

Report:

Every Organization Is In Danger but Doesn't Know It

Organizations are not solving their critical problems

After analyzing over 1,000 organizations¹, we have found that in every organization, critical problems² are either solved once for all or they are not. If they are not solved permanently, they become invisible. This means:

- The organization doesn't know how severe its problems are;
- The organization may not even know the existence of a critical problem.

An organization assumes that because it is "successful," it either has no critical problems or is addressing them effectively. Below are the top five conditions organizations say are proof they aren't in danger:

- We are making money.
- We are growing.
- We are doing better than our competitors.
- Our customers tell us they are happy with us.
- We are doing better (in whatever area) than last year, last quarter, last season, etc.

¹ See page 10, "About This Report."

² See page 2 side-bar, "How Critical is 'Critical'?"

³ Executives report they do not solve at least the critical problems they are aware of: top-level executives rate their solutions to the critical problems they know of a 50%, or a grade of "c." Actual response: when asked, "How effective are the solutions you devise for these critical problems," executives' average response was 3.1 on a scale of 1 (not solved at all) to 5 (solved once and for all).

An organization can be in danger and not know it.

An organization's peril depends not on its problems or on the organization, but on *how the organization and its business environment fit each other* — the organization-environment fit².

A worsening of the environment turns a tolerable (and invisible) problem into a catastrophic one. This means that *the only thing protecting every organization with an unsolved critical problem is its environment*.

An unsolved critical problem is a ticking time-bomb that may or may not explode, depending entirely on the business environment, not on the organization. At this level, *the business environment controls the fate of the organization, not management*.

Every organization is in danger.

Every organization is in danger because virtually every organization has unsolved critical problems.

- 94% of organizations report they have critical problems.
- Executives report they do not solve their critical problems³.

If you say or assume, "Our organization has critical problems we aren't solving," 94% of you will be correct.



Organizations dismiss or ignore these ideas because they are insulting and threatening

Organizations tend to dismiss or ignore the following ideas we have covered:

- Virtually every organization is in danger.
- An organization doesn't know how severe their problems are.
- An organization may not know the existence of critical problems.
- An organization may have critical problems that could end their organization or make them be absorbed.
- Management doesn't mainly control the fate of the organization.
- The organization is unlikely to be as strong or as excellent as it thinks it is.

Organizations dismiss or ignore these ideas because they contradict the following assumptions organizations make:

- Our organization knows all it needs to know, and has all the skill it needs to have, to be as successful as it wants to be.
- Our organization knows itself. No one knows significant things about our organization that we don't already know.
- Our organization controls its own fate. Our organization controls everything that is most responsible for its survival and success.
- Our organization — how we work, what we do, and what we produce — is about as good as it can possibly be.

Organizations report that contradicting the above assumptions insults their skill and intelligence. Information that contradicts the above assumptions is threatening and insulting. Information that is significant, and threatening or insulting is High-Intensity Information™. [See "What is High-Intensity Information?" page 3.]

How Critical is "Critical"?

Organizations' critical problems fall along a spectrum. At one extreme are critical problems that are tolerable indefinitely, though expensive and time-consuming. At the other extreme are critical problems that are catastrophic, because they cause the death of the organization.

How critical a problem is depends not on the problem or the organization, but on **how the organization relates to the business environment it lives in** — the organization-environment fit. For example, given one organization, a particular problem can be tolerable in one environment or it can be catastrophic in another environment; conversely, if an organization degrades, the same environment that supported the organization now suffocates it.

There are four relationships that determine how an organization fits in its environment:

- How well the economy fits the organization (economy fit);
- Effectiveness of competitors compared to the organization (competitor effectiveness);
- How well the organization's products or services suit the market (market fit);
- How well the organization fits laws and regulations (regulatory fit).

The less fitness there is in all four categories, the more degraded the fitness level becomes, and an unsolved problem becomes more catastrophic. The most degraded relationship is:

- An unfavorable economy (e.g.: low wholesale oil prices for an oil exploration company);
- A competitor that becomes much more effective (e.g.: a competitor that improves the services they offer and reduces their prices while increasing their margins);
- A worsening in the market fit (e.g.: the market suddenly becomes more demanding of the services being offered so that the services are no longer in as much demand as they were); and
- A degradation of the regulatory fit (e.g.: the organization gradually adopts incorrect accounting practices).

This degraded relationship can emerge unseen by the organization, and by the time a financial impact is strong enough to be noticed, it is too late. Either the environment has changed, the organization has changed, or both. Our analysis indicates that many of the well-known recent business failures occurred because the organization-environment fit worsened quickly and significantly.

One-hundred percent of organizations we have studied report or show evidence that they do not process High-Intensity Information effectively. This means that they mis-process High-Intensity Information.

They:

- Block it
- Distort it
- Ignore it or cover it up
- Transfer the information to the wrong places or delay transferring it
- Discount it or minimize it
- Avoid it
- Create a distraction to divert attention from it

The primary High-Intensity Information that organizations do not process effectively is information that indicates:

- The organization is likely to be in danger.
- There are unsolved critical problems in the organization that put it in peril.
- The organization’s unsolved critical problems are solvable.
- The organization mis-processes critical information.
- The organization *doesn’t know* it mis-processes critical information.
- The information the organization mis-processes could solve its unsolved critical problems.
- And then the information itself that would solve the critical problems.

What do organizations do with this information?

- They minimize it: “That’s ridiculous! We’re not like that!”, or, “What a mountain out of mole hill!”
- They ignore it: “I’ll just throw this report away,” or “I’m not reading any further. I have other things to do.”

What is High-Intensity Information™?

High-Intensity Information is information that is both highly important and highly uncomfortable (worrisome, insulting, embarrassing, or threatening).

High-intensity information is disturbing. It is disturbing psychologically and organizationally because it is interpreted first as degrading the individual and then the organization. In this sense it challenges the current state or the “status quo.”

Discomfort of Information	High	High discomfort, low importance: e.g., office gossip	High discomfort, high importance: e.g., “customers are leaving.” High-Intensity Information
	Low	Low discomfort, low importance: e.g., parking lot policies	Low discomfort, high importance: e.g., marketing plan
		Low	High
		Importance of Information	

Mis-processing High-Intensity Information is the problem in the first place. This mis-processing is what puts organizations in peril to begin with.

Organizations instead focus on comfortable, Low-Intensity Information

Low-Intensity Information is:

- Information that is comfortable (and either low-importance or high-importance)
- Information that is uncomfortable but also low-importance.

Why do organizations focus on this kind of information?

- It is not threatening or insulting.
- It deals with routine or less important topics.

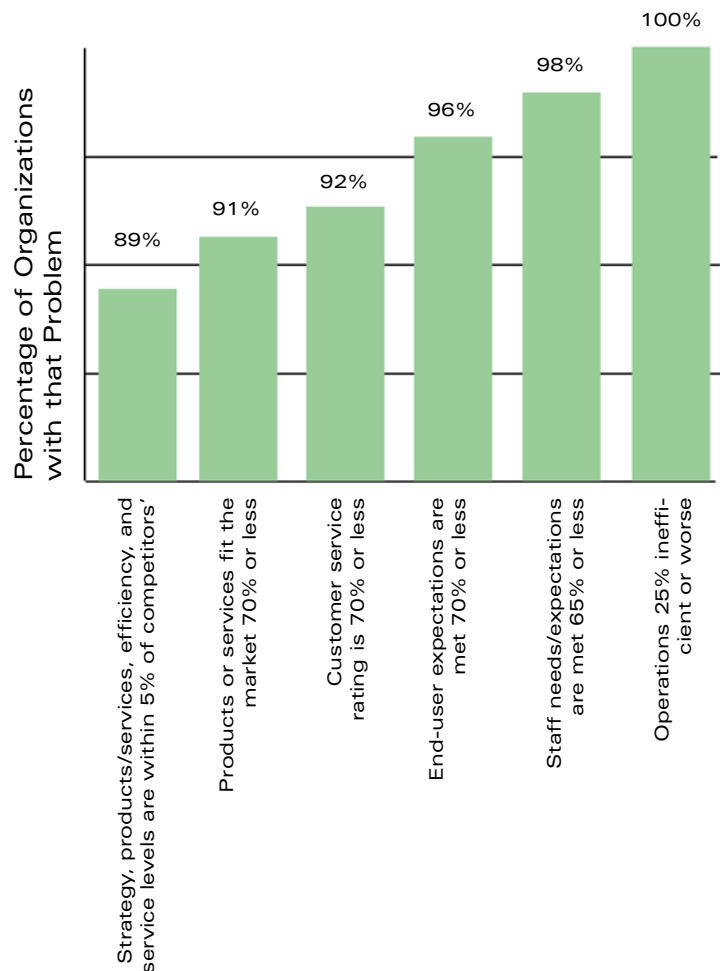
The most common Low-Intensity Information that organizations focus on is:

- New technology
- Keeping up with industry or competitor trends
- Putting out small fires

Every organization has at least one of the following fundamental problems that they are not aware of, they are not addressing, or they have stopped trying to solve [See “Unsolved Critical Problems,” above right].:

- The meeting of customer or end-user expectations is low (below a 70% rating).
- Customer service is low (below a 70% rating).
- The meeting of staff needs or expectations is low (below a 65% rating).
- Products or services fit the market poorly (below a rating of 70%).
- The operations of the organization are inefficient (at least 25% inefficient; one dollar in four is wasted).
- The organization is virtually the same as its competitors (the strategy, products/services, efficiency, and service levels are within 5% of competitors’).

Unsolved Critical Problems



How this all starts: Organizations systematically mis-process critical information

This entire condition exists because organizations fail to solve their critical problems, and they fail because they systematically mis-process critical information.

How does this mis-processing occur? Observe how organizations try to solve their critical problems — they try to solve critical problems in a way that doesn't work.

- Every organization uses the same approach to solve these problems: brainstorm and evaluate. [See “Brainstorm and Evaluate,” page 5.]
- Eighty-six percent of organizations do not gather any data that would tell them what the actual cause of the problem is. Only 14% of organizations use structured cause-effect analysis to uncover the actual

cause of a problem, but none of these 14% uses a quantitative analysis.

This means that 100% of organizations base their solutions on assumptions, not quantitative data. By definition, assumptions block High-Intensity Information, because assumptions originate from an individual's and an organization's areas of comfort; High-Intensity Information is uncomfortable information.

The organization downgrades the importance of these problems.

The organization's methods don't solve critical problems, and when an organization can't solve these problems, it downgrades their importance.

- An organization applies what it thinks is its best information and skill to critical problems.
- The organization makes several attempts to solve the problems.
- None of the efforts completely succeed.
- In order to explain its inability to solve these problems, an organization concludes that the problem cannot be solved.
- The organization moves the problem from, "Let's solve this," to, "We can live with this."
- The organization stops trying to solve the problem.
- The organization redefines the issues: they are defined less as problems and more as "complications inherent in our business model, technology, industry, economy, etc."
- The organization removes the label "problems" from these issues — they are no longer problems.
- The problems become invisible because they are no longer seen as problems.
- The organization then conceals its ineffectiveness at finding a solution;

Brainstorm and Evaluate

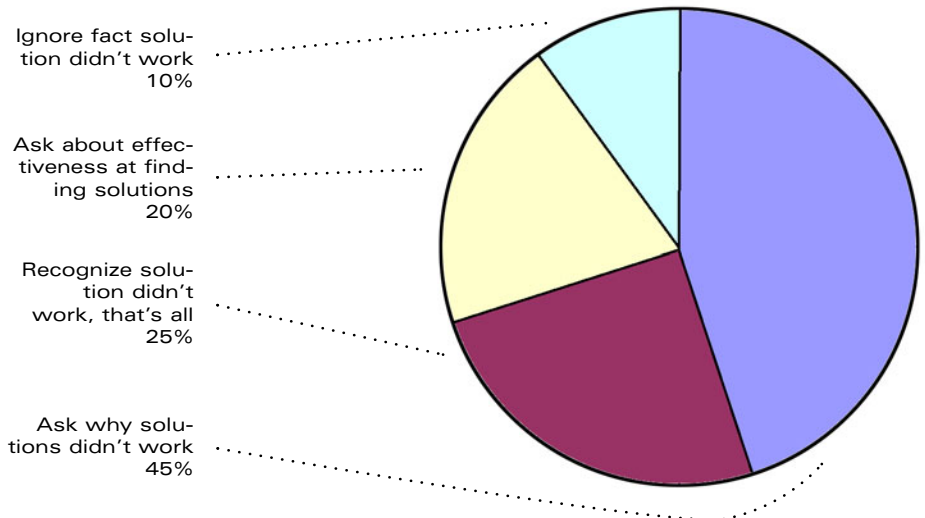
Organizations say they believe that the most important factors for organizational performance are:

- Strategy
- Finances and compensation
- Work flow and staff skill

Consider a hypothetical situation: Say that a particular executive is thinking for a moment about what seems to be an emerging problem, that sales are slowing. Very rapidly, in a matter of a few seconds, the executive makes a series of assumptions about "the factors that can affect sales;" in this case let us say the executive decides that sales are most affected by how the sales staff are paid, and that there needs to be a change in the ratio of base salary to commission and a change in the commission scale.

Now say that this executive is part of a management team where each of the other members has made his or her own assumptions about the cause of slowing sales and solutions for it. When this group gathers for the first time to discuss this problem, assumptions have already been made about the cause of the problem, and possible solutions have already been formed.

Recognition of Effectiveness



it does this in order to maintain a sense of control and competence. Over a third of the organizations report that their solution-finding ineffectiveness is either ignored, or recognized but not addressed. [See figure, "Recognition of Effectiveness," page 5.]

The Status Quo Becomes Deadly

As long as the organization-environment fit remains static, unless something changes in the organization or the environment, this condition persists indefinitely. This becomes a "deadly status quo."

If the organization's relationship to its environment degrades, the problem overwhelms the organization; the organization is absorbed or it dies. [See "From Thriving to Dead, Overnight," right.]

How to solve the problem

There are few chances to break this status quo:

- Every organization is very self-protective. That is the whole point of blocking High-Intensity Information. [See "The Master System and the Defense Structure," page 9.]
- Every organization has complex and extensive barricades to High-Intensity Information:
 - Outsiders are avoided or kept out. Even if they are contacted or let in, [See "Use of Other Resources," page 7], their role is highly restricted — they are allowed only to implement solutions already decided upon, or to carry out low-significance activities or low-discomfort activities. The organization avoids confronting High-Intensity Information at all costs.
 - Disruptive insiders are confined or expelled. Confrontive executives and staff are moved away from positions of influence, are fired, or are provoked so they will leave on their own.

From Thriving to Dead, Overnight

At some point in many organizations, either the organization changes or the environment changes, and the level of fit with the environment degrades — the organization now begins to experience (sometimes rapid, sometimes drastic, and sometimes rapid and drastic) degradation of profits, customer share, work-force loyalty or competence, regulatory pressure, etc. But by now the critical problems at the root of this situation have become invisible, and the organization cannot find solutions to them. The situation may become more and more desperate, and sometimes this leads to the organization being absorbed by another one (e.g., Warner-Lambert, Sears, JP Morgan) or the death of the organization (e.g., Home Base, Montgomery Ward, Pets.com, Arthur Anderson).

What has to happen to break the status quo.

One of two events must occur to break the status quo:

1. A mid-level executive seeks to solve an ongoing critical problem by mapping and measuring the mis-processing of High-Intensity Information. [See "Middle Managers Can Drive Change," page 8]; or
2. A top-level executive commits to uncover the High-Intensity Information his or her organization mis-processes.

Ten things every organization can do to process High-Intensity Information more effectively.

The research highlighted in this study shows that organizations want comfortable ideas. Organizations don't want to face High-Intensity Information.

A list of "Ten things you can do to solve problem xyz," is comfortable, because it means the organization doesn't have to probe for or analyze uncomfortable information.

To-do lists such as this are another way to keep from facing High-Intensity Information.

The idea that there are easy things an organization can do to face and process High-Intensity Information contradicts the data in our research.

To correct the kinds of errors described in this report, an organization must map and measure the High-Intensity Information pathways and processes. How? The answer to that is beyond the scope of this report.

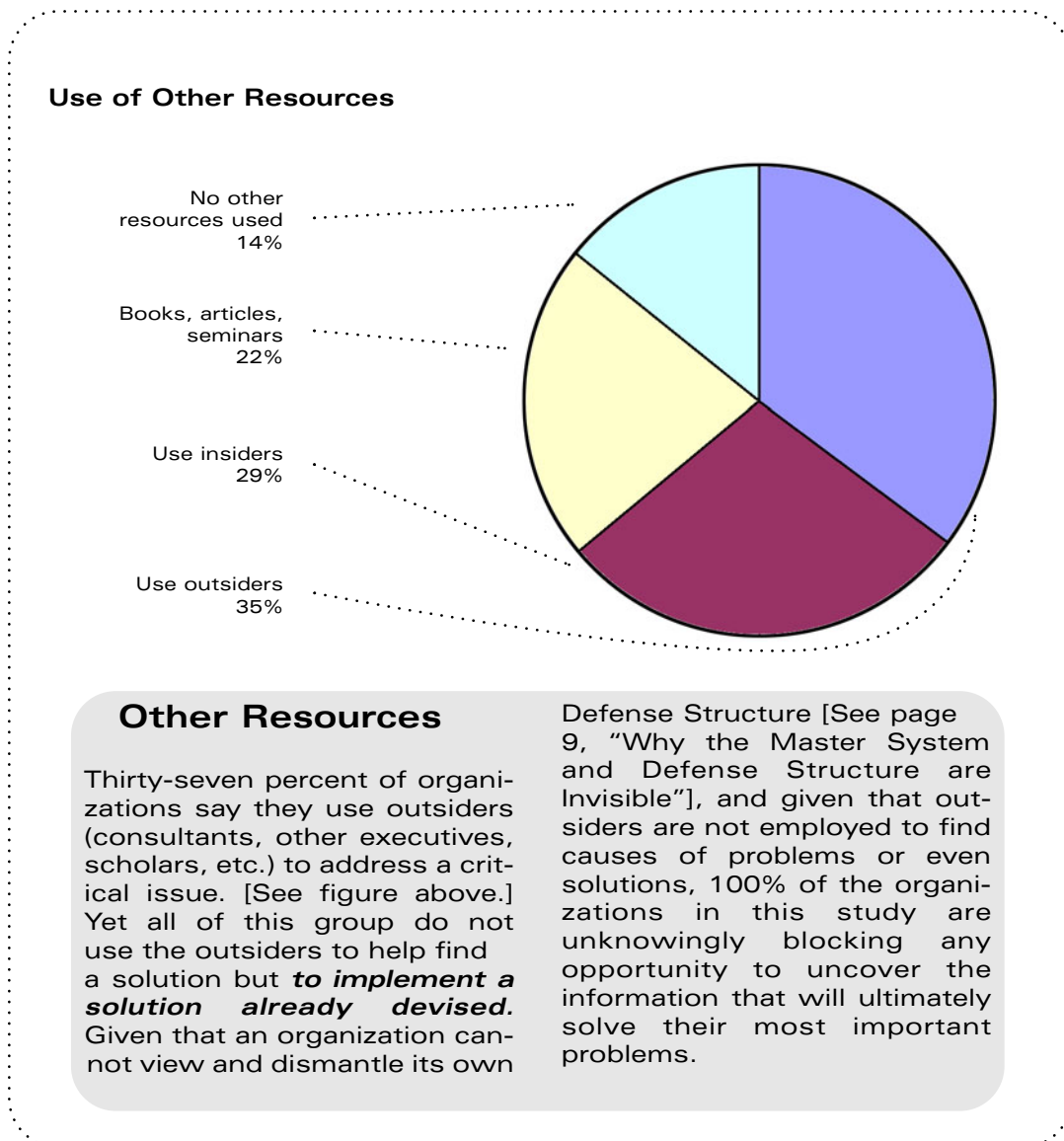
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Mid-Level Executives Can Drive Change

Sixty-one percent of participants in Study B [see “About this report,” page 10] are mid-level executives dealing with the management of their own work-teams. Every one of these executives said that the top-level management of their organizations were not addressing critical problems effectively (either because they believed those problems had become invisible to top management, 71%, or because they felt top management didn’t know how or want to solve them, 29%).

These mid-level managers implied or stated that they believed there was nothing they could do to influence, much less correct, top-level errors.

Other of our studies uncovered the reasons why:

- 89% of executives who are not top-level and 91% of top-level executives say the top-level can implement “mostly all or all” of what it wants — if the top-level wants it, it will happen.
- 93% of executives who are not top-level executives say that the top-level management is “mostly or completely” impervious to influence, even if lower-level input is occasionally solicited.

Our research has uncovered a very different reality: organization layers are not really distinct from each other because they exchange information and influence each other in many subtle ways. For example, we have found a number of examples of lower-level managers who had significant influence in top management through informal alliances. We have also found that managers who are not top-level managers can influence the top-level even more effectively by opening the channels anywhere in the organization to High-Intensity Information.

Middle managers who strain under top-level errors have the same opportunity to affect the

entire organization that top-level managers have. Assuming that a middle manager has the authority (or can get it) to correct problems in their own sphere of responsibility, they can do so most effectively by measuring the mis-processing of High-Intensity Information in their own area, which will automatically reveal a much broader mis-processing. This disruptive information, if allowed to gently seep into the other levels of the organization, can produce the same results as if the top-level had initiated change.

An example is a company in the food industry that was absorbed, but left intact, by a large multi-national firm. Strategic management decisions immediately were taken out of the original organization and placed in company headquarters, where executives knew very little about the culture, strategy, or market of the original organization. Managers became very unhappy with the numbers-only management that was put in place, and felt there was nothing they could do to inform or influence the large corporate bureaucracy.

But they still maintained budgetary control to make improvements that involved their own spheres, so they undertook to solve an important cost problem by mapping and measuring the mis-processing of the High-Intensity Information that dealt with the problem. The map uncovered many information errors coming from and going to corporate headquarters; headquarters then became more and more intrigued by the potential of how profitable a further exploration could be. The cost problem was solved eventually, and a champion emerged at headquarters that began to look at how headquarters had contributed to many other problems in that organization.

We believe this research indicates that any organization, no matter how complex or lean or successful, can operate at a much higher level, but that it cannot learn how by itself.

The Master System™ and the Defense Structure™

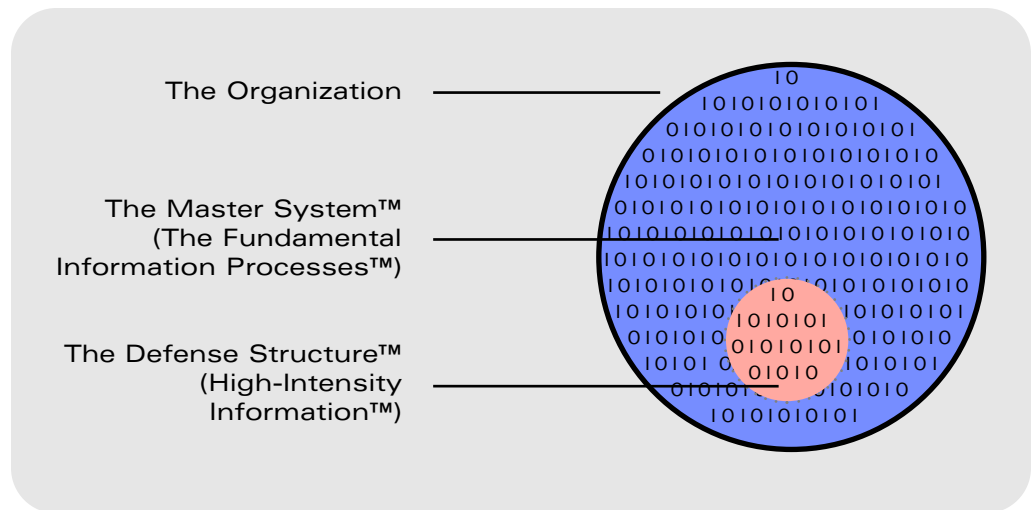
Every organization or people-grouping of every kind and size has a Master System™. The Master System processes all the information the organization uses, which means the Master System controls everything: all behavior, decisions, processes, strategy, etc.

The Master System is comprised of the Fundamental Information Processes™. These processes gather and process all the information the organization uses in everything it does. The Fundamental Information Processes are:

- Information intake, gathering, and discovery
- Information transfer
- Information processing (information synthesis and analysis, deduction, induction, etc.)
- Information utilization (making decisions based on the information, creating plans and processes, etc.)
- Information creation

High-intensity Information is processed by the part of the Master System called the Defense Structure™. The Defense Structure is responsible for all organizational errors, including:

- Decision errors
- Process and paperwork errors
- Organizational structural errors
- Organizational conflict, turf wars, and political battles
- Bureaucracy and inefficiency
- Personnel problems and apathy



These errors occur because the Defense Structure **mis-processes** High-Intensity Information:

- It ignores the information or covers it up.
- It distorts the information.
- It delays its transfer or misdirects it.
- It discounts the information or minimizes it.
- It blocks its transfer.
- It doesn't uncover the information.
- It creates a distraction.

Why the Master System and Defense Structure are Invisible

- The idea that there exists a system (i.e. the Master System) in an organization that controls the organization is threatening, because it suggests executives don't control the organization.
- Evidence for and the concepts of the Master System and Defense Structure is High-Intensity Information (it is threatening and insulting) — The Defense Structure blocks this information, and this makes the Master System and the Defense Structure invisible.

About this report

This report is based on two long-term studies:

- Study A: Begun in 1965, its purpose is to track and analyze organizations' Fundamental Information Processes, Master Systems, and Defense Structures. There are currently over 1,000 organizations in this world-wide study, which includes over 10,000 persons in those organizations.
- Study B: Begun in 2005, its purpose is to track and analyze how organizations handle critical problems¹. The research consists of interviewing qualifying executives² regarding how their own teams and their organizations handle critical problems. To date, sixty-one percent of the participants are the heads of their own work teams but are not the heads of their organizations; 39% are top-level executives.

¹ Defined as: "Problems that significantly affect operations or finances."

² Qualifying executives are defined as executives who participate in solving problems of this type.