My Bad: Sometimes, Even CEOs Have To Say They're Sorry

By Donna Fenn

To err is human--but for leaders, mistakes can be excruciating. CEOs have big footprints, so their missteps often hurt many beside themselves: employees, stockholders, society at large. And leaders sometimes buy into the widespread assumption that people in authority have better instincts and make smarter decisions than everybody else. Confessing mistakes, consequently, can be an emperor-disrobing experience for a CEO. "Leaders are supposed to be decisive, correct, and confident," says Rod Kramer, professor of organizational behavior at Stanford University's Graduate School of Business.

Handled skillfully, however, admitting a mistake can bolster a leader's stature. Maureen Borzacchiello, CEO of Creative Display Solutions, kept it simple and sincere in June 2006 when she informed employees that her own misjudgments and distractions had brought on a cash-flow crisis--and as a result she could no longer pay their full-time salaries. Borzacchiello knew the announcement would be totally unexpected. Up to that point, Creative Display Solutions, a maker of trade show and event exhibits in Lynbrook, New York, had been growing steadily. Six months earlier it had won an award from a nonprofit, Count Me In for Women's Economic Independence. The award included a $45,000 business loan, mentoring, and marketing advice.

Then she overextended. Borzacchiello invested nearly $100,000 in product inventory, paying for half of it with a business loan. There was a large lease commitment on a building that needed major renovations. With the award money, she bought furniture and hired three new employees, bringing her head count to 10, including herself and her husband, Frank. Still, she and her husband remained the primary salespeople. Then, her brother-in-law died unexpectedly, and the couple became too engrossed in family matters to aggressively pursue new accounts. The additional revenue she'd counted on to pay for her investments was dangerously delayed. "Under normal circumstances, it wouldn't have played out this way," says Borzacchiello. "But I wasn't thinking clearly because I was so stressed."

Borzacchiello considered talking to each of her employees individually, but decided she couldn't handle the "emotional drain." Instead, she called everyone into the conference room. Though reduced to tears in private, she knew that in public she had to appear confident in order to persuade employees to remain loyal during the trial of shared sacrifice. "I didn't want to scare them and have them running," recalls Borzacchiello. "But I had to give them the honest truth."

Borzacchiello's mea culpa was admirable in its simplicity: "All I can tell you is that I apologize," she told the staff. She said the heaviest burden would fall on herself and her husband, who would take no salaries at all. Notably, Borzacchiello laid out not only what went wrong, but also what she'd done wrong. "We were so focused on accelerating growth that I didn't see it coming," she confessed. She also disclosed that she had never learned to analyze real-time financials. Her accountant's quarterly reviews gave her a picture of historical financial data, but she had no system for regularly reviewing the kind of information that might have warned her of the impending crisis. For a small, home-based start-up, that skill hadn't been essential, but for a growing company it was critical. She pledged to do a much better job staying on top of the numbers.

That kind of specific personal admission gives listeners confidence that the mistake won't be repeated, says Rob Lederer, a management consultant and coach based in New York City. "When you're admitting a mistake, it's important to demonstrate what you've learned, that you're aware of the impact on others, and what you're going to do about it," he says. If the leader doesn't see a clear path forward, "it's okay to say that," says Lederer. "But you have to offer an alternative, even if it's just a process you put in place to figure out what caused the problem."

Borzacchiello gave employees one more thing: a light at the end of the tunnel. "I know we can recover from this in 60 to 90 days," she assured them. There were lucrative projects in the pipeline and a reliable client base with third- and fourth-quarter needs. Borzacchiello promised to aggressively pursue the prospects that resulted from an online marketing campaign. While the company recovered, she and Frank would take care of administrative tasks such as payroll, freeing the staff to focus on sales, customer service, and design.

Entrepreneurs, of course, are habitual squeezers of life's lemons. As such, they can sometimes use their *magnus erroris* to improve the company's culture. Faced with the fallout from a bad decision, leaders might solicit their employees' ideas. They can also use the opportunity to model a culture of forgiveness. In fact, "many innovative organizations draw attention quickly to mistakes and even try to keep their memory alive," says Kramer. Leaders who forthrightly admit their misjudgments and treat them as learning experiences demonstrate that failure *is* an option--and an acceptable one at that. Finally, leaders worried about their post-debacle stature should focus on earning their workers' trust.

At Creative Display Solutions, the CEO's apology had the desired effect: Everyone agreed to shorter hours, and two employees volunteered for reduced hourly rates. Two months after the meeting, everyone was back working full time. By year's end revenue had more than doubled, from $357,000 to just over $1 million, a benchmark that had seemed all but impossible six months earlier. And employees knew that when their leader talked about accountability, she practiced what she preached.

Article Source: http://www.inc.com/magazine/20071001/my-bad.html