

Interview

The Ten Commandments for Business Failure

An Interview with Donald Keough,
Chairman of the Board, Allen & Company, Inc.



Donald Keough

EDITORS' NOTE Prior to assuming his present post at Allen & Company, Don Keough served as President, Chief Operating Officer, and Director of The Coca-Cola Company from 1981 to 1993. He was reelected a Director of the company in 2004. Educated at Creighton University in Omaha, Nebraska, he served on several companies' boards, including the H.J. Heinz Company, The Home Depot, USA Network, and McDonald's Corporation. He currently serves on the board of Berkshire Hathaway and is a trustee of numerous educational and charitable foundations. Keough's new book, *The Ten Commandments of Business Failure*, was published in July of this year.

COMPANY BRIEF Founded in 1922 and based in New York, Allen & Company, Inc., is a closely-held investment banking firm that serves some of the leading names in entertainment, technology, and information. The company has brokered numerous prominent deals, including the Disney-Capital Cities/ABC merger, Westinghouse's \$5.4 billion acquisition of CBS, and Seagram's \$5.7 billion purchase of 80 percent of MCA from Matsushita. Its annual retreat in Sun Valley, Idaho, has attracted such luminaries as Bill Gates, Michael Eisner, Rupert Murdoch, and Oprah Winfrey.

Why did you write a book, and what made the timing right to do so?

Over the years, I have given a great deal of thought to the subject of success and the

fact that you learn more from your failures than you do from your successes. I gave a speech on the subject at our company conference in Sun Valley in 2006. The speech was called "The Ten Commandments for Business Failure" and a number of people, including Herbert Allen and Warren Buffett, suggested that the subject would make an interesting book. It's a small book, and there's nothing dramatic in it, but it's something I've thought a lot about over the years.

First of all, we all make mistakes. I've learned more from my mistakes than I have from any lucky, happy, successful things that happened to me throughout my career. Success has within it two viruses: one is arrogance and the other is complacency. Both lead you to think that customers are lucky doing business with you. I remember a story about one fountain customer who was starting out in business. He went to the Coke salesman in the local town and said that he didn't have much money and asked to borrow equipment, offering to pay for it over time. The salesman said the company didn't do business that way and told the customer that he couldn't get along without Coke. The customer said he was going to try, and ultimately built a chain of about 1,000 stores. I'm happy to say that Coke does very well with that customer now. It just shows what can happen. That arrogance of the salesman is sort of the framework against which this little book is written.

The first commandment for failure in the book is to avoid taking risks. The minute you're comfortable, you'd better watch out. Robert Woodruff, the legendary builder of The Coca-Cola Company, held a dinner for all the top company executives to celebrate the 50th anniversary. In effect, his message was that he didn't know what they were there to celebrate. He said when he looked back over the 50 years at the mistakes that had been made and that were continuing to be made and at the opportunities that had been missed, he was shocked that they had survived 50 years. He said if the company were to continue doing what it had done over the past 50 years, he believed no one would be around to celebrate the 100th anniversary. That little talk set the stage for the leaders of the company to continue to reach out, expand, and broaden their dimensions. It took courage for an Atlanta-based company to go outside the United States. Originally, the board had vetoed the idea, so Mr. Woodruff created a subsidiary called The Coca-Cola Export

Corporation to see if Coca-Cola could be sold in other countries. Making money was tough in those early days. But the leaders of the company took risks, and it is still around today. On the other hand, Xerox had a multiyear lead in the personal computer business. The graphic user interface was developed in their facility in Palo Alto, California, but the leadership of the company failed to take a risk on its development. There are countless other examples, because it's easy to quit taking risks.

The second commandment is to be inflexible, and Coke again is a great example. The whole company fell in love with the iconic six-and-a-half-ounce bottle. All of a sudden, it was like an egg – the contents and the package were identical, and one didn't exist without the other. So in 1939, when Pepsi-Cola introduced a 12-ounce package, twice as much for the same nickel, the management of Coke refused to consider any package but the six-and-a-half-ounce bottle. It took until the mid '50s for the company to consider other packaging opportunities. Being inflexible is a disease that can just happen.

Another commandment involves playing the game too close to the line. If you go back to 1982, when the economy was sailing and "the market" became important, some companies that had been correctly interested in managing the business began to think instead about managing the stock. As a result, these companies began playing very close to that line that separates the right things to do from the wrong ones. The language, in some cases, went from focusing on what was right to what they could get away with. As in tennis, if you play too close to the line, you're going to be out of bounds part of the time.

In today's age, the commandment that stands out the most is not taking the time to think. It's pretty hard in today's environment to find the time to think, because you're flooded with data. Today, 60 billion e-mails will float around the world. When we get too married to our BlackBerrys, we find ourselves addicted to data, and data is not information. Yet data has become an addiction. There's nothing inherently bad about data, but you must have time to think about it and analyze it. People simply have to find ways to turn off the constant flow of data. I'd love to build a national holiday banning all communication of that kind so that people could take a full day and just concentrate on important matters instead of little bits and pieces of stuff.

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Did you enjoy the process of putting the book together?

I did. It brought back some of the decisions I've made and reminded me that if there's a possibility of a war, and you have the capacity to stop the war but don't, it's your war. If your intuitive judgment tells you one thing, but data, outside expert opinion, and reams of facts and quotes say another, you have to be very careful. Trust your instincts. But writing the book was a wonderful experience. It reinforced that success is a word you don't play around with. Success is a journey and not a destination. The minute you believe it's a destination, you'd better ask for the farewell party.

Is the book directed at young future leaders as well as current executives leading large companies?

It will find its own way. I hope it can be part of the dialogue in MBA programs, where so much time is spent on how to succeed. I've spent a lot of time talking to young people, and they are asking the questions that can be answered by this book. I would hope this becomes kind of a textbook, and if a senior executive reads it, it will give him pause. I have heard that from a few people already.

In the end, how much does success come down to character?

The environment has a lot to do with shaping your life. When the pressure is on leaders to move stock or reach certain objectives, it is intense. It takes a lot of self-assurance and intellectual courage for people not to be swept away. Thankfully, in a lot of American businesses, you can find executives that make it clear to the Street that they're going to run the business for the long-term benefit of the shareholders, but it's tough. You can have great intentions, but the reality is, you're judged in today's world with the news coming at you 24 hours a day. It's not an easy time to run major companies in America.

Has it been isolating to be in the "corner office" for so long?

It is tough, but to be successful you have to break out of that environment. Managing by moving around, talking to customers, walking into stores, riding in a cab, and every now and then traveling the way most people travel is the proper way not to get trapped in that isolation.

During World War II, Churchill had an office of people who had only one purpose – to give him bad news. His staff had to find the bad news and show it to him every day. Hitler, on the other hand, didn't know he was losing the war until he crawled into that bunker. That's because nobody in his staff would

tell him the bad news. So it can be a trap for leaders.

Is it more challenging to take risks today than in the past?

It is challenging, because you're under constant daily pressure. Yet, there are those executives who say, "This is the way we're going to run the business, and we will not let some analyst decide how the business will be run." I was on the board of McDonald's when Jim Cantalupo came in as CEO after McDonald's had gone through six or seven years of lackluster performance. He met in New York with the analysts. He stood up and said, I'm probably not going to talk to you for the foreseeable future because I have a lot of work to do in the stores, and I'm going to spend my time and effort, and that of all of my associates, to fix the stores. When we do that, you'll be able to make up your own mind. He died a year and a half later, but he set the pattern. If you look at what's happened to McDonald's in the past several years, it can be attributed to that simple, honest statement. There are good examples of people in the business who are not going to let some analyst decide how they're going to run the business.

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Did this book afford you the opportunity to reflect upon your success?

I am so curious about what's going on in the world that it's hard for me to spend much time looking back. I flunked retirement. I didn't know how long I would be here when I came to Allen & Company, and I'm now going on 16 years, but it seems like a week to me. I learned a whole new world, and I've grown. That's not to say that I don't look back with great joy at the good luck I've had – to have had parents who believed that education and discipline were important, to have been well educated, and to have married a wonderful woman and have a big family. I joined a company in 1950 that was acquired by The Coca-Cola Company. How could

I have started with a small company in Omaha, Nebraska, and end up being the President of Coca-Cola? Good luck and good fortune were a huge part of it. I've been a very lucky guy.

How important have your relationships been with your associates and other colleagues?

Nothing works unless it works through relationships. Nothing is possible unless you do it with and through others. The most beautiful diamonds in the world are worthless until they're on somebody's finger. For a leader, the more you work your way into an organization, the less important you become, because everything happens in a system. I've always considered myself to be a high-priced janitor in that my role is to keep the aisles clean for smart people to go ahead and do their work. It's a good job.

What would people who have worked with you say about your leadership style?

They'd say it was interesting. They'd say you never could take Don Keough for granted, and that if you think you had him figured out, you probably were wrong. I would hope they'd say he was fair, that it was fun to be around him, and that he was interested in consistent performance. And that he wasn't perfect.

Are you optimistic despite all of the economic issues facing us today?

I'm totally optimistic. It's exciting that in the past dozen or so years, one billion people have moved into the middle class around the world. I think it's fantastic that China and India are building huge middle classes. The world isn't perfect, but it's headed in the right direction. As for America, we've got emerging companies building wonderful middle classes, and the minute people own something, they have something to protect. When you have something to protect, you don't want to be frivolous. It's the most exciting time in the world right now.

Do you agree with those who say the U.S. has lost its competitiveness, entrepreneurship, and innovation?

We are going through a tough time right now, but the U.S. still has strength. I tell young people that this is the most exciting time in the history of the United States. The more competition we have in education, in business, in every possible way, the better we'll be. The trouble comes when you don't have that competition. We're a huge market. We're a wonderful market. China is opening up, and people have some coins jingling in their pockets there, and a lot of American products are there. We're not the rust belt of the world anymore, but what we provide the world is quite exciting. ●