Black Holes in Organizations

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By Ron Lutka, CMA

Many seemingly successful companies are affected by habits and routines that actually undermine their future potential. These are potential black holes — persistent behaviours that can gum up an organization's processes and workflows. Learn how to recognize and fight them.

Black holes are a powerful force that can cause great harm to organizations. Operating under management's radar, black holes are persistent and difficult to detect, which makes them difficult to eradicate.

Like the lime build-up in water pipes that slows, then eventually jams, water flow, a black hole can cause an organization's processes, workflow, relationships, resource allocation, and so on — to jam, leak, or even burst. This can occur anywhere in an organization, even in multiple locations.

Black holes gum up the works over time; however, it may seem to management that elements of the organization have suddenly seized up because management hasn't been aware of the root cause of the problem. For instance, a complex manufacturing process might suddenly be compromised, but the issues behind this may have gone undetected for some time. Once the problem comes to a head, the organization usually finds itself functioning under duress.

Definition of a black hole

Before attempting to solve a problem, it's necessary to define it. A black hole in an organization is an area of an organization where, unbeknownst to management, an abundance of undesirable activities occur, 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.

Being unaware of the root cause of the problem, management is unable to address it because management can't manage what it can't see.

Damage caused

The potential damage caused by black holes is almost unlim-ited. This is easy to understand when you consider that black hole-creating occurences are failures of the basic building blocks that drive an organization to fulfill its purpose. When the basic building blocks fail, any intermediate steps between the basic building blocks and the organization's goals can also fail. For example, a black hole can cause inventory to grow beyond acceptable limits due to excessive customer returns. If surplus inventory isn't returned to the supplier for full or partial credit during the period allotted by the supplier, this can place a burden on cash flow. Cash flow problems can also occur if such items are returned in time, but the supplier fails to credit the customer account for the returns.

Routinely omitting to credit customer accounts for goods returned and routinely failing to return unsold product to the supplier for credit are both black hole creating items. If the causes are left undetected, the problems can't be solved. Consequently, the black hole can damage the organization.

Black holes can have adverse affects on the actual operating results of an organization and can cause significant discrepancies between actual results and reported results, including the reporting of financial statements. Financial statement deficiencies might include errors in posting to the general ledger or misleading categorization of data as it's rolled up the reporting pyramid.

The potential eradication of such problems is a real opportunity for organizational improvement.

What creates black holes?

The big picture reason why black holes occur in organizations is entropy — or a lack of syntropy. Entropy is a tendency toward disorder or randomness in an open system. Syntropy, on the other hand, is a tendency toward harmonious association in an open system.

Some forces build an organization up, such as a president who opens up a lucrative territory or an accountant who keeps the books balanced. Other forces tear it down, such as the competitor that hires your best employee or new, restrictive, costly regulations. There are also many internal occurences, such as the shipper who short-ships customers, or the marketing executive who instigates a major advertising campaign when the plant is already operating at full capacity.

For an organization to reach its goals, the forces of syntropy must overwhelm the forces of entropy, before entropy overwhelms the organization.

What does it look like from within?

Here are four of many possible examples of what one might find in a black hole.

1. *Withered responsibility.*

In this example, employees only take responsibility for the workflow in front of them — nothing that comes before it hits their desk, and nothing that occurs after it leaves. This can create significant problems because organizations need employees who consider the actions prior to, and subsequent to, their own responsibilities. There must be an overlapping of responsibilities to help work flow smoothly, to spot opportunities, and to catch and repair errors.

When withered responsibility occurs, an organization has lost the ability to proactively repair itself.

2. *Crib notes hold the organization together.*

Yellow "stickies" smothering computers and crib notes tucked under keyboards and in drawers are

often found inside black holes. These informal notes spell out what to do when certain actions happen, or don't happen. In some cases, they literally hold organizations together. However, they are manifestations of much deeper problems — a lack of formal policies and procedures. What happens if the keeper of the informal procedures leaves? What happens if one person's quick-fix solution in Marketing creates repeated problems in Accounting? While crib notes may be used as a short-term fix when new, undocumented situations arise, they should be replaced by permanent, documented corrective action.

3. *The ship is directionless.*

It may sound strange, but even an unreasonable dream is better than no dream at all. No dream means no game plan. And without a game plan, employees can't be mobilized. When employees aren't mobilized, apathy sets in and productivity declines. Worse yet, some employees might fill the vacuum with game plans of their own — like "let's get the boss" or "let's maximize sick days" — that run contrary to the organization's goals.

4. *Management dreams of a single, big-hammer solution.*

When a black hole has been churning away within an organization for a long time, the organization will experience numerous problems and management can be overwhelmed. Managers are putting out fires that they can see with one hand, applying band-aid solutions to other known problems they can't fix right away, and hoping that suspect problems will vanish. Then, of course, there are the problems that management is unaware of. Exhausted, management attempts to find a single big-hammer solution to solve them all. This is a sign of desperation, and desperation is what one often finds deep within a black hole.

Black holes can be eradicated

Black holes can be beaten. Organizations are dynamic. If one understands how those dynamics work, then one can work with them. By harnessing those dynamics, the effort to eradicate black holes becomes easier. Think of it this way: How does one swim across a fast-moving river? One swims diagonally, not straight across, in the direction of the river flow, not against it. Fighting the river is unwise. Likewise, fighting the dynamics of an organization is unwise.

One dynamic of an organization is its employees and their knowledge. Most possess knowledge beyond the demands of their job functions. To harness this dynamic, one uses employees as a source of knowledge. However, working with organizational dynamics alone isn't sufficient when identifying and eradicating problems that are hidden in the organization.

To eliminate black holes, a systematic approach is required because entrenched problems can be elusive. In addition, even though rogue elements in management can create black holes, black holes most often reside at the base of the organization where high volumes of repetitive failings lead to larger organizational issues. For instance, continually purchasing and using off-spec raw materials will result in continually shipping off-spec products, which will result in customers continually refusing to pay invoices.

However, black hole-creating practices are usually more elusive, and often simpler, than that. They include the chronic failure to stock critical parts, a daily checklist that was casually dropped from use, terminology that hasn't been clarified and agreed upon, unassigned responsibilities, garbled communications between departments, incorrect provincial tax calculations on invoices, etc. Together and in abundance, these problems create black holes that harm organizations.

Data gathering

To improve an organization's functionality, we have to accept a basic premise: *We know some things, but we don't know everything*. This is a premise with which we can all agree, and it underlines the function of data gathering.

Before we can identify a problem, we must understand the conditions that allowed it to occur. To get to the root cause, one must break down the data gathering process into two distinct parts: supplemental questions and systematic questions.

Supplemental questions

Anyone who undertakes to improve an organization has some knowledge and asks supplemental questions based on that knowledge. For instance, if trying to improve the functionality of the parts department, the inquirer might know enough about the area to ask if the organization has data records concerning frequency of use, stock-outs, damages, shrinkage, space availability, access, security, quality of parts, etc. A more knowledgeable person, on the other hand, might ask specific questions about the parts management system software and data input tools, as well as the re-order and stocking process. In other words, the supplemental questions asked are dependent upon the inquiring person's knowledge. Therefore, supplemental questions, while important, can vary dramatically from person to person.

Systematic questions

Since everyone who undertakes to improve an organization doesn't know everything, there is a need for a simple tool to help people discover what they don't know about the organization and its problems and opportunities. The systematic questions are designed to be that tool.

For instance, the data gatherer might not know enough to ask about the parts department lighting or cleanliness. Poor lighting can result in inaccurate stocking. A dirty environment might lead to dealer and customer complaints about grimy parts. Systematic questions are designed to help unearth facts around issues about which the uninformed inquirer might not specifically ask. Tools, or a guiding process, must be used to compensate for a lack of knowledge. In other words, the systemic questions must broaden one's scope of vision.

It's important for us and for the employees to know why they are employed, so we start the systematic questioning with: "Why are you here, from the company's perspective?", or "What company need do you fulfill?", or something similar. This is an important line of questioning, because it connects directly with management's goals and objectives.

The opening questions, above, focuses the employee where we want him to be focused — on his function. Next, we help the employee observe his function. There are two important facets involved in helping employees observe both black hole-creating processes and business opportunities. Both are designed to broaden and deepen an employee's "scope of vision." The two facets include:

1. Ask questions in a sequence that approximates the flow of the employee's function.

2. Ask questions that reach all corners of that function.

Flow of function. Sequence the questions in the order that most functions flow. Most functions have inputs, tools, and outputs. Therefore, ask: "What inputs do you need to accomplish your purpose?", "What tools do you need to accomplish your purpose?", and "What are your outputs; who do you give them to and when?"

Reach all corners. In and of themselves, the "flow of function" questions extract a great deal of information that must be duly noted and analyzed. However, the most important reason for asking

those questions isn't the direct responses they elicit. Rather, it's to direct the employee's attention into all corners of their functions in preparation for answering the summary systematic questions.

Summary systematic questions

Having just viewed his functional terrain, when the summary systematic questions are asked, the employee can give a fuller, more valuable answer. The most important questions of all are:

- "What problems do you see related to your function, and elsewhere in the company?"
- "What opportunities do you see related to your function, and elsewhere in the company?"

We aren't simply asking arbitrary questions. The employee won't be prepared to answer the summary systematic questions without first applying the initial systematic questioning process.

It's the data gatherer's job to motivate those who have additional knowledge to use what they know to gather data that can be used in the decision-making process.

In conclusion, black holes exist in many organizations; they harm organizations and hurt owners, executives and employees. Their causes tend to be repetitive, so terminating the root causes is necessary to eradicate them and reverse the damage they cause.

With a structured approach to finding them, black holes — and their root causes — can be eradicated, enabling the organization to fulfill its promise and achieve its goals.

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