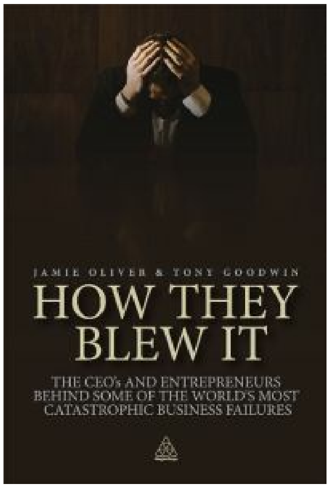

Book How They Blew It

The CEO's and Entrepreneurs Behind Some of the World's Most Catastrophic Business Failures

Jamie Oliver and Tony Goodwin
Kogan Page, 2010
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Recommendation

In recent years, serial entrepreneurs and celebrity CEOs have become rock stars, not just of the corporate world but also of society at large. People love to learn about big business mavens, what they do, where they live, what they drive, where they party and who their spouses are. Even more darkly compelling are the bad boy wheelers and dealers who have dramatically blown up their firms through financial chicanery (almost exclusively a male activity; thus, few bad girls of business exist). In this timely yet disturbing book, journalist Jamie Oliver and recruitment expert Tony Goodwin present a rogues' gallery of entrepreneurs and CEOs who have disgraced themselves and destroyed their companies, often trashing the savings of multitudes of innocent bystanders. Some of these guys didn't blow it, exactly, in that they went home plenty rich – but their firms still suffered on their watch. The authors lightly, charmingly depict the lives of these corporate desperados, offering lessons other leaders can draw from their stories. While morbidly fascinating and a bit sensational, the book sometimes loses its edge as it catalogs deals negotiated, firms bought, bad strategies enacted and millions lost. Nonetheless, *BooksInShort* quite enjoys this voyeur's look at how these big shots imploded and how to avoid making the same mistakes.

Take-Aways

- Great business leaders must be brave but not reckless, confident but not cocky.
- When CEOs delegate too much, don't understand their organization's fiscal complexity and get caught up in their own wealth, their business' downfall is the inevitable result.
- Visionary executives who lose focus and become arrogant, such as Bernie Ebbers of WorldCom and Richard Fuld of Lehman Brothers, can harm, and even kill, their firms.
- Such individuals assume they can ignore vital corporate details. They come to believe that the normal business rules no longer apply to them.
- Egotists believe their own hype and ignore the good advice they give others.
- Iceland's Jón Ásgeir Jóhannesson, whose fraud helped bring down his nation's economy, and jailed Russian oil tycoon Mikhail Khodorkovsky personify this conceit.
- Like many failed entrepreneurs, they thought their wealth made them immune from consequences or disaster. These businessmen "blew it."
- To avoid a similar fate, recognize the role of luck in your achievements.
- Know when you have won: This is the point where you must stop taking needless risks.
- Be satisfied with what you have, and make philanthropy, not riches, your legacy.

Summary

Hero or Heel?

A "fine line" separates CEO and serial entrepreneur heroes from business heels. Great business leaders must be brave enough to try new things, but not so reckless as to risk it all. They must have confidence in their judgment, but not become egotistical jerks who never listen to anyone else. And they must be visionaries who do not become distracted, lose concentration and screw up, like these extraordinary corporate titans who crossed well over the line:

1. **Bernie Ebbers** – WorldCom's CEO once declared that God had chosen him for a special mission. Shareholders probably didn't agree: When WorldCom imploded, they lost $180 billion. Ebbers started out running a hotel chain, then moved into the long-distance communications business, buying up small operators and then bigger ones. He shocked the telecom industry when his firm bought MCI, which had revenues more than three times as large as WorldCom's. Even more shocking: In 2002, WorldCom admitted to $3.85 billion in "accounting misstatements." The final figure: $11 billion. Ebbers was sentenced to 25 years in federal prison. By his earliest possible release date, he'll be 85.
2. **Christopher Foster** – Coming from humble beginnings, Foster scored quickly by inventing a new form of oil valve insulation. He was so sure of the product that he remortgaged his home to put on a dramatic demonstration of its fire-protection qualities. Foster's gamble paid off. He won big contracts, bought a mansion and began collecting luxury automobiles. But litigious disputes and credit problems quickly ruined Foster's firm. Indebted and depressed, he shot and killed his wife and teenage daughter, and his dog and horses. Then he set his house on fire and died of smoke inhalation.
3. **Mikhail Khodorkovsky** – Once the top dog at giant Russian oil firm Yukos, he now sits in a Siberian jail cell doing nine years for fraud, and he may face further charges. He thought he was untouchable, but his sweetheart bank deals, overseas maneuvers and, most notably, his political activities – he was accused in court of "running an organized criminal group" – angered President Vladimir Putin. Big mistake.
4. **Jón Ásgeir Jóhannesson** – With debt of €50 billion but a gross domestic product of only €8.5 billion, Iceland imploded in 2008. The failure took down this native retail leader, who lived like a prince in a $24 million Manhattan penthouse. In 2005, Icelandic authorities charged him with fraud and embezzlement based on how his companies handled their bank ownership, debts and acquisitions. After a mild sentence, he moved to the U.K. Iceland's credit crisis led to his over-extended firm's 2009 bankruptcy.
5. **Reuben Singh** – A terrific self-promoter of Indian descent, Singh grew up wealthy in London. Entrepreneurial in spirit, he created AlldayPA, an answering service that quickly caught on with investors. Soon the media began to fawn over him. *The Sunday Times* called him "the British Bill Gates." Alas, Singh "misrepresented" his financial success, including lying to his bank to secure more funding. His fortune was all smoke and mirrors. In 2007, the courts declared him bankrupt, "more than £11 million" in debt.
6. **Tim Power** – Former barman turned high-profile restaurateur, Power – an unpleasant boss with "brutal" methods – worked 16-hour days at the Belgo restaurant chain, doubling its profits. He and his partners bought and sold millions of pounds worth of restaurants. In 2008, U.K. authorities nailed him for insider trading; he pled guilty.
7. **Dick Fuld** – Lehman Brothers' former CEO was a feared, "King Kong" figure who led the firm through mountains of subprime lending that later collapsed. Between 1993 and 2007, Lehman paid him almost half a billion dollars. Did the firm get its money's worth? Hardly. At the beginning of 2008, its value was about $42 billion; on September 15, it went bankrupt, with Fuld unable to secure further credit. He blamed a lack of confidence, short sellers and the industry's changes. While many people were at fault in Lehman's downfall, Fuld still believes his actions were "prudent" and "appropriate."
8. **Guy Naggar and Peter Klimt** – These two men were the powers behind Dawnay Day, a giant property and financial house. Naggar was the money expert. Klimt handled properties. The pair reportedly had "more than 500 directorships." Their business philosophy: Do as many deals as quickly as possible. And that's what they did, amassing tremendous debt, which eventually brought about the firm's collapse. Naggar was certain that his wealth would shield him. He seemed to forgot that debt kept his empire afloat.
9. **Adolf Merckle** – This German billionaire could not handle business setbacks. In 2007, *Forbes* magazine noted that he was worth $12.8 billion. In 2009, he committed suicide by stepping in front of an oncoming train. Merckle made his money in the pharmaceuticals industry and expanded into cement. He let his debt run wild, gambled millions to try to earn money to repay his creditors and killed himself after his fiscal house of cards collapsed and they called in their bets.
10. **Boris Berezovsky** – This tycoon's close alliance with Boris Yeltsin made him rich, but things changed with Putin, who vowed to "liquidate the oligarchs." Once a Putin supporter, Berezovsky owned car dealerships, Aeroflot, banks and big media outlets. When Putin gave businesspeople a choice between money and politics, Berezovsky crossed the line and funded Chechen rebels. Taking the hint when the government "investigated" his airline, he moved to the U.K., became a citizen and changed his name. In 2007, a Russian court found him "guilty [in absentia] of massive embezzlement." He denied wrongdoing and claimed political harassment. He has "survived numerous assassination attempts."
11. **Zhou Zhengyi** – In 2002, this property developer and entrepreneur was China's 11th richest man. Six years later, he began a 16-year jail term for "bribery and embezzlement." Zhou used the "Communist political infrastructure" to get ahead. He was close to the children of powerful people in Shanghai, but they could not protect a criminal.
12. **Mark Goldberg** – This IT recruitment entrepreneur yearned to own a professional sports team. In 1998, he grossly overpaid for London's Crystal Palace Football Club. Then he wasted tons of money on it. In 18 months, he went through £40 million, his whole fortune. Even the man who sold it to him said Goldberg was "stupid" to buy the club.
13. **Ken Lay** – To President George W. Bush, he was "Kenny boy." He also was CEO of Enron Corporation, which he helped destroy with financial shenanigans. Found guilty of "conspiracy and fraud," Lay suffered heart failure and died in July 2006 before he could be sentenced. While reporting to employees that Enron's stock "remained a good deal," he secretly dumped his shares. Right after he called the stock an "incredible bargain," Enron lost $618 million in a single quarter. Soon, it was out of business.
14. **Kevin Leech** – At 21, Leech took over his family's U.K. funeral business. He built it up "into a 38-strong chain," which he sold for a hefty profit. Leech then made a fortune as a venture capitalist. He bought many firms in diverse fields, assuming that his expertise would translate to his new businesses. Wrong. The dot-com bust hit him hard. One creditor, HSBC, sued, but a Jersey court declared Leech "*en desastre*," bankrupt.
15. **James Cayne** – This Bear Stearns CEO was a terrific bridge player. Unfortunately, he focused on card tournaments when he should have been paying closer attention to his troubled firm. Under his direction, Bear lost almost $1 billion in a year, costing more than 7,500 employees their jobs – but Cayne retired with "close to $100 million."
16. **Robert Tchenguiz** – He built his reputation on his supposed "rags-to-riches" success, but it was his father's £1 million bank guarantee that got Tchenguiz off and running. He and his brother Vincent borrowed funds, used them to buy residential or office properties, and then paid their debts from their rental income. This worked well for a while. Their firm purchased more than 600 buildings, valued together at some £4.5 billion. But the 2008-2009 credit crunch rocked Tchenguiz and his empire. He lost nearly £1 billion.

Lessons Learned

Six of these failed entrepreneurs and executives went to prison; two killed themselves; one died before his trial; all of them lost staggering sums of money. As a group, they undermined the jobs and investments of thousands of people. Some experts say Lehman's collapse was a primary factor in the "global credit crunch" which devolved into the "banking crisis" that cost a total of $11.9 trillion, according to the International Monetary Fund. These "big picture" guys paid little or no attention to business details. Most were great at delegating, but not necessarily to the right people. They got wrapped up in the "who-has-the-biggest-boat competition" and focused on themselves instead of their companies. These men thought they were incredibly smart, but they did not act smartly. Many could not deal with changing business conditions. Follow these lessons to avoid some of their mistakes:

- **"Take your own advice, but do not believe your own hype"** – These entrepreneurs and CEOs loved to counsel other people, and to offer supposedly wise homilies and maxims. However, they failed to take guidance from others. Peter Klimt once preached, "You have to create an infrastructure. Without that, what you're doing is just a series of deals." But he did not develop an infrastructure for his own business activities. Klimt and some of his fellow failures were great believers in their own press releases. Former U.S. President Bill Clinton once described Bernie Ebbers as the "symbol of 21st century America." Sadly, that may be true, but not in the positive way Clinton meant at the time.
- **"Do not take revenge on your past"** – Some of the men outlined here had humble or hard childhoods, and then spent their lives trying to make up for their rugged beginnings by proving themselves over and over. At some point in their glitzy careers marked by lofty business and financial success, these men needed to realize that they had already won, so they could stop taking great risks to achieve more and more.
- **"Accept that luck played a part in your success"** – The American Dream says that people can become whatever they want through hard work and effort. Many of these entrepreneurs held to the notion that they were solely responsible for their remarkable attainments, though some of them had privileged backgrounds and many advantages.
- **"Enjoy your success"** – Why is it that some of these high achievers were never happy with what they had and continued to chase more targets? The mind-set that one luxury car or penthouse apartment is never enough is a very dangerous attitude. People who are never content may be inclined to take big risks to accumulate more money to buy more things. This was the self-destructive path of many of these business leaders.
- **"Unassailable wealth is a myth"** – Some of these men thought that, because they had so much wealth and their firms had such power, nothing could hurt them. This certainly was true at Bear and Lehman, with their global offices filled with elite financial professionals.
- **"Believe in the miracle of the mundane"** – Successful business results depend on details. However, these executives commonly made the mistake of ignoring small but important issues. They believed that they were far too important to worry about the particulars of their operations. Such an attitude invites nothing but trouble.
- **"If you do not understand something, others will mislead you"** – CEOs and entrepreneurs are in big trouble when their businesses becomes so dizzyingly complex that they can no longer really understand them. This happened to many of these men. Having to rely on assistants to explain their financial and business operations to them turned out to be a certain recipe for disaster.
- **"Does your business make realizable profits?"** – Some of these firms relied more on "'clever' financial engineering" than on a traditional profit-and-loss format. The result? The "global credit crisis," the dissolution of Lehman and Bear Stearns, and more.
- **"One more deal will not salvage a broken business model"** – Many of these failed executives tried to pull off giant acquisition deals when their own firms were in huge trouble. Their common hope: Like magic, one more big deal would straighten out all their problems and make everything all right. Of course, that never works.
- **"Legacy: Follow Gates and Carnegie"** – Many of these men thought that their expensive residential properties and luxury possessions would be their proud legacies, separating them from the rest of humanity. This misguided thinking is just the wrong way to go. If you want a legacy, be a philanthropist like Andrew Carnegie or Bill Gates. Leave something of value, not a reputation for foolishly spending money on silly things.

About the Authors

Jamie Oliver is a U.K. journalist specializing in entrepreneurship. **Tony Goodwin** owns and runs a recruitment business with offices in Russia, China, Africa and the Middle East.