

Your Turn

by Mathew Hayward

I Hubris: Bad for Business

A good case could be made for the argument that hubris is at the root of most of the ills that have plagued business in recent years. Overconfident CEOs have overpaid for acquisitions, overstepped their legal bounds, and overlooked signs that their companies might be in trouble.

Executives at all levels fall victim to a sense of hubris. Entrepreneurs running startup companies ought to be familiar with the statistic that more than two-thirds of all new ventures fail. Yet a staggering number of entrepreneurs are overwhelmingly confident that they will beat the odds. In fact, many entrepreneurs believe that their ventures are as likely to succeed as the sun is likely to set in the West.

Seasoned executives have the same overconfidence. In 2006, the value of mergers and acquisitions achieved around the globe was \$3.8 trillion globally—but much of that includes money that need not have been spent. In my research with Don Hambrick of Pennsylvania State University, we identified hubris as the No. 1 reason that CEOs overpay for M&As and, therefore, destroy value from newly acquired companies.

When executives are overconfident, they also tend to believe they can get away with egregious corporate conduct—even crime. It's disturbing that at least some of the executives who have been convicted of criminal misdeeds came from prestigious business programs. For instance, Jeff Skilling of Enron and Walter Forbes of Cendant are graduates of Harvard Business School.

In fact, I believe that one reason

hubris is such a problem in the business world is that it is rife in business schools, among faculty and students alike. As a faculty member myself, I know that we professors tend to overestimate our teaching skills. A majority of us think that we're above-average teachers, and we discount evidence that we are not. Because we don't realize that we should improve our classroom performance, our students suffer.

Students are already suffering from a malady of their own—an overconfidence that rivals ours. For proof, ask a classroom of students to close their eyes and raise their hands if they consider themselves to be above-average students. Most of the hands will go up. One reason students have such an unjustified belief in their talents is that grade inflation is rampant in American education, a situation that is discussed at length on www.gradeinflation.com.

The results of this overconfidence can be disastrous. Students become unrealistic about how smart they are and how prepared they are to face real-world situations. All too often, I've had former students return to tell me they can't understand why they're not getting ahead or, worse, why they've been fired—even though they're smarter than their workplace colleagues. It's as though our students believe that their top grades will create value at their new workplaces. They don't realize that they must create fresh value for themselves by building new relationships and acquiring a vastly different skill set. Sadly and unnecessarily, these students often take a fall.



It's true that a certain amount of confidence can be beneficial. It helps drive success, making all of us more persistent, passionate, and persuasive in our projects. But that attitude is valid only to the extent that confidence is driven by our capabilities

and situations. Too much confidence is as injurious as too little—and deans and professors need to be wary of exhibiting overconfidence or allowing students to develop it.

I've drawn on the tenets of behavioral decision theory to distill four sources of unwarranted confidence:

False sense of self. Excessive pride leads people to take an inflated view of their achievements and capabilities. While people with this attitude often require external validation, they are deeply convinced that they know more than they really do. Laypeople who fancy themselves expert investors are prone to this same syndrome.

Unilateral decision making. Pride can lead people to make decisions on their own that would be better made in conjunction with trusted advisors. Obviously, there are times when no individual is fit to make a decision single-handedly, either because he or she doesn't have the skills or because the situation is too broad for one person to manage alone. Only by having the right foils around them will leaders avoid this trap, as Carly Fiorina discovered at HP.

Refusal to see the true situation. People indulge in false confidence when they fail to see, seek, share, and use full and balanced feedback to gain a more grounded assessment of their situations. Leaders need accurate, pertinent, timely, and clear feedback,

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whether positive or negative, to understand what's going on around them. As Merck executives illustrated in their handling of Vioxx, that's easier said than done. It's difficult to assemble reliable information when our projects take time to complete and the feedback we receive is delayed and inaccurate.

Denial of probable consequences.

Because executives may not realize they're acting with unhealthy confidence, they must play out—not plan out—the consequences of their decisions ahead of time. Planning increases leaders' confidence without increasing their ability to complete the tasks at hand. By contrast, experimenting and probing allow them to gain a better idea of what the results of their decisions might be.

Trying to determine consequences is particularly important when someone is dealing with finance techniques, because those methods are particularly prone to heroic assumptions. When Dean Kamen estimated demand for his two-wheeled scooter, the Segway, he forecast that it would capture 0.1 percent of the total global population of more than 6 billion people, giving him sales of 6 million units per annum. Since 2001, Kamen has sold fewer than 30,000 Segways.

Curing the Disease

False confidence is to hubris what bad cholesterol is to heart disease. Just as the cure for heart disease is to reduce bad cholesterol rather than all cholesterol, the cure for hubris is to fight the sources of false confidence, rather than to reduce confidence altogether. If business school administrators are to fend off false confidence at their schools, I believe they must recognize four truths:

Ego management must start at the top.

If Nobel Laureates like Myron Scholes and Robert Merton are out of their league as managers of hedge funds, it is conceivable that fabulously successful academics are out of their depth as leaders of business schools. The skill set required to lead a large organization is vastly different from the skill set needed to produce high-quality research. The problem is exacerbated when deans hire yes-men as associate deans. In those situations, it will be difficult for the leadership of a business school to get a true read on its situation.

Business schools should consider hiring as deans those individuals who have displayed some flair for managing large organizations—whether those are faculty chairs who have proven themselves gifted in administration or outside professionals who have run successful businesses. And professors who take on the role of dean should listen to opposing voices to make sure they are not falling victim to their own overconfidence.


Ego management must be accepted by faculty as their own responsibility.

With their privileged positions, tenured faculty can become immune to advice. I've known my share of professors who were better teachers before they got tenure than afterward. Tenured faculty should make sure they do not insulate themselves from candid feedback; they must be open to ideas that will improve their research and teaching skills.

Ego management must be embedded in the curriculum. Fortunately, behavioral decision theory has now developed a body of pedagogy in negotiations and organizational behavior courses that lends itself to ego manage-

ment techniques. The idea is to put students in real business situations where they must work through the implications of different decisions. As an example, I have collaborated with Rakesh Khurana of Harvard Business School to develop a case on Jean-Marie Messier at Vivendi—a dramatic example of what happens when an executive cannot control his ego.

Ego management must be brought to life by executives who have experienced it. The Tuck School offers an MBA course in which students visit corporate criminals in a local federal penitentiary. Students who go on such visits report long-lasting and indelible impressions. Other schools invite guests in to describe the different kinds of business decisions they made when their egos were out of control compared to the times when their egos were in check.

Naturally, not every executive falls victim to hubris. Many CEOs have run profitable, admirable companies without overreaching their abilities or overstepping their bounds. And certainly not every MBA student fits the stereotype of the driven, ambitious, self-assured individual who is willing to sacrifice everything to achieve success. If business schools are able to curb any tendency toward overconfidence in their students, they will be doing their part to mold sensible decision makers who lead their companies through talent—not hubris. 

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