constantly refresh and remind people of the values the organisation stands for. Values are

another much derided concept in business; but for me, the most important point of this entire lecture is that without a strong system of values, any organisation will be at risk.

What kind of values do organisations need to keep these toxic cultures from taking hold? The counter to arrogance, of course, is humility. Now, I said earlier that companies need confidence; indeed, I will go see further and say that they need pride. They need to believe in themselves and what they do. The balance to be walked between pride and humility is a narrow one. The key to maintaining balance is constant self-examination and reminder. Remember what you have done in the past, the successes and the mistakes. Never forget the latter; they are both the anchor to your humility and a never failing source of learning ways in which to do better and improve. Work on those mistakes and eliminate them; and at the very least, try not to make the same mistakes twice (much, much easier said than done). Don't be downcast by your failures, but don't get too carried away by your successes either. Rudyard Kipling had it right:

If you can meet with Triumph and Disaster

And treat those two impostors just the same...

To deal with the fear of uncertainty, managers require courage. Indeed, I would argue that courage is one of the essential elements that any manager must have. The very first definition of managerial competences, by St Bernardino of Siena in the early fifteenth century, listed the willingness to accept responsibility and the willingness to accept and assume risk as two of the four qualities every manager should have (the others were that managers should be efficient, and be willing to work hard), and I absolutely agree with that. Managers need courage to stand up for what is right and question what they believe to be bad decisions; they need courage to hold fast to their purpose when economic times get rough, and they need even more courage to initiate change programmes when change is needed. They need the courage to tell the truth and not let themselves or their colleagues hide behind false beliefs. Most of all, they need the courage to confront a future that will *always* be uncertain, to trust their own judgement instincts, and to do what they know is right, rather than unthinkingly following the spreadsheet or the model.

And every business *must* have a purpose, which must be part of its core values; and that purpose is *not* the making of money. Fulfil your purpose, efficiently and effectively, and you will make money as a matter of course; as R. Gopalakrishnan of the Tata Group told me years ago, 'Profit is a by-product of what we do.'

Purpose expresses the central reason why a business exists; if you don't know what the purpose of the business is, then make it *your* business to find out as soon as possible, and then live by what you have learned. And, if you cannot find a purpose or do not believe that businesses have purposes, get out of business. Go and do something else, anything else, and let your place be filled by someone who understands. If you don't believe in purpose and you have a management job with power and authority over other people; if your only purpose in being a manager is to have a comfortable job and enrich yourself, then you are dangerous to those other people and to yourselves. Sooner or later, your lack of moral core will drag you down, and probably them too. Get out, now.

Several years ago I interviewed one of the grand old men of Indian business, R.K. Krishna Kumar, then head of Tata Tea (now Tata Beverages). I was doing research for a book on the Tata corporate brand, and I asked him what he thought the chief attributes of the Tata brand were. I sat confidently expecting to hear him say things like 'trust' and 'responsibility' and 'service'. Instead, he nodded slightly and then looked directly at me. 'This is not a brand story', he said. 'This is a story about good and evil.'

I was, to put it mildly, stunned. I had interviewed any number of CEOs and chairmen of major corporations by this point in my career, and I had never heard any of them use language remotely like this. I had asked a question about branding, but his answer took us into the realm of metaphysics. I was also, I admit, uncomfortable. 'Good' and 'evil' are emotive words; was it even appropriate for us to be talking about them in a business context?

The more I thought about it, though, the more I realised that he was right and I was wrong. Business is not a

value-neutral activity. No matter what we do in management, we touch the lives of others: the people who work for us, the people in the communities we serve, the people who own businesses and entrust us with their management.

As managers, we are given power and authority over other people. We have a choice: we can use that power and authority wisely and for the benefit of others, or we can use it badly or wrongly or selfishly for the benefit of ourselves. That choice seems clear to me. If you don't like good and evil, choose other less emotive terms; those will do for me.

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