Is your company planning to fail? V5

What is the purpose of this article?
Enable Corporate Leadership (the board of directors, CEO, C-Suite, and any controlling shareholders) to discuss the degree to which your company is planning to fail.

This article does not provide tax, legal or financial advice.
You must do your own research and fact-based analysis using current and relevant information.

What are the critical learnings in this article?
1) Most companies are successfully executing their plans to fail. Most companies fail or produce poor investor returns. (Read “Your company will fail”, which is the first article under “What further reading should you do?”)
2) Plans are comprised of two parts: what is in them and what’s not in them. Plans reflect decision made and decisions not made.

The board of directors lack the knowledge and skills to make decisions.
1) A McKinsey survey of board directors showed that most had little understanding of their companies. Only 16% said directors strongly understood the dynamics of their industries; 22% said directors were aware of how their firms created value; and 34% said directors fully comprehended their companies’ strategies.[1]
1) A survey of board directors asked how many directors agreed that their members collective skills and backgrounds are appropriate for their organization’s needs: 54% of directors of high performing companies agreed, 40% of directors of low performing companies agreed.[2]

The board of directors and CEO lack the capabilities to align HR and IT with the strategy and ensure that most employees are working to achieve the strategy.[3]
1) 67% of HR and IT organizations are not aligned with business unit and corporate strategies.
2) 60% of organizations do not link their financial budgets to strategic priorities.
3) Incentive compensation is not tied to achieving strategy (70% of middle managers, over 90% of front-line staff).
4) 95% of employees are not aware of, or do not understand the strategy.

Corporate decisions and actions are not fact-based.
Leadership has a “seriously inaccurate perception of reality”.[4]
Leadership:
1) doesn’t measure the value the company is creating nr the potential value it can capture.[5]
2) makes the incorrect assumption that the main historical competitors will be the main future competitors.[6]
3) cannot learn from other companies’ failures or successes.[7]
4) is focused on the company mission and doesn’t hear what their customers are saying.[8]
5) thinks they have all the answers.[9]
6) fires anyone who questions plans or strategies. [10]
7) relies on yesterday’s answers to solve current problems.[11]

Corporate leadership has poor decision-making behaviours. [12]
1) Good analysis done by good managers with good judgement produces poor strategic decisions.
2) Only 28% of executives thought good strategic decisions were frequently made.
3) 53% of business improvement is due to the quality of the decision-making process, only 8% is due to the quality and detail of the analysis.
4) One cause of poor decision-making behaviors is that leadership neither recognizes their biases nor takes steps to overcome biases in decision-making.

Corporate leadership does not understand the difference between risk and uncertainty.[13]
1) Risk-based decisions are determined by probability determined from analysis of historical facts.
2) With uncertainty, there are no historical facts from which to derive a probability.

The confusion between risk and uncertainty results in leadership believing they are making fact- based analytical decisions when the decisions are actually based on guesses and hopes.

Corporate leadership is not competitively differentiated in its core components of talent.
The core components of talent include:[14]
1) Self awareness, both internal and external
2) Character, including values, morals, and ethics.
3) Relationship skills
4) Communications, especially two-way communications
5) Crystallized intelligence
6) Fluid intelligence
7) Cognitive skills
8) Ability to quickly learn and unlearn
9) Creativity

Corporate leadership has five biases resulting in poor decision-making.[15]
1) Insufficient thought before action.
2) Tendency towards inertia, if uncertain.
3) Misaligned incentives, misunderstanding of strategies and objectives, and emotional attachments to personal perspectives.
4) Preference for harmony over conflict, leading to group think.
5) Recognizing patterns that do not exist.

Companies that have financial success develop behaviours leading to their decline.[16]
1) Success leads to entitlement and arrogance, believing success will occur no matter what happens.
2) Corporate leadership neglects focus, understanding, and renewal of the root causes of success.
3) "What" replaces "Why" ("We're successful because we do these specific things." Replaces "We're successful because we understand why we do these specific things and under what conditions they would not longer work". Corporate leadership is no longer inquisitive and learning.
4) Corporate leadership believes success is entirely due to their superior capabilities, and that luck had no role.

Executive leadership development programs are broken.
A survey of more than 500 global executives showed that only 11% strongly agreed their leadership development programs achieved results. What were the program flaws?[17]
1) Not specific to the companies' strategic plans and drivers of business performance (e.g. turnaround, multiple M&As, organic growth, etc.).
2) Not organization-wide and not at all levels within the organization.
3) Not using digital learning embedded in day-to-day workflows. Too much use of the old teacher and classroom model.
4) Leaders did not use social media (blogs, video messages, etc.). to communicate with staff.
5) Senior leaders did not act as sponsors, mentors, and coaches.

Companies do not recover from crisis.[18]
1) 20% of companies grow from insurgency to incumbency, but then two-thirds of them stall out and less than 1 in 7 stall-outs recover.
2) At any given moment, 5%-7% of companies are in free fall or about to tip into it. Only10%-15% of companies pull out of free fall.
3) 94% of large company executives site internal dysfunctions as their key barrier to continued profitable growth.

During turbulent times, the number of sinking ship companies increases 89%.[19]

Founders are often the cause of start-up failures[20]
1) 65% of the failures of high-potential start-ups are due to people problems: relationships, roles and decision-making, and splitting the income.
2) More than 50% of founders are replaced as CEO by the third round of financing. In 73% of these founder replacements, the CEO is fired rather than voluntarily stepping down.
3) The founder's passion, confidence and attachment to the start-up is initially a great strength. Founders often refuse to revise their strategy, misjudge the need for additional skills, and make decisions that don't reflect the current situation.

Leadership is the underlying cause of start-up failure.
The top nine reasons for start-up failures were identified by CB Insights. [21] I've shown below my point-of-view as to why leaders and leadership were the root cause.

1) 42% no market need – leaders did not validate that there were large number of potential cash paying customers who perceived they had needs and problems they were willing and pay for.
2) 29% ran out of cash – leaders did not understand cash flow management
3) 23% not the right team – leaders did not understand the talent required, how to hire, retain, and develop the right talent as the company evolved.
4) 19% get outcompeted – leaders did not understand how customers and users perceived the competition's value propositions.
5) 18% pricing/cost issues – leaders did not understand how customers perceived their company's value proposition.
6) 17% poor product – leaders did not understand how to oversee solution design and rollout to ensure meeting customers perceived value proposition.
7) 17% need/lack business model – leaders did not understand that a business model is needed or were unable to define one.
8) 14% poor marketing – leaders did not have marketing skill, understand their role in marketing, know the necessary cash to marketing.
9) 14% ignore customers – leaders did not believe it was important to listen to customers and take action based on what customers were saying.

The appropriate VME (Values, morals, and ethics) are not understood or agreed upon.

1) Inappropriate VME can result in:
2) Your company losing your social license to operate.
3) Your ability to attract and retain appropriate talent.
4) Reputation damage which impacts sales
5) Legal action by governments and others.
6) Etc.

What are your next steps?

1) Define your terms and concepts to enable a common understanding.
2) Prepare your own set of evaluation criteria. The above reasons for failure may form some of your evaluation criteria.
3) Have your company assessment by members of your company's ecosystem.
4) Analyze the results. Probe deeply into anything not related to talent to ensure talent is not actually the root issue.

What further reading should you do?
"Your company will fail", Koor and Associates
https://koorandassociates.org/avoiding-business-failure/your-company-will-fail-v1/
"Traditional corporate governance dooms your company to failure. V2", Koor and Associates
https://koorandassociates.org/2023/03/17/traditional-corporate-governance-dooms-your-company-to-failure-v2/
"Traditional strategic planning dooms companies to failure", Koor and Associates
https://koorandassociates.org/strategy-and-strategic-planning/traditional-strategic-planning-dooms-companies-to-failure/
"Traditional risk management dooms your company to failure", Koor and Associates
https://koorandassociates.org/corporate-governance/traditional-risk-management-dooms-your-company-to-failure/
"Traditional business transformation dooms your company to failure", Koor and Associates
https://koorandassociates.org/business-transformation/5920-2/
"What are the three greatest risks to your company?", Koor and Associates
https://koorandassociates.org/avoiding-business-failure/what-are-the-three-greatest-risks-to-your-company/

Footnotes
[1] "Corporate Boards need a facelift", Eric Kutcher, (McKinsey Partner) McKinsey website, May 4, 2018.
[2] "A time for boards to act" McKinsey Survey 2018 March
[3] "Creating the Office of Strategy Management", Harvard Business School; paper 05-701, by Robert Kaplan and David Norton
[4] Sydney Finkelstein, *Why smart executives fail*, Penguin Publishing Group, 2004, Chapter 6
[5] ibid., Chapter 6
[6] ibid., Chapter 6

[7] ibid., Chapter 7
[8] ibid., Chapter 7
[9] ibid., Chapter 9
[10] ibid., Chapter 9
[11]ibid., Chapter 9
[12] "The case for behavioral strategy", McKinsey Quarterly, 2010 Number 2
[13] Adapted from "20/20 foresight: Crafting strategy in uncertain times", by Hugh Courtney
[14] What are the core components of talent? Koor and Associates
http://koorandassociates.org/creating-business-value/core-components-of-talent/
[15] "Think again: Why good leaders make bad decisions", by Sidney Finkelstein, Jo Whitehead, and Andrew Campbell, Harvard Business Review Press, 2009
[16] "How the mighty fall", by Jim Collins
[17] "What's missing in leadership development?", Claudio Feser, Nicolai Nielson, and Michael Rennie, McKinsey Quarterly, August 2017
https://www.mckinsey.com/featured-insights/leadership/whats-missing-in-leadership-development
[18] "The founders mentality", by Chris Zook and James Allen, 2016
[19] https://www.bain.com/insights/the-new-normal-is-a-myth-the-future-wont-be-normal-at-all/
[20] "The Founder's Dilemmas", by Noah Wasserman.
[21] "Top 20 reasons start-ups fail", CB Insights, Oct 7, 2014