

# **Black** holes and **irrational** thought

According to Statistics Canada, "almost half of the firms in Canada that go bankrupt do so primarily because of their own deficiencies rather than externally generated problems."<sup>1</sup> To understand why this happens, it's important to understand what black holes are and the impact they have on organizations.

By Ron Lutka, CMA



A black hole is an area of an organization where, unbeknownst to management, an abundance of undesirable activities occurs, or a lack of desirable activities occurs in abundance. Both activities may lead to the destruction of an organization.

The above definition contains three characteristics:

1. There is an abundance of undesirable activity, or a lack of essential desirable activities, not merely an occasional occurrence;
2. Destruction, in some form, occurs within the organization;
3. Management might or might not be aware of the destruction, but management is unaware of the root cause of the destruction.

### Black hole-creating items

Several failures of basic activities, referred to as black hole-creating items, can cause a black hole to form:

- Failing to perform cross-checks in accounting: Does this account mirror that account as it should; does this account clear to zero as it should?
- Setting up customer accounts that do not follow the predetermined account numbering etiquette. This can foul up reporting. Is the southern region receiving credit for sales made by the northern region?
- Delivery personnel “cherry picking” easy deliveries and not performing the more difficult ones (e.g. avoiding deliveries that are the furthest away).
- The supervisor giving the installer new work orders without ensuring the installer completed the last batch he gave him.

These are examples of simple black hole-creating items. Many black hole-creating items are so convoluted and irrational that it is easier to correct the situation than it is to describe them. An employee can actually become physically sick trying to describe one of the rougher black hole-creating items to a persistent boss, because he/she will not be able to do so. However, there are ways to locate black hole-creating items, no matter how complex they are,

so they can then be eradicated.

Operating below management’s radar, black hole-creating items form and propagate long before damage is visible. Organizations that believe they are free of black holes should search for black hole-creating items.

An organization can realize tremendous relief by locating and eradicating black hole-creating items—even the ones that seem petty—because accumulated black hole-creating items can morph into a witch’s brew of problems.

Over time, as many black hole-creating items are identified, companies can see larger problems that the black holes have caused and the opportunities they have thwarted, such as:

- i) The company will not make a profit as long as the real contribution margins are negative;
- ii) The budget will not be met if it remains out of sync with the constraints of the plant.

These real-life examples within public companies provide a glimpse of the magnitude of issues that can be discovered and resolved by addressing black hole-creating items.

### Below business processes

When addressing black holes, management is primarily interested in fixing the larger problems. To do so, management needs to locate and eradicate the failures of basic activities in volume because they are often at the root of larger problems. When the failures of basic activities are identified and handled, companies find that larger problems diminish or disappear.

### Aggravate much larger problems

Over time, both simple and complex black hole-creating items can threaten the survival of an organization if they’re

not eliminated. If they’re not eliminated, they can cause problems that threaten the survival of the organization. Here’s an example of how this concept of “failures of basic activities can cause or at least aggravate much larger problems” played out at a company that prepared its budget using machine run speeds that exceeded the standard run speeds of the machinery in the plant.

This black hole-creating item led to machine operators being pressed to run machines in excess of the standards set for the machines, which caused numerous quality problems. As lower quality became the norm, it caused problems that led to customer complaints. This in turn caused customers to short pay invoices and led to lost customers, which caused cash flow problems and reduced margins.

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### Failed actions

There are many ways activities/actions can fail. For example, no action, such as no inspectors hired; omitted action, such as the inspector failing to inspect; too many actions, such as different layers of management issuing conflicting directives; wrong sequence, such as pricing an order before calculating the cost to produce it.

Failed actions can be simple, such as no one calling prospects during the week; or they can be complex, such as an important aspect of a costly IT installation gone awry. A black hole can form when too many actions fail repeatedly.

Layering anything on top of something that is broken will give a less than desirable result. Would a hockey player tape his stick without first removing the old tattered tape? Any initiative or result that sits on top of these basic activities will suffer unless the failures of basic activities are located and then eradicated. Corporate



governance, compliance, basic reporting and new product launches will suffer; as will risk reduction initiatives, sales and marketing, IT projects, the fair assessment of employees and other initiatives or results. To succeed, one must identify and eradicate the failures of basic activities before layering on new procedures and processes.

### Broad ranging damage

The damage caused by black holes can be as broad ranging as the answers to the question, "What are you as an executive trying to achieve, both personally and professionally?"

The damage black holes cause can feel personal, such as your boss accusing you of being the source of the problem when the issue is really somewhere else.

At the corporate level the damage caused can include:

- Waste
- Lost opportunities
- Loss of transparency
- Reduced margins
- Reduced cash flow
- Loss of productivity
- Confusion
- Bickering
- Upset customers
- Upset suppliers
- Low employee morale
- Corporate bankruptcy

### A vacuum forms

Management was borne out of the desire for leverage. Over time, management became removed from a hands-on approach. The manager was no longer "hands on" and management was no longer the best and brightest "doer." Instead, management gravitated toward specializing in planning, organizing, and other high-end strategic thinking. A vacuum formed between management "strategizing" and "performing basic activities." This gap exploded in the last 100 years as the large companies grew from dozens and hundreds to thousands and tens of thousands of workers.

Management no longer had time to tend to basic activities, and as a result,

lost sight of the basic activities. That is where we are today — at a point where basic activities of organizations have been neglected because so much attention has gone into high-end strategies in an attempt to chase leverage.

The vacuum that has formed between basic activities and management has caused a crumbling of the base. Both daily operations and management initiatives are dependent upon a base that has grown weaker over time. Entropy (the breaking down of order) gets the upper hand over syntropy (the constructing of order) and confusion sets in. Incomplete actions set in. A lack of actions sets in. Wrong actions set in. Errors remain uncorrected. These failures propagate and pile up and lead to major problems, even bankruptcy.

Like financial leverage, management leverage can backfire or implode. Many organizations have gone under without management or financial coroners ever knowing the real reason why it happened.

Management then asks, "What happened?" They might conclude that it was a cash flow problem, predatory competition or a downturn in the economy. These can be real issues. However, too often they are presented as an excuse for the failures of basic activities.

### Irrational thought

The most devastating result of this vacuum forming is it allows the entry of irrational thought into the organization, without any mechanism to stomp it out when it occurs. There was a mechanism at one time. It is now lost.

In earlier times, the mechanism used was "management close at hand." If the cook wanted to serve all the oranges the first week at sea of a long voyage, management would prevent that from

happening. Management was close enough to the basic activities to see what was occurring and to put the brakes on irrational thought.

Today, however, management is too far removed from the basic activities to spot irrational thoughts as they arise. Management that is many layers away from the basic activities is not close at hand. Therefore, the success and survival of today's organizations are constantly threatened.

High-end strategies are essential; however, there needs to be some balance between big picture strategies and the management of basic activities. The two need to go hand-in-hand.

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### What would your organization look like in the absence of black holes?

Irrational thought, and black hole-creating items, have been allowed to enter organizations because of the vacuum that has formed between basic activities and management. Organizations have grown too large and too multi-layered for "management close at hand." Since close at hand management is no longer available, organizations need to work diligently at developing a mechanism or process that will eradicate irrational thought and black hole-creating items when and where they occur. They need to develop, foster and implement other mechanisms that reach deep down to the level of basic actions and activities so they can identify and eradicate black hole-creating items.

What mechanism does your organization have in place to prevent the cook from serving all the oranges the first week at sea of a long voyage? ■

<sup>1</sup> John R. Baldwin, "Failing Concerns," (Ottawa: Statistics Canada, 1997), 9.

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