

# *DSS Foundations: What are examples of bad strategic business decisions?*

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Bad strategic business decisions lead to bad results. The consequences of implementing the decision may have very negative consequences for the organization. Poor or bad decisions may result from process, individual or situational factors. Paul Nutt (1996) concluded "vast sums of money are spent to make decisions that realize no ultimate value for the organization and managers make the same mistakes over and over again as they formulate the decisions." Can improved decision support and analytics make a difference?

Gary Cokins (2015) notes in his blog that "almost half of the roughly 25 companies that passed the rigorous tests to be listed in the once-famous book by Tom Peters and Robert Waterman, *In Search of Excellence*, today either no longer exist, are in bankruptcy, or have performed poorly." Also, of the companies on the original Standard and Poor's (S&P) 500 list created in 1957 only 74 or just 15 percent remain on the list in 2014.

According to a study by Paul Nutt, "Managers fail about half the time when they make business decisions involving their organization". He notes "about one-third of real-life business decisions were initial failures -- the decisions were never implemented by the organizations involved." The results are based on a database of 163 business decisions compiled over 16 years. Nutt attributed the failures to poor decision-making tactics. Nutt found that "one of the most used implementation tactics -- in which managers simply issue directives about how they want a decision implemented -- was the least successful. It was used in 30 percent of the decisions studied, but had a failure rate of 64 percent." Nutt concluded that "Managers seem committed to fast answers and fail to recognize that quick fixes make failure likely."

There are many examples of "bad" business decisions. For example, Decisionfailures.com has 31 short case study blog posts related to decision failures. Only in hindsight can poor decisions be definitively identified, the following fall into that category:

**RCA.** In the 1960s, RCA began to diversify beyond the scope of its traditional business. It bought an unrelated set of companies, including publisher Random House in 1965, car rental company Hertz in 1967 and frozen food maker Banquet in 1970. The company became hard to manage and it was eventually sold to General Electric Co. (NYSE: GE) in 1986.

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**Kmart.** Kmart's big mistake in the mid-to-late 1990s was to try to compete with Walmart on price. Walmart had a supply chain system known as "just-in-time" inventory, which allowed the retailer to restock shelves efficiently. Kmart failed to implement a similar system, which meant consumers became frustrated when stores ran out of goods. Between June 1998 and June 2000, Walmart's stock price rose 82% as Kmart's fell 63%. While new management at the turn of the decade worked to improve efficiency, the company filed for bankruptcy in 2002 and shut hundreds of stores. Kmart merged with Sears. Source: <http://bit.ly/RK9PPE>

**Motorola.** The success of the thin and stylish Razr cellphone drove Motorola's 22% market share in mobile phones in 2006. However, the company failed to launch a new generation of smartphones leveraging the Razr brand, and by 2007 the company was selling the traditional cellphone at a discount. By the time the company released a new line of Razr phones in 2010, Motorola had to compete with products such as the iPhone and BlackBerry. Source: <http://decisionfailures.com/post/34353120063/fail-to-leverage-razr-resulted-in-huge-losses-for>

**Zoom Airlines.** Zoom Airlines Inc. was a Canadian low-fare scheduled transatlantic airline. Intense competition, fluctuating fuel costs and the recession of 2008-09 impacted Zoom and led to price increases for tickets. Zoom Airlines halted operations in late August 2008. Source: <http://bit.ly/SPPNTK>

**Pets.com.** Pets.com is one among many online retailers that failed as a business-to-consumer e-commerce entity. The site was launched in November, 1998 about the same time as several other online firms offering pet products. One problem with Pets.com's business model was that it was not unique and did not offer consumers anything different from the other online pet supplies retailers. Another problem that Pets.com faced was that it entered a market of selling low-margin food and supplies that are extremely costly to ship to consumers. In June, 2000, Pets.com managers made the decision to purchase the assets of its rival Petstore.com. Pets.com acquired the customer database, domain name, trademarks, live fish business, and several strategic supplier agreements from Petstore.com (Olsen, June, 2000). Pets.com struggled with the fact that they were not making any profit. In September of 2000, the decision was made to move part of its operations from San Francisco to a more affordable location in the Midwest to help decrease operating costs. The new location had a lower cost of living and therefore, Pets.com could cut salaries to lower expenses. Pets.com had become the leading online pet store, but after months of trying everything possible to cut costs, recover dwindling stock prices, and attempt to gain some profits, the online retailer saw no better alternative than to shut down business. Source: <http://bit.ly/Rwaxx4>

**Kodak.** Kodak's missed many opportunities in digital photography, a technology that it invented, cf., Mui (2012). Steve Sasson, the Kodak engineer who invented the first digital camera in 1975, characterized the initial corporate response to his invention this way: "But it was filmless photography, so management's reaction was, 'that's cute—but don't tell anyone about it.'" This

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statement is from The New York Times, 5/2/2008. According to Barabba (2011), "Kodak management not only presided over the creation technological breakthroughs but was also presented with an accurate market assessment about the risks and opportunities of such capabilities. Yet Kodak failed in making the right strategic choices."

**Royal Bank of Scotland (RBS).** With more than £1.9 trillion in assets the bank failed and had to be rescued in 2008. A Financial Services Authority (FSA) report identified 7 reasons for the failure, cf. Treanor and Bowers (2011), including inappropriate attention to risk and inadequate due-diligence in acquiring the Dutch Bank ABN-AMRO. Lord Turner, chairman of the FSA, said in the report there was a seventh factor in the bank's collapse - the "underlying deficiencies in RBS management, governance and culture which made it prone to make poor decisions".

**Liz Claiborne.** According to Minato (2012), in October of 2006, Liz Claiborne management "made one really poor decision, and since then the company has not turned a profit. Less than two weeks before appointing the 43 year-old William L. McComb as CEO, the brand decided to make clothes for J.C. Penney. Since then, McComb's five-year-plus tenure has seen the stock collapse, and five consecutive years of annual net loss totaling more than \$2 billion dollars. And last year Liz Claiborne Inc., the parent company, was forced to sell off many of its brands, including the eponymous Liz Claiborne label."

**Time Warner.** On January 10, 2000, Time Warner CEO Gerald M. Levin and AOL CEO Stephen M. Case announced a merger. This was a US\$164 billion deal. The deal officially filed on February 11, 2000, employed a merger structure in which each of the original companies merged into a newly created entity. Because of the larger market capitalization of AOL, its shareholders would own 55% of the new company while Time Warner shareholders owned only 45%. In effect AOL had acquired Time Warner, even though Time Warner had far more assets and revenues. The growth and profitability of the AOL division stalled due to advertising and subscriber slowdowns in part caused by the burst of the dot-com bubble and the economic recession after September 2001. The value of the America Online division dropped significantly and forced a goodwill write-off for AOL Time Warner and a loss of \$99 billion in 2002. The total value of AOL Time Warner stock fell from \$226 billion to about \$20 billion. According to Tim Arango in a New York Times article, "To call the transaction the worst in history, as it is now taught in business schools, does not begin to tell the story of how some of the brightest minds in technology and media collaborated to produce a deal now regarded by many as a colossal mistake." In 2010, Time Warner chairman and chief executive Jeff Bewkes accepted that Time Warner's merger with AOL was "the biggest mistake in corporate history", but said it had helped the company focus on its strengths, cf., Barnett and Andrews, 2010.

There are more examples, but let's turn to Charles Burton's (2012) list of the eight biggest early-stage business decision mistakes. Burton included George Bell **not** buying Google, Ross Perot **not** buying Microsoft, and Decca Records **not** signing the Beatles in his list of missed

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opportunities. For example, Burton notes "In 1999, the internet portal Excite talked Sergey Brin and Larry Page into selling Google for \$750,000 (about £469,000), but CEO George Bell got nervous and the deal fell through. Google is now worth around £128bn."

BusinessPundit.com has a list of the 25 worst business failures in history. A few include: Ford's introduction of the Edsel, Betamax, Sharper Image, Washington Mutual Bank, Polaroid, Commodore Computers, DeLorean Motor Company, and Pan Am. Two examples, illustrate the poor decisions. In 1958, Ford introduced the Edsel. This car of the future was not well received. By November 1959, when Ford finally discontinued the Edsel, it had lost an estimated \$250 million, cf., <http://www.edsel.com/reviews/failure.htm>. Edsel is a classic example of a strategic business decision failure. Between 1983-1986, the Commodore 64 was selling 2 million units a year and dominated nearly 50% of the total personal computer market. As the company tried to innovate by releasing a new faster, smarter system unit with a color screen, managers alienated current customers. The new model was incompatible with the C64. Commodore tried to discontinue the original line in the U.S. by 1990 and announced it would stop shipping them in 1995. The tactic didn't work. In 1994, Commodore went out of business (Gnoffo, 1994).

McIntyre, Allen, Weigley and Sauter (2012) examined "the worst business decisions of all time." They noted the worst bad decisions fell into three categories: 1) Management was reckless and managers ignored internal warnings that their decisions were highly risky, 2) Management missed major shifts in their industries until it was too late, and 3) managers showed a general lack of foresight.

Michael McGrath, chief executive officer of the Thomas Group, discussed why companies and executives exhibit weak decision-making skills. McGrath was asked "There's so much at stake when executives make major decisions. How can they afford to overlook the possible consequences?"

McGrath's answer (2012). "It happens a lot. Corporations and people are sloppy in the way they make decisions. They don't understand the techniques that lead them to make a good decision. There's the story of the Walmart that spent \$5 million to renovate the store and then as soon as the renovations were completed, the company closed the store. Executives don't look at decision-making as a skill. If you're a high school football player, you have a playbook and you practice. Executives often wing it."

"Every company," notes Rogers, Blenko and Davis-Peccoud (2012) "makes millions of decisions every year, from big strategic decisions like launching a new product line to week-in, week-out decisions about marketing, procurement or customer service. And even seemingly small decisions can go terribly wrong. In September 2011, for example, Bank of America announced that it would

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soon begin charging its debit card customers a \$5 monthly fee. The move set off a firestorm of consumer protest and the bank was forced to back down."

So there are many examples of poor strategic business decisions. The examples vary widely. In some cases, the market changed and decision makers were slow to recognize the new situation. In other situations, decision makers were concerned about the risks involved. In none of the decision situations did it appear there was a lack of data, in some cases managers were unwilling to acknowledge the data analyses and to act upon the implications.

Cokin (2015) concluded "Companies that successfully use their information to outthink, outsmart and out-execute their competitors are high-performing enterprises. They build their strategies around information-driven insights that generate results from the power of analytics of all flavors, such as segmentation and regression analysis, and especially predictive analytics. They are proactive, not reactive."

Decision failures occur and will continue to occur. There is some evidence that improved decision processes, more computerized decision support including analytics, improved decision making skills, and better decision implementation can reduce the decision failure rate. Ultimately managers must take responsibility for failed decisions.

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