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WHY BLINDSPOTS MATTER

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CHAPTER

1

THE DANGERS AND REWARDS OF BEING BLIND

Successful leaders balance two conflicting needs.

The first is to act with a confidence in their abilities and faith in their vision for their organizations. This allows them to pursue ambitious goals and push forward despite obstacles that would intimidate if not overwhelm most people. Consider the example of Amazon founder Jeff Bezos, who developed an online retail business that was revolutionary and often misunderstood, particularly by those in the financial community. Bezos persevered through years of losses before Amazon became what it is today—a rapidly growing company that dominates online retailing and threatens brick-and-mortar giants such as Wal-Mart. While Bezos’s success is due to a number of factors, it is clear that a less confident, and perhaps more pragmatic, leader would not have envisioned or achieved what Bezos has done. He withstood constant disparagement, at least from Wall Street, because of his firm’s narrow profit margins, erratic earnings, and massive investments in long-term growth initiatives. A fellow entrepreneur, when asked what made Bezos unique, noted that his most notable trait was his staying power and ability to withstand “the beatings.”¹

Leaders with an overextended faith in themselves and what they can achieve stand in contrast to those who lack confidence.² I recently met with a leader looking to address gaps in his organization’s structure and culture. I asked during our initial meeting how he viewed his leadership team. He said that his company had grown a great

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deal over the past decade and was now a \$5 billion firm. His team had performed superbly in achieving that milestone. However, he felt that many of his team members lacked the confidence needed to push the firm forward to its next level of growth. In essence, he believed that they had reached the limit of what they felt was possible, and were satisfied with the current scale and scope of the business. Keeping pace with inflation was their unspoken goal. He concluded that they had, psychologically, hit a wall, and his only option was to bring in new team members who were not hindered by such limiting beliefs.

Confidence has another benefit. Studies have shown that people are more likely to follow those who are self-assured, outspoken, and driven. In essence, people follow those who are sure of their own abilities and willing to exert influence over others. One psychological study, for example, put managers into self-managing teams and then gave the teams a task to perform. The researchers were interested in who would emerge as leaders in these groups. The findings indicated that group members who were more narcissistic, and by definition more confident in themselves and sure of their own point of view, became the leaders in those groups. In addition, they were seen by other group members as being more qualified to lead because of their confident demeanor and drive to influence the group's outcomes.³

We sometimes follow others simply because they are more confident than ourselves. I experienced this in a setting far removed from a corporate office. I was hiking Mount Kilimanjaro with a group of ten people. Summit day began at 3:00 AM on the route we were taking, and I was nervous that I might not make the final push to the top. I decided to walk directly behind the strongest and most experienced individual in our group. He had climbed a number of tough mountains, and Kilimanjaro was relatively easy for him. I recall thinking that he was going to make the summit, and I would benefit by psychologically drafting behind him. I didn't say anything to him but followed him, one step after another in the dark and cold, until we reached the peak soon after sunrise. The next day, on our way back down the mountain, I told another climber in our group what I had done. He said he understood my thinking because he had done the same in following me up the mountain—using me as his source of confidence on the way to the top.

The second need for leaders is to be aware of their own limitations and avoid the hazards that come with overconfidence and excessive optimism. The classic case of this need is found in entrepreneurs, who are more likely than others to make overly optimistic projections of their chances for success, overvalue their own capabilities, and neglect to adequately plan for potential problems.⁴ Optimism, of course, is both a strength and liability, propelling a leader forward but potentially blinding him or her to the realities of what could go wrong and what is needed to be successful. In contrast, savvy leaders know that they are operating, at times, with only partial information about what is unfolding in their firms and the markets in which they compete. Such gaps are even more likely as organizations grow in complexity and face changes in their markets that are difficult for any leader to anticipate. Andy Grove, the former

CEO of Intel, underscored this need to be aware of one's own limitations in leading a company:

None of us have a real understanding of where we are heading. . . . But decisions don't wait, investment decisions or personnel decisions and prioritization don't wait, for that picture to be clarified. You have to make them when you have to make them. So you take your shots and clean up the bad ones later. I think it is very important for you to do two things: act on your temporary conviction as if it was a real conviction; and when you realize that you are wrong, correct course very quickly.⁵

Leaders thus need to be supremely confident and, at the same time, see themselves and their situations accurately. Bob Sutton, a management professor, suggests that the best leaders hold the following belief: "I strive to be confident enough to convince people that I am in charge, but humble enough to realize that I am often going to be wrong."⁶ He views the ability to balance self-confidence with self-doubt as a hallmark of the best leaders.

This balancing act is complex, as confidence and doubt are often adversaries, each seeking to defeat the other. Moreover, the right balance between confidence and doubt varies within each individual and even across situations. Psychologists, however, have found there are benefits to being slightly more confident than one should be. In other words, it helps to believe that you are better than you are and to be more optimistic about your business than an objective analysis would suggest. An *optimal margin of illusion* occurs when individuals have a small, positive distortion about themselves. This results in an advantage over those who are more realistic.⁷ A positive bias is useful because it increases an individual's motivation to move forward in risky situations and persevere in difficult situations. Positive self-belief evokes behaviors in an individual and in those around him or her that can result in successful outcomes. In contrast, too much self-doubt can erode a leader's confidence to the point that he or she is less effective. Consider the leader of a consumer products company who was suffering through several resignations on his team and related complaints about his leadership style. He saw the turnover of staff and low morale within the group as a personal shortcoming and agonized over what he saw as his own responsibility for the departures. His anxiety began to affect his way of managing his team. In particular, during meetings he would apologize at length to his team about the problems that were evident in the organization. At a time when people wanted to be reassured, his uncertainty made those in his group think he was overwhelmed by the challenges he faced. His team members became even more anxious in a situation where they wanted to feel more confident about his ability to deal with the problems they faced.

The role played by blindspots is to mediate between the poles of self-confidence and self-doubt. A leader with too many blindspots can be overconfident, even blindly arrogant, and exposed to a range of risks. In contrast, a leader with too few blindspots may be too realistic and overwhelmed by the very real obstacles ahead. Some would argue that having fewer blindspots should result in more confidence because the leader

knows that he or she is viewing the world accurately and thus can be more self-assured moving forward. This is the leader who spends a great deal of time testing and probing for weakness in a product launch plan. After exploring various weaknesses in the plan, the leader is confident that it will succeed. The problem is that awareness of weaknesses and threats, if not properly managed, can easily evolve into self-doubt—which then erodes one’s ability to lead. To be clear, the premise of this book is that awareness, all things being equal, is beneficial. But this is not to suggest that more is always better. In other words, not knowing what you don’t know can hurt you if you fail to see and act on your vulnerabilities. However, knowing what you don’t know can also hurt you if it erodes your confidence and ability to act decisively in the face of uncertainty or adversity. This, in turn, can undermine the willingness of others to follow you as a leader. The challenge, which is ongoing, is to strike the right balance between confidence and doubt given the challenges you face and the needs of the group you are leading.

An optimal margin of illusion occurs when individuals have a small positive distortion about themselves. This results in an advantage over those who are more realistic.

For an illustration of this point, look at what occurs in the training of surgeons.⁸ Many medical students who start out to be surgeons don’t finish their internships in surgery and, instead, go into other areas in the medical profession. Everyone who makes it to this point in medical school has a high IQ and superior analytical capabilities. Intelligence is not what drives success or failure as a surgeon. Hand and eye dexterity is also not viewed by those training students as a key factor. Occasionally, there is someone who is truly gifted in this regard, but such students are relatively rare. The key is the ability to persevere when confronted with failure, which in surgery means that patients suffer as a student learns his or her craft. Those who move forward to become surgeons learn from their mistakes and, in this regard, are self-aware. But at the same time, they are not overwhelmed with the consequences of their mistakes, which would result in excessive self-doubt and potentially the end of their training. One could argue that such individuals are aware but resilient. My point is that they learn to put self-doubt to the side and move forward with confidence despite their mistakes.

Atul Gawande, a surgeon and author, notes that this is important because all doctors will at some point in their career make a terrible mistake. He notes that surgeons run the risk of allowing their feelings when this occurs to become a debilitating self-doubt. Gawande describes a surgeon who had a patient die during surgery, in what the doctor described as a “clean kill.” He was shaken for months afterward even though he was not guilty of malpractice.⁹ While a death should never be taken lightly, I suspect that few of us would want to be the next patient on whom this doctor operated.

Let me describe a second example of balancing confidence and doubt. I worked with an executive who was both talented and charismatic. He was also very ambitious. It was no accident, given his considerable skills and obsessive drive to get ahead, that he quickly advanced to higher levels within his company. He projected complete confidence in his own ability and was able to rally people behind him and his vision for the

organization. The dark side of his charisma was that he took every opportunity to promote himself and his achievements (while skillfully appearing not to do so). He would also distance himself from any failure that occurred under his leadership. In one case, he led the introduction of an innovative product that his firm launched with great fanfare. However, the product never gained the market share that was expected. This was an embarrassment for the leader because the company had invested heavily in developing and marketing the new product. This leader's view was that he was not given sufficient support from his marketing group, which was not under his direct control, to deliver on his sales targets. Mistakes were made but not by him. Those around him were amazed at his ability to distance himself from a project that he had championed just months earlier. He moved on and demonstrated his ability in other areas, eventually becoming the CEO of a large, global consumer products company. My initial assessment of this leader was that he would likely fail because of his character flaws. To my surprise, he proved to be highly successful. His company has grown dramatically and is now one of the dominant firms in its industry. He is what some call a productive narcissist¹⁰—a leader who leverages his considerable strengths, including an unshakeable belief in himself, to rally others in achieving challenging objectives. At the same time, he has avoided the traps into which narcissists often fall, including an inability to see their own weaknesses and, in particular, the impact of their excessive self-focus.

All in all, leaders are forced to manage the ongoing tension between confidence and doubt—between believing in yourself and realizing that you have gaps in your knowledge and may be wrong in the decisions you are making. For many, the greatest danger is being overconfident and not seeing weaknesses that have the potential to ruin them. In this regard, they move into the hazardous area that exists beyond the optimal margin of illusion. This risk is illustrated by looking at three well-known, highly successful business leaders who ran into trouble.

STEVE JOBS: BLINDSPOTS ABOUT HIMSELF

Steve Jobs was the most visible CEO in the world during the last decade of his life. He had a string of unmatched successes in a variety of industries, revolutionizing areas as diverse as computing, phones, music, publishing, movies, and retail. Jobs, however, was not without his blindspots. Some members of his team at Apple described him as having a *reality distortion field*, a term they appropriated from the TV show *Star Trek*. This way of thinking allowed Jobs to distort almost any situation, any set of data, to prove to himself—and others—the correctness of his point of view. One of the team members on an early Apple project described it as follows: “The reality distortion field was a confounding mélange of a charismatic rhetorical style, an indomitable will, and an eagerness to bend any fact to fit the purpose at hand. If one line of argument failed to persuade, he would deftly switch to another. Sometimes, he would throw you off balance by suddenly adopting your position as his own, without acknowledging that he ever thought differently.”¹¹

One notable example of the downsides of his distortion field occurred during his first turn as the leader of Apple. Jobs decided to bring in John Sculley from Pepsi to be the firm's CEO and help Apple become a more disciplined company. The relationship between Jobs and Sculley started on a positive note but became increasingly strained as they differed in their visions for the company. Jobs eventually came to the conclusion that Sculley had to go and lobbied his board to remove him. On hearing of Jobs's attempted coup, Sculley gave Apple's board an ultimatum—select either him or Jobs to run the company—no more power sharing. From the board's point of view, Jobs's management skills were suspect and his divisive style had created factions within Apple. The board backed Sculley and stripped Jobs of most of his power.

Years later, Jobs tried to make sense of what had happened to him at Apple, noting, "What can I say? I hired the wrong guy. He destroyed everything I spent ten years working for, starting with me."¹² This, however, was not simply a case of hiring the wrong person. Jobs's arrogance made him believe that he had more support from his board than was the case, and he was unaware that his belligerent, even punishing approach had alienated a number of important executives in the senior ranks at Apple. His view was that the board had to see that he was far superior to Sculley. How could they choose Sculley, who, to paraphrase Jobs, had spent most of his life selling "sugar water," over someone who was capable of changing the world? Yet the board did just that, and Jobs soon left the company he had founded. He spent the next decade build-

The magical thinking that allows an individual such as Steve Jobs to do great things, and convince others that they can as well, can also result in debilitating blindspots.

ing NeXT (with limited success) and Pixar (with great success). Had Apple not later stumbled and faced certain demise, it is unlikely that Jobs would have returned to the firm and had the greatest second act in the history of business. He would have been successful, at least with Pixar, but would not be the Steve Jobs we hold in such high esteem today.

Steve Jobs was adopted as a child and had a close relationship with the two individuals who became his parents. When he was a young boy, a child in his neighborhood asked Jobs if he had been put up for adoption because his biological parents didn't want him. Jobs ran home and asked his parents if he had been abandoned. They said that he needed to understand that he was special and they had chosen him as their son. Jobs's biographer indicates that from that point forward in his life Jobs believed he was "chosen" to do great things.¹³ This experience could be seen as being unique to Jobs's personal history, but other great leaders have also held the belief that they are destined for achievements beyond what is possible for "normal" individuals. John Rockefeller, for example, became the wealthiest man in the United States in his lifetime after narrowly avoiding being

killed in a train wreck as a young man. After that experience, he believed that his life had been spared as a result of divine intervention. He was convinced that his calling was to amass wealth at a level that would allow him to benefit society through his business and philanthropic efforts.

Some who strive for greatness are like Jobs in having a “chosen” mentality, although it varies in how it is expressed and, in some leaders, can be subtle. This belief, which inevitably contains some element of self-delusion, is reinforced if the leader achieves great success particularly early in his or her life. Consider the achievements of Steve Jobs and how those accomplishments could lead him to believe that his capabilities were unique, placing him above others as a visionary entrepreneur—including formidable competitors such as Bill Gates and Michael Dell. He founded Apple Computer with Steve Wozniak in 1976 with only \$1,300 in start-up money. The two became technology icons and multimillionaires by the time they were twenty-five years old. He brought Apple back from the brink of bankruptcy on his return to the company and was the driving force in its period of phenomenal growth with the introduction of one revolutionary product after another. He was right, time and again, about what would appeal to consumers in a wide range of industries. His marketing and branding insights were second to none over the final years of his life. And unlike some visionaries, he was able to build one of the most respected companies in the world, one with a world-class management team, a highly innovative culture, and billions of dollars in capital reserves.

Jobs believed he was unique—and he was. His famous “Think different” advertising campaign for Apple provides an insight into how he viewed leadership and, more directly, himself:

Here’s to the crazy ones. The misfits. The rebels. The troublemakers. The round pegs in the square holes. The ones who see things differently. They’re not fond of rules. And they have no respect for the status quo. You can quote them, disagree with them, glorify or vilify them. About the only thing you can’t do is ignore them. Because they change things. They push the human race forward. While some may see them as the crazy ones, we see genius. Because the people who are crazy enough to think they can change the world, are the ones who do.¹⁴

Every society and business needs people who hold such outsized beliefs—otherwise, leaders simply replicate or incrementally improve that which came before them. However, these same people can believe that they are infallible and that the rules others live by don’t apply to them. The magical thinking that allows an individual like Jobs to do great things, and convince others that they can as well, can also result in debilitating blindspots. In other words, visionary leadership always comes with some degree of delusion that pushes an individual forward but also contains the potential for his or her destruction. The result can be smart and successful people acting at times in surprisingly foolish and self-defeating ways.

Given Jobs’s unequalled business success, you could argue that his blindspots were relatively minor in relation to his achievements. True. But a more useful portrayal is to say that Jobs had towering strengths and towering blindspots—which took a toll early in his career—and that he learned to manage better over time. Take, for instance, the situation that evolved with the early Macintosh team at Apple. Jobs wanted to develop the disk drive for the machine internally and work with a single supplier to

manufacture it, to improve quality and lower costs. His team warned that this approach would put the launch date at risk if any design or manufacturing problems arose. Jobs ignored his team's advice and insisted on a single supplier. This initial supplier did in fact have problems producing the disk drives, which would have significantly delayed the Macintosh launch. Unknown to Jobs, his team had secretly contracted with another supplier, Sony, to whom Apple eventually turned to supply the needed component. Jobs laughed when he heard that the insubordinate members of his team had defied his orders and, in so doing, saved the launch of his game-changing computer.¹⁵

Jobs deserves credit in that he hired talented and strong-willed people, both at Apple and Pixar. They would challenge him but also remain loyal to him (with a few exceptions such as Sculley). He created a culture that valued talent and fostered intense debate among strong-willed individuals. He believed that people achieved great things together, in part by team members keeping each other's negative tendencies in check. Those who knew Jobs well, including Apple's current CEO, Tim Cook, suggest that Jobs, despite the public's perception of him as being overly rigid, could change his mind and recognize when he was wrong. "So many people, particularly . . . CEOs and top executives," says Cook, "[are] planted in their old ideas, and they refuse or don't have the courage to admit that they're now wrong. Maybe the most underappreciated thing about Steve was that he had the courage to change his mind."¹⁶

The lessons from Jobs's legacy regarding blindspots are many. The first is that the most talented people are not free of blindspots. In fact, their blindspots, like their strengths, are often more extreme than those of others. Jobs had blindspots, to the point of his team referring to his reality distortion field. In some cases, people and organizations should try to leverage the strengths and limit the downsides related to talented leaders' blindspots, rather than trying to change the fundamental nature of those leaders. One way to say this is that others need to respect the precarious "ecology of their delusions"¹⁷ when those delusions are an essential part of what makes a leader successful. Jobs's colleagues at Apple during his early years tried to do just that but failed, resulting in a decision by Apple's board to strip him of his power—arguably one of the worst decisions ever made by a board of directors. Jobs, however, also needed to learn how to temper his excesses and avoid creating problems that only detracted from his talent. The second lesson from Jobs's life in regard to blindspots is that leaders need a strong-willed team who will push back when needed to avoid the disasters that can result from a visionary leader's lack of awareness in critical areas. Jobs had such team members in the second half of his professional life. He was no less passionate, no less sure of his own judgment, but he learned to surround himself with people who knew how to protect himself from himself.

JAMIE DIMON: BLINDSPOTS ABOUT HIS TEAM AND COMPANY

Jamie Dimon is one of the most powerful leaders in the US financial community. After holding important roles at American Express, Citibank, and Bank One, Dimon became CEO of JPMorgan Chase. His company was one of the few financially secure banks

that did not need a bailout from the US government (although it took one at the government's request). Dimon was credited for largely avoiding the risky mortgage-related investments that devastated many of his competitors. As a result, he became an influential spokesman for his industry on a wide range of policy issues, including the role of government regulation in the financial sector.

The year 2012 was one of the most difficult of Dimon's career. JPMorgan lost over \$6 billion due to the actions of a trader who became known as the London Whale (a nickname given to him as a result of the location and size of his trades). The financial cost, while significant, is less than the damage done to the firm's reputation and the credibility of its leader. In retrospect, it is evident that Dimon was guilty of losing touch with his organization and failing, in particular, to understand the scale of the risks being taken by his chief investment officer (CIO).¹⁸ The question asked by those who knew him was how could Jamie Dimon, a man known for his attention to detail, have allowed this to happen? How could he not see the warning signs that things were about to go terribly wrong?

Ina Drew, leader of JPMorgan's chief investment office at the time of the London Whale's trades, had a stellar track record. She was well respected within the bank and in the industry. Her group had responsibility for investing \$350 billion of the assets controlled by the bank. During the previous four-year period, Drew's division had contributed \$23 billion to the bank's bottom line, or nearly a third of JPMorgan's total profit. That Drew would take such a foolish risk was unthinkable to many, including Dimon. He said after the loss surfaced, "This is my mistake. I never worried about Ina." In many companies, leaders who deliver profits are given greater latitude than others receive by those above them and by their peers. At JPMorgan, the next-level questions about Drew were apparently not asked by Dimon or members of his team. The firm's processes for managing risk also proved to be woefully inadequate. One of the bank's harshest critics in the government claimed that it had "a trading operation that piled on risk, ignored limits on risk taking, hid losses, dodged oversight and misinformed the public."¹⁹

We now know that Dimon should have worried about Drew and, more generally, the controls in place to monitor her group. She had recently moved from overseeing conservative and less risky financial products to managing people making more complicated and volatile trades. As bright and successful as she was, Drew was entering new territory with the potential for much more risk. A JPMorgan Chase executive, now gone from the bank, said that he warned Drew and Dimon that the level of risk control in her office needed to be more transparent to avoid a potential disaster. This executive said that Drew ignored his concerns, and Dimon told him to "mind his own business." Dimon, on hearing of this after-the-fact account, said that no one in the bank had indicated to him that there was a risk management problem in Drew's group.²⁰ Dimon believed risks would be surfaced before they became major problems, given Drew's track record as well as the risk management processes in place at JPMorgan. After all, JPMorgan, as a result of its massive size and proven track record, was what Dimon called a "port in the storm" during the turmoil of the 2008 financial crisis.

Dimon then compounded his problem when he announced, after the press had surfaced the potential of an enormous loss, that the issue was “a complete tempest in a teapot.”²¹ This comment received widespread media attention, resulting in further embarrassment for Dimon when, only three weeks later, it was clear that JPMorgan would suffer a multibillion-dollar loss. Dimon indicated that his people had told him that this problem was minor and that he, mistakenly, had trusted them. Dimon thus failed twice to recognize the size of the problem he had on his hands—initially as the problem spun out of control and then, after it surfaced, when he minimized its impact. On both counts, his credibility suffered, and some wondered if he, or anyone for that matter, could effectively lead a bank that was as large and complex as JPMorgan Chase. They said that this level of mismanagement was further proof that the big banks needed to be broken up and further regulated.

Dimon took accountability for the loss and went public with his mea culpa. In the bank’s annual report for 2012, he noted that the bank’s “strategy was flawed, complex, poorly reviewed, poorly executed and poorly monitored. Given the portfolio’s success over time, we had become complacent, and we weren’t as rigorous and skeptical as we should have been.”²² JPMorgan will pay at least \$900 million in governmental penalties as part of a settlement over its mismanagement of the London Whale trades. Dimon also fired or accepted the resignation of those responsible, accepted Drew’s offer to return \$31 million in personal compensation, authorized the *clawback* of the pay of others involved, reorganized his risk management group, and enhanced the firm’s formal checks and balances. Drew, in testifying before a congressional hearing into the London trades, indicated that she had been deceived by her risk management team and those at lower levels who understated the risks being taken. She admitted that mistakes were made on her watch but said she was the one who was wronged by those who lied to her.²³

*Jamie Dimon’s
plight highlights
both the need to
trust others and
the risk of
doing so.*

Dimon set about changing the culture of his company to encourage greater honesty in dealing with issues and risks. He wrote in that same annual report: “Sometimes people don’t ask hard questions because they want to avoid conflict. That cannot be the way we operate. Confronting people when necessary or by asking hard questions is not an insult. It doesn’t mean you lack collegiality or don’t trust the individual. In fact, asking hard questions is what we owe one another to protect ourselves from mistakes and self-inflicted wounds.”²⁴

He noted that the bank would still make money because it was large enough to absorb the loss. Dimon went on a public relations campaign, pointing out that all businesses and all leaders make mistakes and that, while his mistake was significant, JPMorgan would post record earnings for 2012. One of his executives reinforced this point when he observed, “The goal is that your screwups are flesh wounds and not mortal wounds. This was a flesh wound.”²⁵ Nevertheless, many more wounds of the London Whale variety would likely prove fatal, at least for Jamie Dimon.

Dimon's blindspot was not seeing the threat he faced and incorrectly assuming that the culture, processes, and people of JPMorgan would surface issues before they became major problems. He was reprimanded by his board for his inability to spot the escalating risk and failing to take necessary action. In an internal report investigating the losses, the task force commissioned by the board concluded that a number of senior executives were to blame for the losses, notably Ina Drew as well as the firm's chief financial officer and chief risk officer. Dimon was also held accountable: "As Chief Executive Officer, Mr. Dimon could appropriately rely upon senior managers who directly reported to him to escalate significant issues and concerns. However, he could have better tested his reliance on what he was told. . . . more should have been done regarding the risks, risk controls and personnel associated with CIO's activities, and Mr. Dimon bears some responsibility for that."²⁶

The lesson from Dimon's story is that large and complex organizations challenge the ability of any leader to understand what is occurring at a detailed level. This puts them at risk of being blindsided about various types of weaknesses and threats—not only because of their own isolation, which is partially inevitable for a senior leader, but also because of the complexity of the companies they lead. Jamie Dimon's plight highlights both the need to trust others and the risk of doing so. The London Whale problem also underscores the need to create robust processes and practices and to encourage the kind of informal culture needed to surface information about emerging problems. When these elements are lacking, hierarchies often work in ways that keep critical information from those with a need to know. The responsibility of the leader is to understand how his or her company is operating and put into place mechanisms that act to prevent the filtering and distortion of information across boundaries and levels.

HENRY FORD: BLINDSPOTS ABOUT HIS MARKET

A third example of an iconic leader with a debilitating blindspot is Henry Ford. At the beginning of the twentieth century, Ford was making his mark on industry and society at large. To use Jobs's phrase, he was pushing the human race forward. Before Henry Ford, the automobile was a handmade carriage, purchased largely by the rich. Henry Ford was determined to build a simple, reliable, and affordable car that the average worker could own—a car that, in his words, would simply "take you there and bring you back." Out of this determination came one of the most revolutionary products in history, the Model T, which made its debut in 1908 and became an immediate hit with the American public. Ford's innovations in manufacturing eventually allowed him to reduce the price of the car to just below \$400, further increasing its popularity. By 1921, the Ford Motor Company had captured 56 percent of the car market in the United States, compared to 13 percent for General Motors.²⁷

As the industry evolved and the US public became more prosperous, more people wanted a variety of car models and features. Ford resisted changing his existing business model, even as smaller rivals moved aggressively to seize the opportunity. General

Motors, in particular, came forward with different models for people at different economic levels. GM also introduced new marketing techniques, such as the practice of introducing new car models each year and offering financing for car buyers. In the late 1920s, the Ford Motor Company lost its once dominant market share leadership to GM. Ford continued to decline in the 1930s and early 1940s—to the point that the US government considered taking it over for fear that it would not meet its commitments in supporting the US effort in World War II.

Ford could see that his share of the automobile market was on a steady decline. In this respect, he was not blind. He also knew that some, both inside his firm and externally, wanted him to modify his business model and face the new realities of the marketplace. One Ford executive, Ernest Kanzler, wrote Ford a six-page memo outlining the firm's problems. Kanzler noted, in a highly reverential tone, that Ford was a visionary but also that the firm was in clear decline. He described an unwillingness to adapt to the changing market and a failure to keep pace with surging competitors, such as Chevrolet. He added that Ford himself was surrounded by executives who had real concerns about the direction of the company but did not have the courage to say what they thought around the great man. Ford read the memo and decided that he needed to act—he first ridiculed Kanzler in company meetings and then fired him.

“The isolation of Henry Ford’s mind is about as near perfect as it is possible to make it.”

Henry Ford was eventually forced out of the company, in part by his wife, who could see the damage he was causing to the company he loved. A civic leader who knew him well said of Henry Ford at the end of his career, “The isolation of Henry Ford’s mind is about as near perfect as it is possible to make it.”²⁸ However, it is important to understand what he had gone through in building the company, including overcoming formidable financial, legal, and technical hurdles. The large majority of the automotive companies that existed near the turn of the twentieth century failed. Ford, in contrast, built the dominant firm in his industry and fundamentally changed the way Americans lived. If anyone had the right to believe in the correctness of his own vision, it was Henry Ford.

The lesson from Ford in regard to blindspots is that success increases the likelihood that a leader will deny reality and cling to an existing business model that no longer works. Ford had proven both his adversaries and critics wrong in building a company that changed the world, and he thought he was going to do so again in showing that he understood the market better than his competitors. Earlier in this chapter, Jeff Bezos was held up as a leader who could “withstand the beatings” he had to endure to realize his vision. Henry Ford did the same but then was unable to adapt as his environment changed. Bill Gates is said to keep a portrait of Henry Ford in his office as a reminder that great leaders, and great companies, stumble when they stop confronting reality and, instead, allow themselves to be seduced by their past successes.

The risk of a leader having at least one debilitating blindspot is evident in the three cases outlined above—with each of these leaders exhibiting a different type of blindness. Steve Jobs didn’t understand how his behavior was affecting others in his

company who would determine his fate. Jamie Dimon was blind to the risks he was facing from within his own team and organization. Henry Ford couldn't grasp the shifts in his marketplace and how his strategy was eroding his firm's ability to compete. All three are examples of great leaders, brimming with well-earned confidence, who lacked awareness of a major weakness or threat that put them and their firms at risk.



Ed Catmull is the CEO of the animation film company Pixar, one of the most innovative firms in the world. In talking about his firm's successes, he comes back to the lessons he learned in watching great companies and successful leaders stumble:

Observing the rise and fall of computer companies during my career has affected me deeply. Many companies put together a phenomenal group of people who produced great products. They had the best engineers, exposure to the needs of customers, access to changing technology, and experienced management. Yet many made decisions at the height of their powers that were stunningly wrongheaded, and they faded into irrelevance. How could really smart people completely miss something so crucial to their survival? I remember asking myself more than once: "If we are ever successful, will we be equally blind?"²⁹

Catmull suggests that a firm's success sets it up for failure because people seek to replicate what worked in the past and, just as important, have the resources to hide from their weaknesses, at least for a period of time. Some describe this as the success trap, particularly when it involves the unwillingness of a leader to radically change a business model that was responsible for a firm's success in the past. This trap often includes a mindset that minimizes the threat from competitors. Michael Dell is a case in point. He created one of the fastest-growing companies of its generation based on a low-cost, direct-to-consumer business model. At the peak of his successes, he was asked what he would do with Apple Computer if he were in charge of the then-beleaguered company. After some prodding, he responded, "I'd shut it down and give the money back to the shareholders." Apple, however, was revitalized under Jobs's leadership and became the recognized leader in the industry—in terms of both its innovative products and its financial success. In one of the great reversals in business history, the fortunes of the two companies went in opposite directions. In 2006, Jobs sent the following memo to his colleagues: "Team, it turned out that Michael Dell wasn't perfect at predicting the future. Based on today's stock market close, Apple is worth more than Dell. Stocks go up and down, and things may be different tomorrow, but I thought it was worth a moment of reflection today."³⁰ As of 2013, Dell is the firm struggling to keep from falling even further behind in the highly innovative and rapidly changing information technology industry.

The pattern of success setting the stage for failure is also evident in other well-known companies. One well-known case is the decline of Digital Equipment Corporation (DEC), which at one time was one of the most successful computer companies in the world. That firm's founder, Ken Olsen, didn't anticipate the impact of personal computers

as either consumer or business devices. An executive with DEC later said the phenomenal success of the firm in the decade prior to the introduction of the personal computer was so complete that no one in the firm had to think seriously about threats.³¹ While this might be considered a black swan event (as discussed in the Introduction), there was evidence that this shift to PCs was occurring. However, at DEC the profits were rolling in and warning signs were ignored. Olsen, in particular, clung to a belief in the superiority of DEC's operating system and technological prowess, even as his firm went into a slow death spiral. Olsen, a pioneer in his industry, is now remembered as the man who couldn't produce a second act for his once-great firm.

This book provides advice on how to avoid being “equally blind.” But blindspots are not simply problems to be identified and fixed. Managing blindspots is learning to accept them as inevitable and, in some respects, positive because they force you to remain vigilant. Your weaknesses and the threats you face are ever present, and the greatest risk is believing otherwise. That is, knowing you have blindspots forces you to look more carefully and deeply at your own behavior and situation. In this regard, they both threaten and protect. Yann Martel's novel *The Life of Pi* offers insight into how blindspots operate.³² It tells the tale of a young Indian man who becomes stranded at sea in a large lifeboat with a Bengal tiger—after the sinking of a massive container ship on which he and a collection of zoo animals were traveling. At first, Pi Patel doesn't see the tiger, as it is hidden beneath a tarp that covers half of the lifeboat. He knows he is in trouble but doesn't realize the threat he has yet to confront. The tiger suddenly appears from under the tarp and kills the other surviving animal that made it into the lifeboat, a hyena. Alone with the tiger, Pi learns to adapt to the danger he is now facing in sharing a boat with an animal fixated on his demise. He manages to keep the tiger in check through various forms of control so they can coexist. As the weeks and months pass at sea, Pi slowly realizes that the tiger is what is keeping him alive in a vast, unpredictable, and all-encompassing ocean. Without the tiger and the threat he poses, Pi believes he would perish. The tiger forces him to be vigilant and resourceful—fully aware of his strengths and limitations. Pi comes to believe that the tiger, an adversary that can turn on him at any moment, is also what propels him forward. Blindspots are similar in that we sometimes don't see the threat “under the tarp”—but once visible, we must determine how to live with it and even turn it to our advantage.