

Executive Outliers and the Illusion of Success

Bill Gates a Failure?

Are most executives who get to senior positions totally responsible for their success, or do they just happen to be in the right place at the right time? Our thesis; its some of both, but usually more of the latter, that is luck. If that's the case, what are the implications for executive development in the future?



Author Dr. E. Ted Prince
Founder and CEO of
Perth Leadership
Institute

We are not being very original in this thesis. As they say, the idea is in the air. In his recent provocative book, Outliers, Malcolm Gladwell argues that most ultra-successful people in life, think Bill Joy of Sun Microsystems, Bill Gates of Microsoft, Steve Jobs of Apple, owe their success at least as much to their parentage, upbringing, school and time (and sometimes date) of birth as to their undoubted personal capabilities. And Nasim Taleb, in his provocative book, Foiled by Uncertainty, argues that most executives who get to the top owe it again to chance as much as, if at all, to personal genius.

Of course, for any executive who is successful there are powerful motives to attribute this success to their own genius rather than to any outside influence. Both authors essentially argue against the prevailing politically correct thesis that people become successful purely due to their own strengths. Gladwell quotes Jeb Bush and the latter's frequent reference to himself as being a "self-made man" to support his argument.

Heads its was Me, Tails it was Me Too

Case in point; the profitability (or otherwise) of a company. Observers usually link a CEO to its rise or fall. There is a whole industry that does nothing but show how the CEO's actions led to one or the other.

Yet a company's profit model was usually established long before most CEOs ever came to the company. That profit model often, if not almost always, came from the creative visions of the founder which formed the cultural and business base for the success of the company.

In this interpretation most CEOs and managers are similar to a bus driver. They did not create the bus, the route, the passengers or the business model. Most just inherited all of these and their job is just to keep the bus on time, on the correct side of the yellow line and make sure it doesn't crash.

Of course, for most CEOs or senior executives to admit this would be to diminish themselves in their own eyes and in their perception of how others view them. But it essentially describes the role of most managers and executives who are not themselves founders, or at least significant change agents in their own right

Most successful managers and executives also conform to the Gladwell view. That is, they are corporate outliers. Their success mainly derives from the achievements of those who preceded them, albeit they had the requisite capabilities to rise further in the organization than their peers, and not always from a surfeit of

"...to admit this [that they are similar to the proverbial bus driver] would be to diminish themselves in their own eyes and in their perception of how others view them."

personal genius. Or, as Nasim Taleb puts it: "...at any point in time, a large section of businessmen with outstanding track records will be no better than randomly thrown darts..."

We can take this point a step further to assess what impact any management has on profitability and financial performance. The point to understand is that the financial results of any company in a given year are mainly due to managerial behaviors that preceded these results, usually by several or more years.

Think of the impact of the US President on the US economy. His economic impact in a given year, especially in the earlier years of his presidency, is far less than the preceding President's from decisions he made in previous years.

Resume Ergo Sum

That is, profitability is asynchronous with the behaviors that caused it. First we get financial behaviors and decisions which have an impact, usually several years later. So when a particular management team gets a set of good financial results, we need to remember that they may not have been responsible for them. We have to look at the managerial behaviors that caused them, possibly several years before.

The same goes for an individual manager or executive. Many are fond of claiming in their resumes that their decisions led to great financial performance. But in the vast majority for cases, good results were caused by behaviors of the managers that preceded them

Depending on the circumstances, their decisions might have had little or no impact on results because the time period was too short. In any case they never actually developed the profit model; they just drove the bus on its preassigned route. However in such a situation, most managers will genuinely believe that it was their own decisions and genius that led to the stellar financial performance. Of course, where the performance was terrible, they will argue that it was due to the managers that preceded them, thus proving the case.

The End of History?

That profitability is asynchronous with the behaviors that caused it has another major implication. It is that the figures we see in financial statements are historical. They are the results of behaviors that took place possibly many years ago and whose results are only now just beginning to appear.

That is financial statements are lagging indicators, and often not very good ones at that. This is why the science of valuation is so suspect and why managed investing invariably does worse than index investing.

Lagging indicators cannot give us a good guide to what will happen in the future. Our finest financial thinkers constantly fall into the trap of believing that these figures are a reliable guide to the future when nothing could be further from the truth.

"Our finest financial thinkers constantly fall into the trap of believing that these figures [in financial statements] are a reliable guide to the future when nothing could be further from the truth."

The only guide to the future is behavior of managers, since behavior is a stable, sustained characteristic. Behavior provides us with a leading indicator. However since financial analysts see behavior as being "soft" and economics and finance as being "hard", they constantly miss the fact that financial statements are lagging indicators which have little or no reliability for predicting the future.

Great Illusions

This explains why there can be such a chasm between what appears to be happening in a company and what is actually happening. Financial performance appears to be great on the basis of the financial statements (lagging indicators). The CEO and management team and shareholders all

believe this to be the case.

However these financial statements often reflect the behaviors of management well before the period covered by the statements. Management teams therefore continue with behaviors which may well be and often are counter-productive in the illusion that their behaviors are actually profitable. By the time they figure it out, they have been fired and another management team put in place to continue with the same vicious cycle all

over again.

This is why so many leaders and companies can display amazing complacency in the face of an impending train-wreck. It explains results from companies as divergent as Enron, AIG and Lehman Brothers and the current market and financial collapse.

Our financial analysis and leadership systems cannot link cause and effect because of the basic misunderstanding concerning the asynchronicity of behavior and financial results. As long as this lack of understanding persists, our leadership systems and our financial analysis and ratings systems for company valuation will fail since we have no reliable means of linking cause and effect.

Financial Introspectives

This has numerous implications for a wide variety of fields including investment, company ratings and financial analysis to mention just a few. For the moment we are going to restrict our attention to executive and leadership development. Some of the implications are:

- We have to teach executives a new approach to measuring the results of their behavior, at least in the realm of financial performance.
- We have to provide them with the tools not to become destructively complacent in the face of results that appear to say they are succeeding when in fact they are failing.
- We have to show boards how to analyze the link between leadership behaviors and results so that they are getting reliable indications of what is actually happening.
- We have to teach managers about how to be honest and objective about their own financial and leadership impact so that they can clinically assess how good their own performance is actually likely to have been.
- We have to alert them to the success fallacy, that it may not be their actions that led to particular successes they claim as their own so that they have the correct feedback to improve their future performance.

“This is why so many leaders and companies can display amazing complacency in the face of an impending train-wreck.”

Hints and Recommendations

What can companies do to address these issues now?

- Assess managers and executives for business acumen
- Adopt training courses in business acumen for managers and executives.
- Get financial people involved so that the link between behaviors and performance can be assessed more objectively.
- Get financial and business people together to openly discuss the issue.
- Use an outside moderator so that success fallacies can be exposed more readily.

.....

For more information on the Perth Leadership institute and Perth upcoming events, please visit us at: www.perthleadership.org

Perth Leadership Institute: 7208 West University Ave - Gainesville, FL - 32607 PerthLeadership@PerthLeadership.org
Telephone: 352.333.3768

To subscribe to Perth Leadership Institute, send email to: subscriptions@perthleadership.org.

If you would prefer to receive this newsletter in text-only format, please [contact us](#) with your request.

To unsubscribe, send email to: unsubscribe@perthleadership.org.

Copyright Perth Leadership Institute 2008

All Rights Reserved. Articles may not be copied or reproduced without the permission of the Publisher.