

Corporate Strategies and Knowledge Negligence

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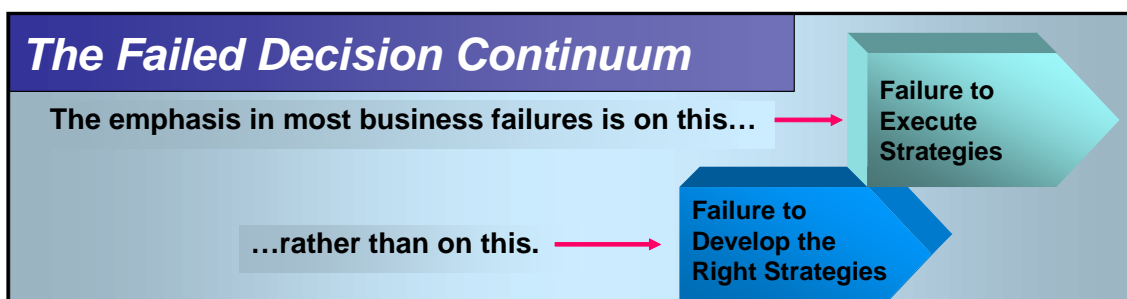
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As last fall's economic meltdown has continued and major blue-chip companies have failed or fallen into a tailspin, questioning business strategies and senior level decisions has come into vogue once again. How could venerable companies like Citicorp and AIG have found themselves in such dire straits? How could longstanding mainstays of the US economy like General Motors and Ford have painted themselves into such a corner?

The answers, of course, range from the risks of engaging in edgy forms of business, on the one hand, to greed and incompetence, on the other. But with so many poor strategies and decisions becoming exposed by these parlous economic times, it might behoove us to look beyond these "topline" answers and dig further.

Most critiques focus on the *failure to execute* strategies or on *acting upon a strategy that was flawed to begin with*. Witness the beating car manufacturer executives have taken before Congress. Some bail-out opponents have been taking the auto CEO's to task for how poorly they have managed their companies for years (most notably Rick Wagoner at GM). Other members of Congress have blistered them for consistently failing to develop a long-term strategy that will keep them globally competitive.

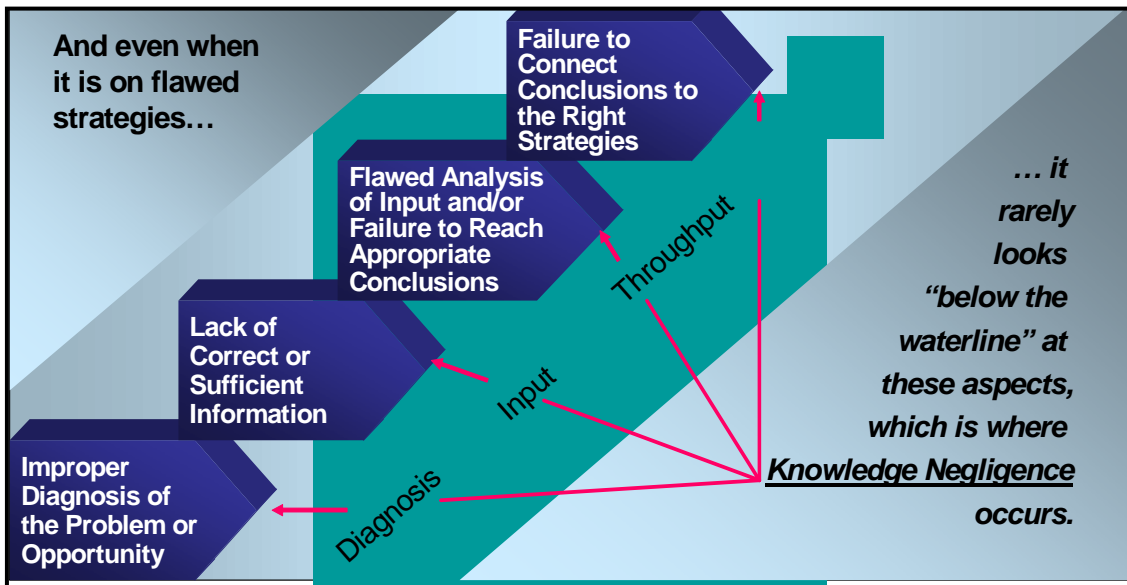
Overall, the private sector and, most importantly, its shareholders seem to be most forgiving of executives who fail to execute—after all, so the argument goes, there are inherent risks in business and things don't always work out. Those accused of acting upon a flawed strategy seem to suffer from a harsher spotlight—after all, senior executives are expected to be competent strategists, and their extraordinary compensation is usually justified by their experience, expertise, judgment, and overall leadership skills.



The Anatomy of a Flawed Strategy

But if we subject this to yet another level of scrutiny, a flawed strategy is almost always the product of failures further up in the decision making process. This process begins with *diagnosis*—identifying the correct problem or opportunity. It is followed by having the appropriate *input*—the information and insight necessary to understand the problem or opportunity—and *throughput*—the ability to reach the most appropriate and impacting

conclusions from the data and situational analysis and connecting them to strategies. This, then, leads to the *output*—developing the most effective strategies from the previous steps.



These components of a decision making process are usually well below the waterline in critiques of business decisions and strategies. Rarely are executives subjected to questions or accusations that they failed to fully understand or assess an overarching challenge or opportunity. The charge is always, “you should have done better;” not “you should have known better.” And why senior business leaders should get a pass on this is curious...after all, our elected leaders can be held accountable for instances of what I call “knowledge negligence,” as are respected professionals such as doctors, accountants, and investment advisors. Isn’t it time for the highest ranks of the business profession to be held to similar standards?

Indeed, Professor Barbara Kellerman, of the Harvard Kennedy School, has begun to outline the case for what she calls “leadership malpractice” in the corporate world, but her emphasis seems to be on “poor performance” in which executives fail to protect employees and stockholders alike.¹ I’d like to suggest that accountability be extended further up the decision making process to cover the “knowledge negligence” aspects as well. We all know the term, “garbage in, garbage out.” Decision making cannot be seen as meeting all the touch points of responsibility unless the “garbage in” part has been covered off as well.

The Province of Knowledge Negligence

So what constitutes the province of “knowledge negligence” in a decision making process? Well, we can look at the public sector and at highly scrutinized professions such as medicine, for some answers.

¹ See Barbara Kellerman, Leadership Malpractice, http://discussionleader.hbsp.com/kellerman/2008/11/leadership_malpractice.html, November 21, 2008

The Watergate scandal has perhaps served up the most famous example of knowledge negligence accountability in the public sector, as exemplified by the question of the time: “What did you know and when did you know it?” Indeed, while the Watergate investigation was about criminal activity, the “what did you know and when did you know it” approach has become institutionalized in Congressional and independent counsel lines of inquiry ever since.² Congressional hearings about 9-11 and the lead-up to the war in Iraq have proceeded down this path, as well as focusing on other avenues of knowledge negligence, such as why certain intelligence input was given credence in policymaking while others were not.³

The purpose of such an approach is to establish a key aspect of public sector leadership accountability—the basis of information and analysis upon which decisions have been made that have affected the reputation and wellbeing of the United States, as well as the risk to the lives of its citizens. Huge stakes, to be sure, but don’t many of today’s major corporations that are in trouble affect economies all over the globe, as well as the livelihoods of thousands upon thousands of employees, family members, and other downstream dependents such as state and local budgets?

Developments in the medical profession offer another pertinent example. Dr. Jerome Groopman, a professor of medicine at Harvard Medical School and the chief of experimental medicine at the Beth Israel Deaconess Medical Center in Boston, has recently written about how malpractice suits prompted the medical profession to examine the root causes of medical errors.⁴ While botched operations get the biggest press, the profession’s research has shown that only a small percentage of medical mistakes are purely operational—the medical equivalent to the ineffective execution of a business strategy. As Groopman says, “the overwhelming majority reflect poor thinking,” much of which he attributes to “mis-diagnosis.” That this stands out in such contrast to the traditional view senior doctors have of themselves as “confident, autonomous decision makers” who “take pride in rapid analyses and sure-footed recommendations” is why is it so relevant to senior business executives, who are looking in the same mirror.

I would argue that medical problems resulting from “poor thinking” land squarely in the province of knowledge negligence. Indeed, I’d break Groopman’s “mis-diagnosis” syndrome down further, in turn, into the three parts of the knowledge negligence spectrum—(1) getting the problem wrong, (2) dealing without sufficient, or even correct, information and (3) reaching faulty conclusions that, in turn, become the basis for flawed decisions or strategies. Doctors sometimes have to make quick decisions in an

² The author has personally taken part in such inquiries during his career as an intelligence analyst with the CIA, most notably in testimony to Congressional oversight committees regarding the Bush Administration’s knowledge and analysis of the situation leading up to a failed coup attempt in late 1989 by a Panamanian Defense Force (PDF) officer against then dictator Manuel Noriega.

³ See, for example, the whole debate about the evidence of Iraqi WMD provided by the now infamous Iraqi source called “Curveball,” as well as the notorious reporting on “yellow cake from Niger.”

⁴ A Doctor’s Rx for CEO Decision Makers, Dr. Jerome Groopman, <http://www.pirhealthcare.com/site/articles/4-articles/10-a-doctors-rx-for-ceo-decision-makers>, May 21, 2008

information-poor environment; that is, if a patient is conscious, doctors must still rely at least partly on what he or she says in response to the diagnostic protocols in order to collect key information. Tests, of course, can help determine further information or even if the patient is wrong in what he or she is indicating. Nonetheless, it is up to the doctor to determine if and when he or she has sufficient, correct input to make a diagnosis and proceed to treatment.

As Groopman points out, the medical profession has taken action to reduce its risks, by learning lessons from high-risk industries and instituting “checks and double checks” and by conducting formal review meetings “to revisit cases that had poor outcomes.” The public sector will also conduct post-mortems to determine how things went bad and what can be done to prevent a reoccurrence. Why not in the private sector?

Making a case for “leadership malpractice,” as Kellerman defines it, is easier today than ever, because of the availability of information surrounding business performance. Thus, avoiding the “*poor execution*” aspects of leadership malpractice may require equal parts public and investor relations, subtly buttressed by adroit legal counsel and ample D&O insurance. The *knowledge negligence* part of the leadership malpractice equation is harder for the public, and even for average stakeholders, to ferret out, however. Therefore, it has to be a key oversight responsibility of any Board and large institutional stakeholders.

So, what could such overseers do? A first step is a rigorous line of inquiry requiring corporate executives to demonstrate that they soundly diagnosed the challenge or opportunity; that they brought sufficient correct information and insight to bear in understanding it; and that they followed some analytical protocols in reaching key conclusions and in connecting them to appropriate strategies. Such scrutiny might include questions such as, “How did you go about identifying this as the most compelling opportunity for this company?” “On what basis did you eliminate other ones?” “When seeking to understand how to attack this challenge, what market and competitive intelligence did you use, and how did you use it?” “Why did you discard this piece of information and choose to utilize that one instead?” “Why did you choose not to pursue additional information about this critical aspect before moving forward?” “How did you and your executive team reach the key conclusions upon which you based your strategy?” In today’s information world, there is less excuse than ever for not having a sound approach to decision making—especially at the crucial, front end of the spectrum where knowledge competence has to reside. As in the public sector and in the medical profession, those charged with oversight responsibilities for key corporate decisions can and should do more to head off company strategies doomed to fail from knowledge negligence.

Paul Kinsinger is a professor at the Thunderbird School of Global Management and Managing Consultant of the Thunderbird Learning Consulting Network. He has spent over 30 years as an intelligence professional, first in the public sector with the Central Intelligence Agency and since 1993 in the private sector. He has guided MBA students at Thunderbird, one of the top-ranked global business education providers, through more

than 200 CI consulting projects for Fortune 100 companies to small start-ups across nearly all major industries and regions. More than 2,200 students have joined the corporate world armed with CI skills sets and an awareness of the field as a true management tool. Kinsinger has also consulted in several industries and has helped companies learn CI tools through activity-based workshops. A member of the Society of Competitive Intelligence Professionals (SCIP) since 1994, he has authored a chapter on training and development for new CI professionals in the SCIP Foundation book, Starting a Competitive Intelligence Function. Other articles have appeared in the Thunderbird International Business Review, Thunderbird Magazine, and in Competitive Intelligence Magazine. A 2008 recipient of one of Frost & Sullivan's Lifetime Achievement Awards for competitive intelligence, Kinsinger was also the subject of a short feature in the Economist online in August, 2006 on teaching CI. He has appeared frequently in the media, including CNN and CNN International, to discuss national security issues and developments in the Middle East, South Asia, and with regard to the global terrorist challenge, and in Arizona media on trends and developments in the defense industry.