The Boeing 787 Dreamliner program is getting a new manager, Larry Loftis, who is the current manager of the highly successful 777 program. It is hard to be surprised at a change in management of this program, which delivered its first aircraft 3 years behind schedule and has been plagued by design and manufacturing problems. The latest one was discovered one month ago. It makes sense that a project in trouble should have a new manager, and that this new manager should have a track record of success. That’s the way to fix problems, isn’t it?

Without taking anything away from the successes of Mr. Loftis, we can still ask the question whether Boeing really will get what it management expects out of this change in leadership. In an uncertain and complex world, individuals and firms performance has two components: capability and luck. Capability is the strong and accurate kick of the football (soccer, if you will) star and the manufacturing prowess of a top quality car maker; luck is the deflected shot that tricks a world-class goal keeper and the oil crisis that favors smaller cars. We often think that capability is involved when we see high performance, even if it is only once. We are especially easy to convince if we see repeated high performance.

How could this be wrong? The problem is that we underestimate how easy it is to get high performance when capabilities don’t differ much between competitors. The first reason is due to James March, and has to do with who wins promotion tournaments with prizes only for the first place. Among a set of managers with some mix of capabilities and risk taking, the risky ones are more likely to have high performance and be singled out for promotion because risk gives more extreme outcomes than capability — and extreme sometimes means good. The role of risk relative to capability in deciding promotions is greater the more managers are being considered, suggesting that it can be hard for large firms to pick capable managers over risky ones.

The second argument is from Jerker Denrell, who asked how performance would develop over time if early luck gave advantages later on. It is not hard to imagine advantages given to early winners: the better team around a winning manager (or football player!); the better resources obtained by the winning firm. He found that it would only take minor advantages to the winner for long runs of performance differences to appear among otherwise equal players. Remarkably, recent research by Henderson and coauthors shows that this model explains many of the high performers among US firms.

I think I speak for all flyers in hoping that Mr. Loftis really is as capable as Boeing believes, and can bring the 787 project to a safe and successful conclusion. Indeed, just because these two models of luck can explain the same performance as our usual model of capabilities does not mean that there are no capability differences. It does mean that we cannot be as confident as we would like to be.


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