Patrick Hosking

Companies are poor at mercy killings, especially of their bosses' pet projects

The most remarkable fact about the demise the other day of *The New Day*, Britain's first new national newspaper in 30 years, was the speed at which it was shut down. Simon Fox, the chief executive of Trinity Mirror, pulled the plug on the entire venture only nine weeks after he launched it.

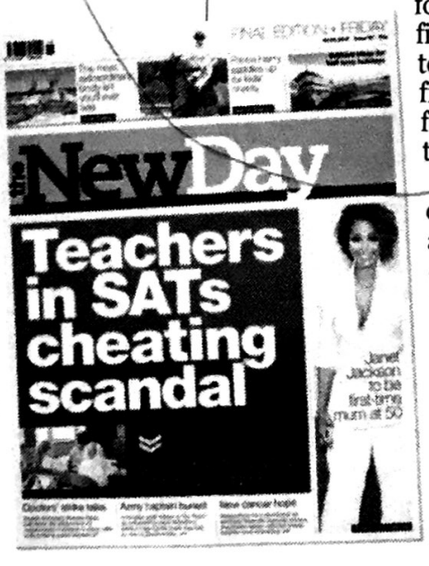
After forking out £5 million alone on advertising the new title, Mr Fox seems to have had no compunction in abandoning the project when sales came in miles below target. The 25 journalists facing an uncertain future deserve sympathy. It is always a sad moment when the presses grind to a halt on any title.

But one cannot help feeling a sneaking admiration for such a brave, public, potentially career-damaging and above all quick decision. It is less than three months since Mr Fox was personally hailing the project as an exciting and innovative initiative that could garner large numbers of readers.

How unlike most companies, which, when new products, corporate projects and ventures show signs of early distress, tend to opt for another throw of the dice, or indeed double up. It spares the boss's blushes for a while, but it often comes at the great disadvantage of shareholders.

Companies are generally poor at mercy killings, especially of new products and projects closely associated with the chief executive. Once cash, energy and personal reputation have been invested in an idea, the temptation is always to carry on, sometimes for years.

It gets even worse once a chief executive has publicly had to defend his original decision and announced plans to persevere. Then a U-turn is all but impossible because it would acknowledge that not only the original decision was suspect but so too was the subsequent judgment. Once Sir Terry Leahy in his pomp had decided that Tesco should push into the United States in 2006, nothing could stop the ensuing debacle. Not dubious shareholders, not sceptical analysts, not disappointing early results. By the time Philip Clarke, Sir Terry's successor, belatedly got round to dispensing a fatal injection into Fresh & Easy seven years later, £2 billion had been flushed away.



Trinity Mirror pulled the plug on the title after nine weeks

The decision on whether to persevere with a project showing early wobbles, or to scrap it, is horribly difficult, but companies tend to err too much on the side of pushing on, according to Michael Birshan, the McKinsey strategy partner often called in by FTSE 100 companies to advise on such dilemmas.

Inertia, pre-set budgets and company politics tend to deter companies from biting the bullet early, while psychological forces also play a part. "Cognitive biases are very, very powerful," Mr Birshan says.

There's confirmation bias — the instinct to seize on every scrap of evidence that supports a past personal decision and to endow it with huge significance, while ignoring less helpful evidence. There's the sunk-cost fallacy — the mistaken belief that there must be value in a project solely because a lot of capital investment and management effort has been injected into it. There's loss aversion — the reluctance to make a decision that transforms a merely theoretical problem into a very concrete one by crystallising a very public and embarrassing write-off. And there are anchoring biases — the difficulty we have in adjusting initial projections. Once a company has made its first guess of likely demand for its new product, it finds it very difficult to stray far from that figure, even in the face of evidence to the contrary.

No wonder company bosses — and ministers and civil servants, for that matter — so often press on with unpromising projects. Without iron self-discipline and self-knowledge, U-turns are rarely attempted. Kill your darlings, the advice to writers, is not often followed in the boardroom.

Sometimes perseverance does pay off. Sky, now valued at £16 billion, was built on a willingness to ignore the sceptics and accept years of losses. Microsoft did well to shrug off doubts about its Xbox games console. The mobile operator O_2 was right to resist pressure to sell its German business, now a meaty profit centre.

But for the most part, listed companies need to bite the bullet earlier. They need to follow the approach of venture capital firms, the best of which are rigorous in backing only businesses with staged payments and walking away early when specific targets are missed.

They need to stamp out the overcosy arrangements in investment committees, where divisional heads collude to approve one another's pet projects. They could usefully consider adopting the approach of some miners and energy groups, which rank their projects by promise each year and automatically discard the bottom 5 per cent. And they need to put in place a robust independent system of post-mortem examinations.

The great advantage of early corporate euthanasia is that it liberates capital and time for more promising projects. Consumer products companies that develop hundreds of new goods every year know how to go about it: they play the percentages, confident that their winners will outweigh their turkeys.

Other industries aren't so lucky. In the defence, car and pharmaceutical sectors, gestation can take years and billions of pounds and the new product pipeline is lumpy.

Business leaders in the UK may be getting better at unsentimentally shutting down disappointing projects, or at least adjusting them through faster customer feedback.

According to David Percival, head of innovation at PwC, a more robust philosophy is filtering through from Silicon Valley, where companies are more agile at tweaking troubled projects. Still, don't expect bosses to rush to shut down their pet projects. That, after all, is the job of their successors.

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