The New York City Blackout • EuroDisney • Beech-Nut Baby
Light Rail • Ford Pinto • Nestle Infant Formula • Shell
Challenger • Denver International Airport • Waco Siege

WHY DECISIONS FAIL

AVOIDING THE BLUNDERS AND TRAPS THAT LEAD TO DEBACLES

Lessons about What Works, What Doesn't, and Why from a 20-Year Study of 400 Decisions

Quaker Acquisition of Snapple • Ameriflora • Challenger

PAUL C. NUTT

Telescope Consortium • Nestle Infant Formula • EuroDisney
Ford Pinto • Columbus Arena • Barings Bank • Amerflora
Challenger • The New York City Blackout • Beech-Nut Baby
Food Scandal • EuroDisney • Shell Oil Platform Disposal

An Excerpt From

Why Decisions Fail: Avoiding the Blunders and Traps that Lead to Debacles

by Paul C. Nutt
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Blunders That Launch a Decision Debacle

CHAPTER ONE

The overpriced and rarely visited Millennium Dome in London and Firestone's botched tire recall spotlight decision debacles. The dome opened January 1, 2000, ushering in the new millennium with promises of a futuristic, flashy, high-tech experience for people willing to ante up the price of admission. Controversy soon quelled the hype. Championed by the previous conservative government, Labor Prime Minister Blair embraced the dome as he took office, calling it "a triumph of confidence over cynicism, boldness over blandness." Others saw it differently, and the dome became a national embarrassment within weeks of its opening. Tories and Laborites pointed fingers and argued over whom to blame. Critics were downright hostile, calling it, among other things, vain, vapid, patronizing, and, with its twenty-five pound admission fee, grossly overpriced. The dome's sixteen zones offered a blend of theme exhibits, interactive technology, and live shows that, according to the critics, failed to work together and lacked the promised "wow" factor. Worst of all, no one came. Twelve million visitors were forecasted, but fewer than 4.5 million, many with cut-price tickets, paid to get in. The Labor government put 785 million pounds into the project and had to infuse it with an additional 175 million pounds to keep it afloat. Heads rolled. Blair and the dome's other champions, including the former head of British Air and major bank and local television executives, took hits on their reputations. The dome closed a year to the day from its opening, awash in red ink, with still another overhyped celebration, this time to mark the actual date of the new millennium. Bidders on the bankrupt dome plan to bulldoze the building and build something else at its picturesque site on the river Thames.

After 1,100 incidents, 57 lawsuits, and 119 deaths, Firestone recalled 6.5 million of its best-selling radial tires. “What took them so long?” critics in Congress and elsewhere ask. In one of the first lawsuits to come to trial, Firestone incurred $9,000 in fines before handing over documents describing test results and employee depositions about them. The documents show that the tires, widely used on Ford’s hot-selling Suburban sport utility vehicles, or SUVs, have treads that peel off like skin from a banana causing an SUV to veer and roll over. Hot weather, high speeds, and under inflation of the tires increase the hazard. Ford, the biggest user of the tires, and its long-time alliance partner, Firestone, soon began finger-pointing. Ford officials conceded that the company had been aware of tread separation incidents in South America but claimed Firestone delayed the recall. Firestone officials admit that the tires were mislabeled as having an extra nylon strap but say that they built them according to Ford’s specifications. Firestone officials also pointed out that the Ford Explorer and Expedition manuals recommend tire pressures below those suggested by Firestone, to soften the ride, and that this contributed to the tire’s failure. As the accident toll swelled to more than 6,000, with 174 deaths and 700 injuries, the Ford-Firestone feud became bitter, and very public. To preempt action by Ford, Firestone severed its nearly century-long supplier relationship with Ford. Ford responded the next day, announcing the recall of an additional 13 million vehicles equipped with Firestone tires at a cost of $3 billion. Critics fault the National Highway Transportation Safety Administration (NHTSA) as well as Ford and Firestone for not acting before so many lives were lost. Trial lawyers and industry observers claim that Firestone faces a $50 billion loss in lawsuits and lost sales. The CEO of Bridgestone, Firestone’s parent, was called to testify before Congress about the recall failure and subsequently resigned. To squash the controversy, Ford is settling accident claims out of court. The recall situation gets worse and worse for Firestone. The NHTSA has expanded the tire recall to include Mercury Mountaineers, a related sports utility vehicle, calling for 3.5 million more tires to be included in the recall. In an attempt to head off still another recall, Firestone officials claim that 40,000 jobs are at stake.

Are these debacles isolated incidents? Everyday experience suggests otherwise. But what is the evidence, and are debacles preventable? Can the risks taken and the magnitude of the losses in a debacle be foreseen and headed off with a midcourse correction? The answers may surprise you.

Like many big-ticket undertakings born of hype and bloated expectations, the Millennium Dome used public dollars for an obscure aim. Watch as your city vies for the next Olympic Games, a sports team, or a World's Fair and see if you can spot the similarities. Also, watch as blame is spread around with little reflection about what went wrong and why. Recall snafus are hardly new to the automobile industry, or to Ford and Firestone.

Few decisions have the visibility of the Millennium Dome and the Firestone tire recall fiascoes. What about the rest—the failed decisions with big losses that evade public attention? After all, a debacle is merely a botched decision that attracts attention and gets a public airing. As we shall see, debacles such as the Millennium Dome and the Firestone tire recall have much in common with the rest—the failed decisions that no one hears about. My research shows that half of the decisions made in business and related organizations fail. The true failure rate may be higher because failed decisions that avoid a public airing are apt to be covered up.

Considering the vast sums spent on these decisions and the benefits forgone, finding ways to avoid failure is vital. This motivated my research into decision making. In my studies, stretching back over twenty years, I have looked at more than four hundred decisions to uncover and evaluate decision-making practices, accounting for the situation confronted and measuring success. The decisions involve new products, equipment purchases, staffing, pricing, marketing, and locating operations—the kinds of decisions made with regularity in organizations across the planet. By considering real decisions in real organizations made by real people, my research got me close to the action so the consequences of a decision, in which responsible people bore burdens or reaped benefits, were revealed. Linking decision-making practices to their consequences, both good and bad, provides a telling appraisal of the practices used by people to make decisions. The decisions also provide a rich description of events that allowed me to probe for why some practices work and others do not, looking for ways to improve the chances of being successful. This book reports on these conclusions and the lessons each suggests. Appendix 1 provides additional detail about my twenty-year research effort along with citations to my work drawn upon in each chapter.

The Blunders

The startling rate of failure prompts questions. Why is there so much failure? What causes the failure? Is corrective action possible? Answers can be found in three blunders: failure-prone decision-making practices, premature commitments, and time and money spent on the wrong things. Bad practice, rush to judgment, and poor allocation are called blunders because they are made so often, with so little reflection. The chain of events that leads to failure begins with one of these blunders, which points decision makers toward traps that ambush them. (The traps are considered in Chapter 2, showing how each trap arises and what to do to avoid it.) To begin our journey, let's see how the blunders arise and set the stage for failure.

1. Failure-Prone Practices

Two of every three decisions use failure-prone practices. Decision makers seem oblivious to the poor track record of these practices. Top managers can recall their decision-making successes, and their failures, but they seldom, if ever, systematically study them. Lacking this analysis, the connections of decision-making practices to results are apt to be misunderstood. Perfectly good ways of making decisions are discarded, and others with a poor track record continue to be used. People spend little time thinking about how to make a decision. Without help in identifying what does and does not work, the widespread use of failure-prone practices will continue. There are several reasons for this. Let's consider a few.

Decision-making practices with a good track record are commonly known, but uncommonly practiced. Nearly everyone knows that participation prompts acceptance, but participation is rarely used. We will explore why participation and other practices with good track records are not used and how to encourage their use. There are subtleties. Managers often look for the cause of a jump in cost. Telling people what is wanted as a result, such as lower cost, produces better results than seeking the cause of the cost increase. Managers drawn to finding and removing problems elicit blame. The problem, such as labeling costs as unacceptably high, alerts people that blame will be dispensed and prompts them to take defensive action. Energy is directed away from finding answers and funneled toward protecting one's back. Managers that indicate what is wanted (lower costs) liberate subordinates to look for answers. We will explore some of the reasons blame and other subtleties arise and what can be done to avoid them.

Failure is often placed at the doorstep of things beyond a manager's control: draconian regulations imposed by government, unexpected budget cuts by higher ups, or loss of market share due to fickle customers. Failures can result when regulations run up costs, when budget flexibility is lost, and when customer preferences shift and wreck a marketing plan. But the decision-making practices followed, such as issuing an edict or using a self-managed group, are more important. Contingency theory, as it is called in the management literature, argues for the selection among decision-making practices when certain situations arise, such as using an edict to take rapid action in a crisis. But is best practice contingent upon the decision situation such as decisions that prove to be difficult, rushed, or particularly weighty? In a word: No. Best practices work regardless of the situation being faced. We will explore why top managers blunder so often in their selection of decision-making practices.

2. Premature Commitments

Decision makers often jump on the first idea that comes along and then spend years trying to make it work. This is a key cause of failure, which decision makers fail to see that they fail to see. Decision makers, like most people, fear the unknown and seek self-gratification. Decision making can be a lonely endeavor in which a longing to meet one's responsibilities and the failure to do so elicits fear. When answers are not readily available, grabbing onto the first thing that seems to offer relief is a natural impulse. This helps one set aside fears but encourages a rush to judgment. Self-gratification is fed by ego, lust for power, and greed. This push from fear and pull toward a reward make it difficult for a decision maker to step into the unknown and to remain there until insight emerges. These urges mount as time pressure increases. Decision makers take shortcuts when this pressure gets intense. Looking for a good idea is set aside for homilies, such as, "Why rediscover the wheel when someone may have done it for you?" One response is to copy the practices of a respected organization to "get on with it." This is rationalized as being timely and pragmatic. But short-cuts lead to unanticipated delays as decision makers attempt to convince onlookers that the company's interests, not their own, are being served and as retrofits are made. A rush to judgment is seductive and deadly and can be headed off.

3. Wrong-Headed Investments

Blunders are made when decision makers use their time and money for costly evaluations and little else. To make matters worse, these evaluations are often defensive—carried out to support an idea someone is wedded to, trying to show that it will work. The urge to demonstrate the value of your idea can get intense. Expensive evaluations are then needed to show that your idea is useful or doable or both, stressing economics. Critics see such evaluations as pointless, carried out to sanctify what you want to do or must do to satisfy others. This creates an impression that your motives are less than pristine. Others, suspecting a hidden agenda, become suspicious. The appearance of a vested interest, even if there is none, raises questions. To fend off these questions, evaluation expenditures increase as more justification is demanded. This persists even when the defensive evaluation is avoided. Decision makers spend vast sums to uncover the cost of an idea, but little on anything else. Little time or money is spent to investigate claims, set objectives, search for ideas, measure benefits and risk, or manage social and political forces that can derail a decision. Decision makers blunder when they fail to see any of this as a worthy undertaking.

Illustrating the Blunders

In a medium-sized firm with strong growth over a ten-year period, key managers focused on sustaining this growth and spent little on their internal systems designed during an earlier, simpler time. Customer complaints about tardy shipments, caused by items that were out of stock, were dismissed as "growing pains." This changed when a vice president received a phone call from an important customer blasting the company for its lax attitude toward filling orders. The caller claimed that a well-run company would have an up-to-date production planning system and that such systems never have stock-outs. The vice president, stunned by a respected customer being so dissatisfied, became a missionary for this type of system. After some lobbying, the CEO asked for a briefing and the VP sold the idea to the CEO. Both saw the vehemence expressed as demanding action. The CEO suggested that someone outside the company be hired as soon as possible to revamp the ordering system, and this directive was given to the VP. To act quickly, the VP contacted the complaining customer and asked for a recommendation about whom to recruit. The recommended individual was hired the same day, at a very competitive wage, and named "manager of production planning." The new hire received a generous budget to set up a new department and make the needed changes. The new manager analyzed the current system to uncover problems and solved each problem by adapting business practices that he had used successfully in his prior job. The new manager then wrote memos to people telling them what to do to make the plan work. Despite all this, the stock-outs continued. The CEO was furious about the lack of results, the cost incurred, and the disruption that the company had endured.

Further study revealed that stock-outs were caused by delays in the flow of information due to unnecessary hand-offs between layers of management when filling orders, which slowed down order filling and increased the chance of error. What could have been done to uncover this and find a corrective action? Company officials failed to investigate the claim prompting action. Lingering here to look for the causes of the stock-outs, company officials could have discovered that inefficient and unneeded steps were causing delays and errors in the flow of information—a very different arena of action from that selected. What about setting objectives? No targets were set. "No stock-outs" was believed to be an inherent part of an up-to-date system. Note the subtlety here. Decision makers thought they were clear about what they wanted as a result, but they were not. A single complaining customer had prompted action. Note the premature commitment. Artificial time pressure got the best of company managers, and they rushed to make a judgment. As pressure appeared to mount, behavior became even more bizarre. The need for a quick fix by hiring someone new was never questioned. Was there a better way to get an up-to-date system? How about a vendor search? Decision makers knew about this but went for the quick fix instead. Commonly known, uncommonly practiced.

The new hire used his newfound power to tell people what to do. He knew about participation but saw things as too urgent to have committees sitting about when things needed to be done. This actually slowed things down. His use of an edict to take action prompted resentment that derailed the adoption of his ideas. Through it all, little time or money was spent on anything but trying to make the customer's idea work.

Why Study Debacles?

Debacles highlight blunders. They offer insights into how a decision can go wrong, why it went wrong, and what changes in decision-making practices could improve the chance of success. When we analyze the actions that lead to debacles, we can look for how things could have been done differently. Consider RCA and its failure in the digital videodisk or DVD market. RCA abandoned its DVD product and took a $175 million tax write-off after years of intense effort. A short time later, the DVD player became a staple in a surround sound system, with a substantial and growing market. Failures of this magnitude are called debacles—if they become public. The tax write-off by RCA signaled a failure. Business media watchdogs, smelling a juicy exposé, pointed out errors of commission or omission and looked for someone to shoulder the blame for RCA's premature market entry and untimely exit. This book addresses a key question that such an exposé overlooks. Was RCA's decision to enter and exit the digital video market caused by bad luck or by careless and clumsy moves that prompted mistakes? Was RCA's premature entry and untimely exit foreseeable if the blunders of bad practice, premature commitment, and misused resources had been avoided?

This book deals with "tough decisions"—frequently occurring and important choices made to keep an organization on course by altering customers, markets, channels, competitive and collaborative advantages, alliances, skills and competencies, sources of revenue, ways to organize, and company image. Such decisions have ambiguity, uncertainty, and conflict. Ambiguity about the action to take prompts decision makers to stake out different claims about what to do and to use fuzzy arguments to support their views. It is not clear why RCA undertook and then dropped the DVD project. Did top management see a sexy new product that they wanted, or were there hidden motivations that made the move into videodisk players seem desirable? Uncertainty arises when projections lack precision. Decision makers can make things worse by ignoring the uncertainty. The risk in a product decision is hidden when a product's sales or its cost are estimated using the midpoint of a forecast. RCA's top managers treated their projections of DVD player sales in this way when the limited inventory of digital disks available to be played at the time of product launch made sales difficult to forecast with any precision. Disagreements and misunderstandings among key people about the concerns provoking action, what to do to respond, and the forecasts can lead to conflict. A tough decision can turn into a debacle when ambiguity and uncertainty go unmanaged or conflict erupts.

Decision making involves more than choosing among available courses of action. To avoid the blunders and the traps that can lead to a debacle, decision makers must work their way through a process that stages crucial activities. (Chapter 3 discusses processes that work and those that do not.) A tough decision involves several choices that lead to a pivotal decision. The pivotal decision always has a "go/no-go" character, such as deciding whether to act on an idea, follow a commitment, or make a change in how the organization does business. Locating EuroDisney in France, BeechNut's mislabeling of baby food, the Ford Pinto recall, Nestle's marketing of infant formula, and Denver's new International Airport (DIA) illustrate tough decisions that became debacles. The choices prompted by actions and events that preceded the pivotal decision in each of these debacles and the actions that followed it are shown in Table 1.1. Let's see how the blunders arose in each of these decisions.

The EuroDisney Location Decision

Walt Disney's fascination with all things European began with early Disney stories rooted in European folklore, giving a commitment to some kind of Disney presence in Europe a very long history. The idea of a theme park in France emerged in 1976 and percolated until French dignitaries took Disney executives on tours of possible sites in northern and eastern France in 1982. Soon after, Tokyo Disneyland opened and became an instant success, shattering previous attendance records. A European park seemed the

Table 1.1

Flow of Actions in Each Debacle

Choices	**BeechNut's Apple Juice Contents**	**Ford Pinto Recall**	**Constructing the DIA**	**Nestle's Infant Formula Marketing**	**EuroDisney Location**
Actions before	Purchase concentrate at 25% below market from Universal Juice Fail to follow up on U.J. visit suspicions Ignore LiCari's warnings Fired LiCari for bringing concerns to CEO	Disregard disclosures about gas tank safety Ignore NHTSA's investigation Stifle concerns by Ford employees	Legal problems arise in Stapelton's expansion plan City and county politicians endorse new airport Pena elected on new airport platform	Market infant formula aggressively to developing countries Respond to "Baby Killer" report	Realize Walt's Dream Tokyo Disneyland success creates cash needing reinvestment Commitments to land, hotel space, and royalties sought
Pivotal decision	Decide not to join PAI lawsuit against Universal Juice	Decide not to recall cars to fix gas tanks	Build a new airport	Continue third world marketing	Locate in France
Actions after	Disposal of $3.5 million tainted inventory Hide tainted inventory discovered by the FDA Agree to stop selling tainted juice. Sell remaining inventory to developing countries	Defend position with cost-benefit data in lawsuit filed by families of people killed in Pintos Recall the vehicles	Continental and Untied stop paying for planning DIA site annexed by county Critics call for a vote Election supports DIA Five opening delays due to design problems	Nestle sues activist groups that translated "Baby Killer" report claiming Nestle responsibility Continue with defensive posture to counter boycott by activist groups Chose to fight the boycott behind scenes	Cut ticket prices Allow alcohol Permit picnicking

ticket to fuel the Michael Eisner legend one more time, and he authorized a search for a European site. Two hundred sites were considered, but the list was quickly narrowed to locations in Spain and France. France won out because of its central location, offering easy access to most other European countries, and because the French provided considerable financial bait. These positives were thought to be enough to offset negatives in the weather in France and the sour national disposition of the French.

When Eisner called a press conference to announce that EuroDisney shares were being offered on the Paris Stock Exchange, he was pelted with Brie cheese. Not exactly the reception he expected. But why the surprise? French intellectuals had been calling the project "Euro-Dismal," among other things, for some time.

Disney officials were determined to correct errors made in their other park projects. Investors had snapped up the undeveloped land surrounding Disneyland in Anaheim, limiting the park's expansion. The Orlando Park site had plenty of land, but Disney underestimated the demand for hotels and lost an opportunity to make huge amounts of money on hotel space. In Tokyo, Disney failed to get an equity position in the park and failed to secure royalties for the use of the Disney characters. Disney executives were determined to avoid these fiascoes. To sweeten the deal, French officials sold Disney 4,800 acres—about one-fifth the area of Paris—at early 1970s prices. With cheap land and low property taxes, Disney thought it would make a killing in real estate. Land prices had increased by 20 percent a year in Anaheim and 30 percent in Orlando. The French loaned Disney $800 million for twenty years at 7.85 percent interest, a very favorable rate in 1987. Disney took the cash and invested $700 million to form the EuroDisney Company in which Disney has 49 percent equity. Disney negotiated a management fee of 3 percent of revenues and earns an additional 5 to 10 percent of revenues from other fees. Disney was also given 17.5 percent of a private partnership that was created to own the land. Industry observers found the deal to be cleverly crafted and predicted ecstatic Disney shareholders. Still, the decision to build a park and to locate it near Paris lacked a clear picture of expected results. Was it Walt's Dream, more profit, or what?

Like other decisions with an early commitment to a solution, analysis was carried out to bolster the decision. Cost was estimated in 1988 at

$2.5 billion. The actual cost was $4.4 billion. Flush with the success of Tokyo Disneyland, attendance projections were set at 11 million. Ticket prices were set at $51 for adults and $34 for children, compared to $40 and $26, respectively in Orlando, thinking that a Disney product would sell regardless of price. Disney managers contracted for the construction of 5,200 hotel rooms priced from $97 to $395 per night. The assumed occupancy of 76 percent depended on overnight stays by park visitors. Restaurant sales projections were based on the assumption that park visitors would want lavish sit-down meals. No alcohol was to be served, in keeping with Disney "family values" practices. Disney estimated that each visitor would spend $28 per day on food and merchandise. Because of harsh French winters, much of the park was to be built inside in the hopes of maintaining a year-round flow of visitors.

None of this took into account the desires and values of the projected park visitor. EuroDisney revenues fell far below expectations. Park visitors did reach the 11 million projected, but only after steep discounts in the ticket price. Hotel occupancy at 37 percent is light years from the expected 76 percent. Disney had $960 million in losses in the first year of operation, although some stemmed from a $600 million one-time write-off. Considering operating revenue, losses piled up at a rate of $1 million per day. By 1994 losses had reached nearly $400 million. The damage to Disney's image grew as observers such as *Time* magazine featured company problems and second-guessed company decisions.

What can be said about the location decision? The European and French cultures should have been taken into consideration by Disney officials. The decision not to sell alcohol prompted a confrontation with French and European lifestyles. In much of Europe, children are given watered-down wine with meals. Europeans have a tradition of bringing food to parks, and Disney did not allow for picnics. Lavish spending for sit-down dinners was overly optimistic and inconsistent with customer expectations. An American park in the United States made "Americana" accessible to Europeans. Seeing the same thing in Europe is less appealing. Also, exchange rates were not favorable when the park opened. It cost less for many Europeans to travel to Orlando than to EuroDisney—and the weather in Orlando is better. The decision to increase ticket prices by 30 percent over American park standards ignored an ongoing European recession. Lower prices would have increased park attendance and perhaps food and merchandise sales as well. EuroDisney is within 70 miles of Paris—one of the most popular tourist attractions anywhere—and this location made EuroDisney a one-day stop on the way to somewhere else. Hardly anyone needed or wanted to stay overnight at the park. The superiority of public transportation in France compared to the United States makes it easy for people to make day trips and to avoid pricey hotels. Disney failed to visualize the park as a new experience for Europeans. Instead, they applied old formulas filled with questionable cultural assumptions. Disney officials limited their cost risk, but they failed to adapt to European culture to muster the revenues to cover their costs.

Proponents of the French location ignored warning signs, clearly expressed at the press conference, and used dubious evaluations to justify what they wanted to do. Estimates of park and hotel use were overly optimistic and suppressed the project's risk. Whenever reservations were expressed, Walt's Dream was trotted out, making desired results ambiguous. What was the aim? Make money? Have a presence in Europe? Lacking a direction, the project stumbled along without an aim to focus questions at key points in the decision-making effort. As critics became more vocal, people were targeted for blame. Scapegoating seems mandatory in a debacle, even though blame is useless.

Disney executives continue to worry about past park problems and fail to think about the next one. Disney officials recently subjected the corporation to severe criticisms when a theme park was proposed for a civil war battle site in Virginia. Nearby wealthy homeowners used a "hallowed ground" argument to express righteous indignation and to protect their property values. Here Disney officials were too focused on economics and ignored ethical and political issues.

The EuroDisney debacle marked the end of Eisner's long run as a miracle worker in which he routinely delivered 20 percent growth for the company. Company earnings have fallen by 36 percent in the past two years, and its stock price has fallen by more than 10 percent as Disney's key competitors, Viacom and Time-Warner, have leaped 10 percent to 60 percent.

Ford Pinto's Exploding Gas Tanks

Ford's recall blunders have a long history. Consider the Pinto, which began production in 1970. The Pinto's design located the gas tank at the back of the car 6 inches from a flimsy rear bumper. Bolts were placed just 3 inches from the tank. In a rear-end crash, the bumper would push the bolts into the tank. Other sharp metal edges surrounded the gas tank. The filler pipe extended only 2.6 inches into the tank, making it apt to pull free in low-speed crashes. The design problems could have been overcome by locating the spare tire to cushion the gas tank, by locating the fuel tank further away from the rear bumper, or by using body rails that attach to the rear of the car to absorb a rear-end impact. None of this happened because Lee Iacocca, Ford's CEO at the time, wanted a "2,000 pound car for $2,000." This implicit objective for the vehicle made a recall difficult.

Mother Jones magazine first exposed the dangers of the Pinto's gas tank, prompting the National Highway Traffic Safety Administration (NHTSA) to launch an investigation. In 1977 NHTSA uncovered twenty-eight rear-end crashes that had gas leakage and fires, in which twenty-seven occupants had died and twenty-four suffered burns. Feeling some pressure to fix the tank, Ford officials came up with a polyethylene shield to prevent the tank from being punctured by the bolts, at a cost of $2.35 per vehicle. A flak suit to cushion the tank from impact, at a cost $6 to $10 per vehicle, was also considered. These and still other options were rejected. Ford officials conducted a cost-benefit study at this point, which put the cost of repair at $137 million (12.5 million vehicles at about $11 each). Using NHTSA data, Ford officials set a price tag on human life at $200,000, each serious injury at $67,000, and each burned car at $700. Using an estimated 180 deaths and an equal number of seriously burned victims, "benefits" were projected to be $49.5 million. Benefits were less than costs so Ford decided not to fix the cars.

Three girls experienced car trouble and parked their Pinto on the berm of a freeway. The girls were struck from behind in a low-speed crash and burned to death. That same year, Ford had decided to recall the Pinto—scheduled to start one month after the fatal accident. Ford's recall notice was received by one of the victims' families six months after the accident. A $120 million lawsuit ensued. A technicality saved Ford. The jury was asked if Ford did everything in its power to recall the defective vehicles, not whether Ford had knowingly produced a defective product. Ford won the lawsuit but suffered a huge dent in its reputation. The media had a field day, and observers viewed this incident as the beginning of the long decline for U.S. automakers.

Court records suggest that Ford's top decision makers were aware that the Pinto was unsafe and concluded it would be cheaper to incur the losses from lawsuits than to fix the cars. Ford's production staff also knew of the risk, but was never given the opportunity to tell top management about it. Ford's "profit drives principle" philosophy of the time blocked voicing the risk. Ford's approach to the Pinto recall tainted relationships with outsiders, such as the NHTSA. To this day, Ford is suspected of withholding data and misrepresenting information when making vehicle recall decisions. This contentious relationship prompted industry observers to question Ford's role in the Firestone tire recall, the recent ignition recall that affects 22 million cars built since 1984, and others.

BeechNut and Its Bogus Apple Juice

BeechNut was founded in 1891 as a meat packing company. As the company diversified, food products, including baby food, were added. After several acquisitions and spin-offs, the company chose to concentrate on baby food. An image of "natural" foods was promoted. By 1980, Nestle had acquired the company, and top management at BeechNut were put "under the gun" to improve profitability. After some intense effort, BeechNut reached the parent company's goal, and top management felt considerable pressure to maintain this newfound profitability. As part of this effort, BeechNut sought a less expensive supplier of apple juice concentrate. Universal Juice offered concentrate at 25 percent below prevailing market prices and was selected as the new supplier, enabling BeechNut to cut costs by $250,000 per year.

The cost of the apple juice led people to speculate about its source. BeechNut visited Universal Juice a year later to inspect the facility, finding 55-gallon tanks but no mixing vats. BeechNut's research and development director, Jerome LiCari, became concerned and sent samples of the concentrate supplied by Universal Juice to an outside laboratory. The test results were reported to John Lavery, vice president of operations, and revealed that the concentrate was "not natural" and may have had corn syrup additives. At this point, Lavery had Universal Juice sign a "hold harmless agreement" indemnifying BeechNut against damages. Not satisfied with this, LiCari sent samples to two other labs the following year. Results were inconclusive but suggested that a switch to beet sugar from corn syrup may have been made. The lab told LiCari that beet sugar was harder to detect, offering a reason for the switch.

BeechNut's financial position worsened during this period, and conflict between Lavery and LiCari escalated. Lavery told LiCari that he had to have proof that the apple juice was adulterated before he would switch suppliers. The tension between the men grew over the next two years. At one point, Lavery told LiCari to put the problem concentrate into mixed juices where it would be harder to detect. This prompted LiCari to send a memo to the CEO citing his concerns and describing the evidence he had collected about color and acidity. Lavery responded by threatening to fire LiCari. After an unsatisfactory performance review from Lavery the next year, LiCari resigned.

As the events at BeechNut were unfolding, the Processed Apples Institute (PAI), a cooperative representing apple growers, hired a private investigator to look into rumors that adulterated apple juice concentrate was being sold. The investigator found that Universal Juice buys no apples and that BeechNut was its biggest customer. A PAI representative followed a shipment from Universal Juice to BeechNut, and the PAI representative then met with Lavery and two others and asked them to join a lawsuit against Universal Juice. They refused.

Top management was in a quandary. They could hardly claim that they had no suspicions or that they had been hoodwinked by Universal Juice. Also, they had \$3.5 million in inventory. BeechNut did not recall the product. Instead, they stalled the investigation to unload the inventory, simultaneously concealing their contract with Universal Juice. Within a few months all but 250,000 cases of the 725,000 in inventory had been sold.

The FDA did not have the authority to stop BeechNut from selling apple juice. And BeechNut's management refused to recall the apple juice on the ground that it posed no health hazard. Bogus information about the location of the tainted inventory was provided. The FDA found only 242 cases, which BeechNut destroyed before the FDA was able to get authorization to seize them. During this time, BeechNut promotions offered six free cans of apple juice when twelve jars of its baby food were purchased. BeechNut sold 20,000 cases to developing countries despite knowing that it's illegal to sell products abroad that are not acceptable in U.S. markets. With most of the inventory now sold, BeechNut's management agreed to a voluntary recall but continued to sell the adulterated juice for six more months.

Later that year LiCari was at a cocktail party for the National Food Producers Association and overheard BeechNut executives crowing about how they had dodged a bullet by selling the adulterated inventory. He called the FDA and blew the whistle, providing details of BeechNut's actions. This prompted FDA officials, who were considering a civil action against BeechNut, to press criminal charges. BeechNut's CEO, Niles Hoyvald, Levary, and Universal Juice's top management were indicted. BeechNut admitted guilt five years later, three days before the trial was to begin. The company paid fines of more than $10 million. BeechNut executives were fined $100,000, sentenced to a prison term of a year and a day, and ordered to pay court costs. The total cost to BeechNut was in excess of $25 million.

BeechNut executives tried to suppress conflict. When this failed, they eliminated the most apparent source of conflict: LiCari. This sent a message: Do not speak out or raise ethical questions. The company's top executives assumed the posture of a victim and stonewalled the FDA. They ignored the risks of hiding the tainted concentrate from the FDA and of selling a tainted product to developing countries in violation of federal law.

Nestle's Infant Formula Marketing

Infant formula was developed in the 1920s as an alternative to breast-feeding. Nestle and other companies realized a sharp increase in formula sales during the mid-1940s that peaked in the 1950s. After 1950 the U.S. birthrate declined, and Nestle and others in the business experienced a sharp drop in sales. Selling infant formula in third world countries seemed just the ticket to replace these lost sales. Using aggressive marketing, Nestle soon had $300 million in third world sales.

A group that focused on third world countries and their problems published a report called "The Baby Killer." The report chastised the infant food industry for its marketing practices, claiming that these practices led to infant deaths. Because of its leading position in this market, Nestle was singled out and accused of using misleading ads that suggested their formula was better than breast milk. The report also condemned Nestle's marketing practices in which uniformed Nestle people handed out free samples of infant formula in hospitals to encourage new mothers to bottle-feed. The report called for a ban on advertising in poor countries and a ban on promotions in hospitals.

In the eyes of Nestle managers, problems with infant formula arose solely from consumers' misuse of the product. Deaths were attributed to diluting the formula or mixing it with contaminated water. Nestle had fact books for each of their products, developed for each country in which the products were sold, but these books did not discuss problems of dilution or contamination. Critics said that Nestle's unaffordable prices forced mothers to stretch their supply by diluting it more than was recommended, pointing out that the cost of infant formula approaches 50 percent of a family's total weekly wages in a third world country. Company officials claimed their advertising could only assume responsibility for rooting out false statements and that they were not responsible for the poverty and illiteracy that might lead to the misuse of their product. Nestle people also pointed out that in developing countries nursing mothers unable to produce sufficient breast milk supplemented it with animal milk and water mixed with mashed root mixtures. Formula was far superior to these widely used remedies.

At this point, Nestle's managing director began a decision-making effort to rethink the situation. After a lengthy study, the company made minor changes in its marketing but continued to aggressively sell infant formula in third world countries. Company officials said they were content that, on balance, they were doing more good than harm.

Nestle was totally unprepared for the reaction to their decision. Several activist groups were galvanized by Nestle's refusal to terminate its third world marketing. Third World Action Group (TWAG) translated the "baby killer" report into German with a new title, "Nestle Kills Babies." The new version maintained that Nestle was responsible for the death and permanent injury of thousands of children because of its unethical advertising in third world countries. TWAG sued to stop Nestle's third world advertising. The judge in the TWAG lawsuit said that the accusations of immoral and unethical conduct stemmed from the company's advertising practices. The message was ignored by company leaders.

Company leaders were shaken by the vehemence of their critics and the court's decision but refused to change any aspect of their product marketing. Instead, Nestle officials chose to strike back. They sued all those involved with the TWAG publication for libel. The suit gave TWAG just what an activist group is after—a platform from which to promote its claims. Nestle eventually won the court battle, but it lost big in the international court of opinion. Buoyed by its "win," Nestle continued to maintain a defensive posture. This prompted an activist group called INFACT (Infant Formula Action Committee) to mount a boycott of all Nestle products in the United States. Senate hearings on the matter, chaired by Edward Kennedy, concluded that Nestle was responsible for how its products were used and brought in the World Health Organization (WHO) to monitor the situation. INFACT and WHO brought respected experts into the fight, which prompted yet another round of criticism that accused Nestle of making profits by their "traffic in death."

Nestle hired a new marketing vice president at this point and charged him with determining whether the company should back away from its third world marketing practices. The options considered were fight the boycott, ignore it, or alter marketing practices. Company officials chose to continue their third world marketing and to ignore the boycott, which prompted seven more years of product boycotts by activist groups. Industry analysts believe the seven years of controversy that followed suppressed sales and damaged the reputation of a company with a long tradition of being a socially conscious firm. Later, Nestle's chairman, Liotard-Vogt, agreed. He acknowledged that his company's culture fostered intense loyalty, which made it difficult for anyone to question a long-standing company position. He also acknowledged that the effects of the boycott had been covered up. Several attempts were made to neutralize these effects, including a trip to the Vatican by the CEO. At this point, the company had fifteen people working on this issue, as well as a public relations firm. Nestle went to considerable lengths behind the scenes and spent lots of money to fight the boycott but refused to spend anything to revamp its controversial marketing practices.

Nestle's infant formula marketing created so much controversy that an industry association concluded that they had been deficient in policing their members' practices. The association developed a voluntary code for the ethical advertising of infant products. The code called for sales people to discard uniforms suggesting that they were medical representatives when working in hospitals and to terminate sales subsidies to hospital employees. Nestle ignored this development and never fully adopted the code.

The Denver International Airport

The inadequacies of Stapelton, Denver's sixty-five-year-old international airport, were well known. Stapelton was the sixth busiest airport in the United States in 1993, but its runways were too close to allow simultaneous landings during bad weather, creating delays that disrupted the entire U.S. air traffic system. Projections of future use made it clear that traffic problems would worsen. Something had to be done. Denver's Mayor Federico Pena championed a new airport, touting it as the answer to Stapelton's problems as well as a way to counter weaknesses in the local economy. The Denver International Airport, or DIA, was promoted as a way to create jobs, increase local business revenues, and make Denver a major city. A major city must have an international airport. Controversy followed. The DIA's benefits may seem dubious but its costs weren't. The airport came in at $4.9 billion, far above estimates. DIA has fewer runways than Stapelton, although expansion is possible. The cost per passenger is $16, compared to $6 at Stapelton. Passengers complain about poor service and, recalling the near-by Stapelton airport, grouse about the expensive and long commute to and from downtown Denver to the new airport.

The chain of events began when Pena was elected mayor in 1983 and canned a proposal to expand Stapelton. By 1985, Pena had persuaded the city and the county to construct a new airport, and he was reelected in 1987 using a new airport as a campaign promise. Critics were skeptical of his plans. Continental and United, with 80 percent of the flights into Stapelton, objected. Both airlines preferred making improvements to Stapelton and stopped paying for airport planning. Critics called for a vote on the airport and threatened a petition drive to force a referendum. Colorado Governor Roy Romer had no way to crush a referendum. Controversy continued to swirl until a vote to approve the sale of bonds to underwrite airport costs was passed by a 2 to 1 margin.

Airport development followed a classic benchmarking approach. More than one hundred airports were visited before a design was selected. Planning included the disposal of Stapelton's 4,700 acre site. A redevelopment foundation created to dispose of the land and the structures proposed a mixture of uses. These included a major housing project compatible with existing development that surrounded three sides of Stapelton and light industrial uses, such as training bases for United and Continental airlines. Proceeds from sales and leases were earmarked for the retirement of DIA bonds.

No one can claim that the DIA designers aimed too low. Given the opportunity to create the first new airport in the United States since Dallas-Fort Worth in 1974, a dramatic mix of technology and architecture was proposed. The DIA terminal rises out of the high plains like an extraterrestrial circus top. Its advanced infrastructure includes a $100 million communications system with video security and an eighty-channel TV network. Advanced lighting and a $20 million automatic traffic management system keep the DIA's runways open during the worst snowstorms. An $85 million subway zips passengers through two 6,000 foot long tunnels at speeds of 30 miles per hour, with automated software to run the trains. The baggage system moves passengers' luggage point to point in less than ten minutes. The airport has five parallel 12,000 foot runways, with expansion possibilities of up to 123 runways. The city annexed 53 square miles (more area than the D-FW and Chicago airports combined) for the airport, making such expansion possible. The airport was to accommodate 1,750 takeoffs and landings in a day and be the first airport to regularly land three planes at the same time on its parallel runways.

DIA proponents found it easier to make impressive plans than to realize them. The DIA's opening was delayed five times. When the airport finally opened in 1995, it did so amid a chorus of complaints. The baggage handling system and other technology had bugs that created delays and lost bags. The cost and time to reach Denver infuriated passengers. The airport's bonds came in with ratings so low they approached a junk bond, dramatically driving up interest costs. The final price tag swelled until airport revenues could not cover costs and public subsidies were required to make up the difference. The predicted volume of 26 million annual passengers proved to be 160 percent above the actual volume of 16 million. Airline carriers refused to pay the hefty gate rental fees. United claimed that its costs doubled, compared with Stapelton where the airline had just built a $60 million concourse. Arguments arose over who should pay the $71 million for the interim baggage system. BAE automated systems, the original contractor for the baggage system, balked, laying blame on last minute design changes. BAE expressed concerns that the city was behind in paying $40 million to the company. Like so many overhyped projects of this type, such as light rail for public transportation and sports arenas, projections of benefits were overestimated and costs were doctored to make the project seem feasible and desirable.

▼ Key Points

- ▼ Half of the decisions made in organizations fail, making failure far more prevalent than previously thought.
- ▼ Blunders that lead to failure stem from using failure-prone practices, making premature commitments, and spending time and money on the wrong things.
- ▼ Failure can be directly linked to the actions of decision makers. Forces beyond the decision maker's control, such as changes in customer tastes, budget cuts, and the like, can also prompt failure, but the practices followed to make a decision are the most important determinants of success.
- ▼ The situation being faced by a decision maker has less influence on which decision-making practices to use than previously thought. Best practice can be followed regardless of the decision to be made or the circumstances surrounding it.

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