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Op-ed
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HYBRIS was the goddess or personified spirit (*daimona*) of insolence, hubris, violence, reckless pride, arrogance, and outrageous behaviour in general.

Is hubris an early warning sign of impending corporate failure and declining innovation? Acting like the canary in the coal mine.

The purpose of this op-ed is to draw a relationship between hubris and significant corporate failures.

Like a lot of management theories there has been much research devoted to understanding ‘hubris’. However there have been few black and white conclusions, thus limiting definitive answers to what hubris really is and how to detect its existence in the corporation. So here goes!

Much research has been done looking for the causes of ‘hubris’. CIO takes an opposite tack and shows that, if those characteristics which cause ‘hubris’ are reversed, innovation management should improve. Let’s get positive and move on from failure!

So, the message is to check the CEO and if he/she exhibits hubris, either bring about a change or run for the hills.

Contents

Background

Most corporate failures can be attributed to over expansion. Whether these failures were due to hubris or an unanticipated shift in the market is not always clear. The cause of almost any failure can be confusing.

Research has shown that one of the reasons companies fail is that ‘hubris’, usually developed at senior levels, brings the sharing and critical examination of ideas to a standstill. Upper management, and particularly the CEO is, of course, always right, knows it, does not want opposition to what he/she knows, and does not tolerate let alone encourage new and innovative ideas.

This characteristic – willingness to consider new ideas - was well documented in CIO's research into the failure of RIM (now Blackberry) and a comparable exhaustive examination by the University of Ottawa on the last days of Nortel, once Canada's largest IT company. These are but two examples of many attempts to arrive at the complex causes of failure.

Research[1] suggests that the main causes of failure include inattentive or ineffective boards, ill-timed expansions, ill-judged mergers and acquisitions, poor strategic decisions, dominant CEOs, manager greed, **hubris** and desire for power, and failure of operational controls[2].

Establishing a clear understanding of the drivers of corporate failure is key. Unfortunately, the task has been overly challenging for researchers, partly because of misconceptions about how exactly to characterize or define hubris. None the less, detecting hubris is an issue!

Canada's Corporate Failures

Canada has had its share of major corporate collapses but not always for reasons of 'hubris'

Canada had its share of major corporate collapses but not always for reasons of 'hubris'.

- Bre-X, 1997, where the clear cause was fraud by way of falsifying mining results.
- Livent, 1998, where the co-founder was found guilty of fraud and forgery.
- Cinar, 2001, co-founders found to have transferred vast sums of money to the Bahamas without the approval of the Board.

The largest cases of corporate collapse in Canada have been Nortel (2009), RIM – still struggling as Blackberry, and Massey Ferguson (1995).

One cannot overlook the major disasters in the retailing sector; Eaton's – founded in 1869, Target Canada – starting in Canada in 2013 and out of the country by 2015. Sears and Toys 'R' Us also come to mind.

Nortel and RIM come first to mind given their importance to the economy, size, and expectations at the time.

CIO's research examines large corporations to identify management practices which contribute to successful innovation.

CIO has also researched several organizations which have failed.

A complete list of these companies is available on the web site.

Nortel

Multiple factors led to Nortel's collapse. Hubris was identified as a factor. This study, in CIO's opinion, resulted in the most comprehensive examination of the reasons for corporate failure.

[1] Journal of Corporate Finance. Corporate failures; declines, collapses, and scandals
[2] Hamilton and Micklethwait,

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Nortel, once Canada's darling in the IT sector, sold all of its assets in 2009. The reasons for its failure were vey well documented in a study performed by the University of Ottawa, perhaps the most comprehensive study of any bankruptcy. A copy of the report is available on the web site and is excellent reading for students and others concerned with innovation management, corporate survival, and decay.

Founded in 1895 in Montreal, Quebec, Nortel, at its peak, employed 94,500 people worldwide. It accounted for one-third of the total valuation of all companies listed on the TSX and was the nineth most valuable company in the world.

The reports first conclusion is that failure is complex. In the case of Nortel, failure involved a combination of multiple factors including the changing business environment, a poorly aligned strategy, and board and management decisions. It was not just one factor that created a pain point but rather multiple factors that created multiple pain points working in parallel that broke the company.

Nortel's sense of pride might have seemed to be a strength in the early days, but it created inflexibility in the latter days of the company. In fact, it escalated into **hubris** to the extent of making it especially difficult to absorb acquisitions, to quickly respond to market needs (largely because of the creation of inflexibility), and to accept and understand what customers wanted (largely as result of the delusion of "we know better").

The organization featured a flexible organizational structure that enabled Nortel to move resources to identified opportunities. It was a model based on designing and building products, informing customers of what they needed, installing products when Nortel felt that they were appropriate for the market, and charging accordingly.

Nortel introduced several operational changes that impaired innovation and the ability to discern and respond to emerging industry and customer changes:

- Giving power to business owners and increasing divisional power which resulted in increased internal politics and fruitless competition;
- Dismantling a centralized R&D platform (BNR) that was culturally and structurally optimized to create, innovate and develop telecommunication products using cooperative teams;
- Removing several of the financial controls / forms and procedures and introducing a system that favoured legacy products (high margins) over radical innovation (high risk); and
- Reduction in the role of the intelligence team, elimination of the design/interpretive centre and other strategic-planning functions.

While this model led to well-designed, reliable products, it also led to a **culture of arrogance and even hubris** combined with lax financial discipline. Nortel's rigid culture played a defining role in the company's inability to react to industry changes.

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Valeant (2015-2017)

Imagine a drug company with no research and development? Buy companies, up the prices of their drugs, and sell. Is this not a sign of hubris at work?

In 2007, Valeant asked the consulting giant McKinsey & Co. for help, and they dispatched one of their most experienced consultants, Mike Pearson, a native of London, Ontario. Pearson dreamt up a strategy to turn Valeant around: instead of developing new drugs, they should cut R&D and simply acquire companies with established products, which would then be milked for all they were worth. Pearson felt most R&D was too risky, producing few profitable results.

Valeant's board liked Pearson's plan so much they made him CEO. Pearson put his plan into action, selling off foreign subsidiaries, focusing on the U.S. market and slashing R&D, which accounted for the lowest among major drug companies.

In 2015, Valeant passed RBC to become the most valuable company on the TSX. They even bought Bausch & Lomb. Subsequently, fraud allegations and criminal investigations brought about in the U.S. resulted in the company becoming toast.

RIM (now Blackberry)

CIO (Messrs. White and Farwell) conducted a comprehensive study of RIM as it proceeded towards its demise. Comments below are drawn from CIO's report of 2011. Hubris per se is not mentioned in this report but the actions of management and the Board strongly suggest that arrogance abounded, and the Board seemed unable to bring about change.

CIO, since RIM itself had not made clear the reasons for the current problems, had taken it upon itself, to examine information that was publicly available to try to get a sense of what might be the causes of the shareholder and product delivery performance. RIM had chosen to remain very quiet over the cause of their problems; one could say almost too quiet, and the continuance of this lack of communication was unsettling to most stakeholders.

CIO evaluated RIM" s chances of success in the turbulent and highly competitive market in which it found itself. CIO benchmarked RIM's perceived management practices using a proprietary system of criteria that measures an entity's innovative capacity. This evaluation was summarized under three headings.

- Leadership, under which RIM scored about average for the most part but there were concerns regarding the split roles of the Co-CEOs and the perceived lack of involvement from the Board.

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Innovation management best practices

- Organization and management of day-today activities, under which RIM scored poorly, due to concerns with respect to its decision-making processes regarding product development and engineering release procedures.

- RIM's corporate approach to idea generation and realization, under which RIM initially scored quite high, but more recently indicated that the culture for encouraging ideas and their realization has changed.

One of the most startling sources of information was an open letter on management practices. CIO concluded that the content of open letters could not be ignored even if some of the comments were from disgruntled employees some of whom had left RIM. Certainly, the letter from a senior executive had content which should be addressed by RIM. Leaving aside the fact that this is an unusual step for a senior executive and a bit strange as a tactic, the letter had been sent and was seen by many to have substance. Comments follow.

- RIM is not the pleasant place to work that it used to be
- Management, specifically Lazaridis has exercised too much influence over product decisions and has not listened to RIM employees nor to end-use consumers.
- The company is gadget-device improvement driven with the most influence coming from carriers and distributors, not end-users.
- Product decision making is chaotic and highly centralized but Lazaridis, in the end drives all decisions and he is out-of-touch with the end-user market.
- While RIM is full of bright people, many are afraid to speak out on product and management issues.
- There is a complete lack of understanding about competitor products, particularly Apple products. Rather than carrying around Blackberries, senior executives should be using the iPhone and the iPad and learning – at least in addition to their own device!
- RIM seems to have difficulty in making 'no' decisions with respect to product programs and regarding employees who underperform. Tough decisions are the mark of a well-managed enterprise

RIM's strategy and management practices had not kept pace with the needs of an increasingly competitive marketplace. While focusing on growth, global expansion, and profit margins, and achieving much over the past decade, RIM needed to move into a new mode of management.

CIO's conclusions were that RIM, while being hugely successful had neglected the rudiments of operating a larger business. Early successes may have planted the seeds of arrogance (read 'hubris)– for example a sense that competitive products could not be better than RIM's own. RIM had many of the management practices of a highly innovative company but fundamentally lacks operating discipline and rigor, probably due to the rapid expansion of personnel and market coverage.

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Massey Ferguson[3]

MF made several major decisions which did not work out and ultimately leading to decline[4]. Massey Ferguson was a leader but had a 'copy culture'.

Founded in 1879, Massey, for many years was a Canadian company known worldwide for its manufacture of agricultural implements. Although now owned by AGGO, its brand is still available everywhere tractors are sold. It was one of Canada's first multinational firms.

MF's struggle began in the 1960s as competition increased around the world. While a series of acquisitions and subsequent sales at a loss contributed to the decline of business, CIO's opinion is that MF's penchant for copying others finally caught up to them. Innovation was not at its best within Massey. Copying and acquisition of other companies to get at their intellectual property were policies that worked for 150 plus years! Until competition!

The history of acquisitions is staggering. More important acquisition and divestitures are listed below.

- Fermec in 1992,
- Landini in 1959 and sold in 1989,
- Ebro in Spain,
- Purchased control of Hanomag in 1974. After a loss of $250 million over the next five years, Hanomag was sold off.
- In 1969, Massey Ferguson began producing a line of snowmobiles under the name '***Ski Whiz***'. The snowmobile line was discontinued in 1977, due to a decline in sales.
- In 1973, Massey purchased German Eicher tractor and many Massey-licensed Eichers were built. They later sold their interest and Dromson now owns Eicher.

Varity left Toronto and relocated to their head offices to Buffalo, New York. The Toronto manufacturing complex was demolished, leaving only its head office building.

On 16 August 1978, Conrad Black[5], whose family had obtained control of Argus Corporation, an investor in Massey Ferguson, became active in Massey Ferguson's management. During the 50 years between 1929 and 1979, the firm made more than 4% profit on its sales only five times. Under Black's leadership, Massey Ferguson instituted significant cost-cutting programmes that returned it to profitability.

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[3] The author worked for Massey Ferguson during the 1960s.
[4] See CIO report on Massey-Ferguson based on the personal experience of three employees who were employed by the organization. Available on the web site.
[5] Wikipedia

During the late 1970s, production was relocated to a new, large facility in Brantford Ontario. In 1978, Massey Ferguson was the first to introduce an electronic control system for the three-point hitch on a tractor. However, a worldwide decline in the agricultural equipment market combined with high inflation, high domestic interest rates and a major recession, caused Massey Ferguson to slip into a loss once again.

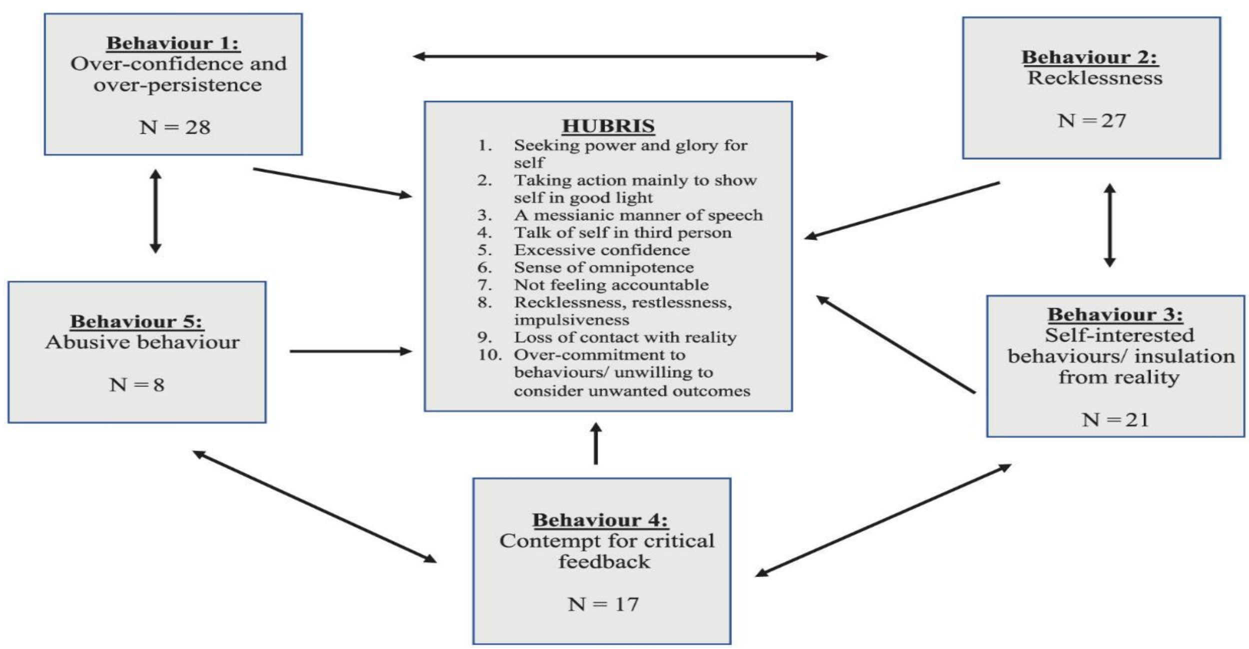
On 23 May 1980, Black resigned as chairman. In a subsequent series of detailed and lengthy letters to Herb Gray—the then Canadian Minister of Industry under the government of Pierre Trudeau—he remarked on the challenges faced by the firm, and outlined his solution, which would have seen the Canadian and Ontario governments as well as Argus Corporation refloat the ailing firm. Black failed to obtain a suitable response and resolved to cut his losses.

In 1995, Massey Ferguson's worldwide holdings were purchased by the United States-based AGCO Corporation.

Measuring 'hubris'[6]

How to know if your corporate is infected with hubris

Amongst the research which has been conducted into the impact of hubris, there is an excellent chart of the several behaviours which contribute to hubris[7].



[6] Updated by Aaron D. Hill
[7] Towards an organisational theory of hubris: Symptoms, behaviours and social fields within finance and banking. Dennis Tourish University of Sussex

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Tourish has gone to a great deal of effort to document cases of hubris in this behaviour-based view of hubris in the financial sector. He illustrates each reported encounter and applies a number to the responses he received. Five themes were addressed.

- Over confidence and over0persistence (28 incidents)
- Recklessness (27 incidents)
- Self interested behaviour and insulation from reality (21 incidents)
- Contempt for critical feedback (17 incidents)
- Abusive behaviour (8 incidents)

The Figure suggests that each behaviour reinforces the other and summarises the defining characteristics of hubris that guided the interview protocol and suggests that the behaviours concerned feed directly into the creation of hubristic mind-sets and behaviours.

But if these are the contributing behaviours for hubris then it follows that the opposite behaviour would be enlightenment and good for business. Thus, behaviour conducive to innovation and success would be characterized as:

- No abusive behaviour
- No seeking power for self
- Not taking action to show oneself in a good light
- Normal speech
- Feeling accountable
- Care in making decisions (no impulsiveness)
- Conveying a sense of reality, being present
- Willingness to consider alternatives
- Limiting bravado

Makes good sense.

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Further means of measuring hubris, along with research sources, are outlined in the chart.

Measure	Method used to create measure	Example(s) of measure use
Executive language use	Content analysis of the words used in company documents	Rovenpor (1993); Liu et al. (2009)
Media comments	Content analysis of comments made by print media in reference to the individual	Hayward and Hambrick (1997); Brown and Sarma (2007); Malmendier and Tate (2008); Liu et al. (2009); Hribar and Yang (2011)
Recent organizational performance	Organizational performance in prior time periods	Hayward and Hambrick (1997)
Relative compensation	Compensation of focal individual relative to other individuals in the organization	Hayward and Hambrick (1997)
Organizational investment	Comparison of firm investments to industry average	Campbell et al. (2009)
Stock option exercise	Timeliness of stock option exercise	Malmendier and Tate (2005, 2008); Campbell et al. (2009); Liu et al. (2009)
Stock purchases	Individuals' purchase of stock in their company	Malmendier and Tate (2005); Campbell et al. (2009)
Direct inquiry	Individuals' responses to questions	Busenitz and Barney (1997); Li and Tang (2010); Simon and Houghton (2003).

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Innovation management best practices

Summary

Hubris is here. Let's understand it!

In 1981 Warren Buffet made this prescient comment

Many managements apparently were overexposed in impressionable childhood years to the story in which the imprisoned handsome prince is released from the toad's body by a kiss from a beautiful princess," Mr. Buffett wrote. "Consequently, they are certain their managerial kiss will do wonders for the profitability" of the companies they intend to acquire. But Mr. Buffett added: "We've observed many kisses but very few miracles. Nevertheless, many managerial princesses remain serenely confident about the future potency of their kisses -- even after their corporate backyards are knee-deep in unresponsive toads."

Hubris[8] is a grandiose sense of self, characterized by overconfidence, arrogance, and contempt toward the advice and criticism of others. Hubristic leaders create the conditions that invite unintended negative consequences by overestimating the likelihood of positive outcomes and underestimating the likelihood of negative outcomes from their decisions and actions.

Hubris does not occur without the full involvement and endorsement of the CEO. It is inconceivable that one or more senior managers would have hubris and at the same time find it lacking in the CEO. Thus, as in many other management issues, it is the CEO who bears the responsibility for the start and growth of hubris within an organization **and ultimately its eradication.**

So, the message is to check the CEO and if he/she exhibits hubris, either bring about a change or run for the hills.

[8] Hubris in Management. Eugene Sadler-Smith and Dennis Tourish