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Why Organizations Fail

A Viscous Circle Toward Out of Business

This chapter summarizes the cause and effect related reasons for many current unfavorable business conditions. These conditions are a combination of negative elements: politics, forecasting, false pride, P&L deficiency, hiring, tenets and values of an organization.

A negative mentality has created a business culture predestined to revel in excuses for failure. One must first identify why a great many world organizations are struggling and trending down. Then, the need for a new model will become overwhelmingly obvious, as will the effective solution “having a positive effect on employees’ lives while driving results.”

Figure 1.1 illustrates the elements of a failing organization.

Politics

I believe that business leaders have embraced politics as their fundamental decision process to maneuver their organizations; this internal and external partisan produces a negative effect on everything they touch. When politics enter a business or organization, the inevitable misevaluation of failure begins. Politics has infected a great majority of companies and organizations. The politically driven leaders make decisions based on their self gain, personal likes and dislikes, experience hearing without listening and use deception as a tool for misleading employees, customer

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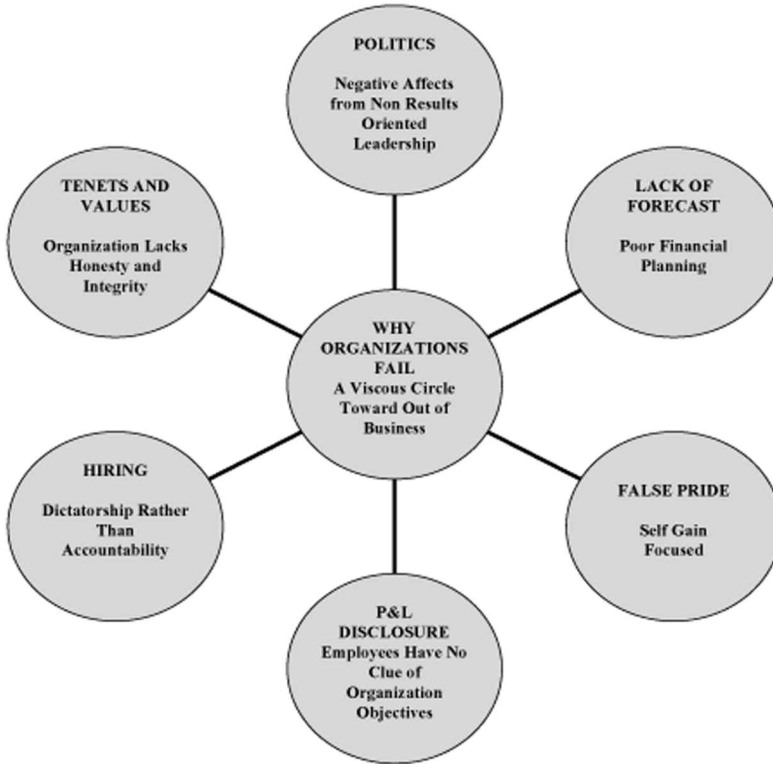


FIGURE 1.1. The elements of failing organizations

and investors. The political leader speaks words of transparency without implementation; this is the strategic plan for deception.

These politically driven companies and organizations accept the economic conditions as an excuse for a lack of results. The leadership teams of world class corporations consistently report shortfalls of hundreds of millions to billions of dollars from prior year sales and net operating profits. These corporations publicly report to investors negative results, blaming their poor results on global economics. In fact, they have accepted years of leadership action plans that have consistently produced zero results. Many CEOs,

Presidents and Board Directors have no clue that politics are infecting and polluting their organizations.

When the top leaders allow politics to drive their organizations, ultimately the effect of this infection and pollution produces an organization infested with politically savvy employees rather than an organization cultivated with results oriented team members.

In Fall 2009, I debriefed a human resource director from a world class corporation. Our conversation concerned the subject of rehiring proven leaders who had produced consistent results during their tenure with the company. This HR Director had implemented a policy rejecting any rehires and under no circumstances would she deviate from this policy. Two months later, this corporation completed its fiscal year, reporting hundreds of millions of dollars below prior year's sales and NOP (Net Operating Profit), while posting across the internet a need for numerous leadership positions. This is a classic example of infection and pollution of a politically savvy employee. The top leadership in this organization, most likely, has no clue of this policy which the HR Director implemented in the Western United States "only". This HR person acted on her own volition and undermined all hiring managers. This is a complete lack of attention to results. How many employees did the company lay off? What dollar amount did investors lose? This corporation reported major losses due to the U.S. economy. Not so!

Politically driven organizations are consistently focused on deceptive targets. Often, and particularly at present, the deception seems to transfer the root of failure to global economic conditions without addressing internal problems and changes that companies dictate as a new way of doing business. Many are attempting merely to stay afloat awaiting a miracle: the global economy, as they knew it, to sky-rocket once again. However, the global economy is evolving into something new. Some industries will never resurface and

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new industries will begin to grow. The global marketplace will reward those organizations that embrace innovation. Innovation is a result of a company's leadership collectively searching for and embracing new ideas. The politically driven organization will continue to suffocate the open collaboration of employees, both shutting the door on innovation and likely leading to their demise.

Lack of Forecast

I have been stunned by the number of organizations that do not participate in formal forecasting practices. Companies operating without a Profit and Loss (P&L) statement have no quantifiable means from which to direct their employees. These leaders are fooled into a false sense of security by their "good luck survival". They may enjoy a short period of high growth and profit trend; however, these leaders have embraced a financial path that may abruptly devastate their employees and their employees' families. The political business leader makes many decisions that are not based on sound financial planning and affordability. These organizations thrive on "very good inaccurate reports."

False Pride

Another sign of a politically driven organization is false pride. Leaders become so prideful that they clearly direct all priorities for their self gain. This type of leadership will have an unbelievably negative effect on everyone in the organization.

In 2009, I interviewed an IT department manager. The manager had no clue as to the financial strength of this company. He had never reviewed a financial statement nor participated in any forecasting, as managers hadn't any P&L

involvement. As a result, this company ignored high turnover, negative exit interviews, and had an extremely high level of non-loyal employees.

The company had additional problems because the leadership clearly believed that it was their prerogative to consistently cancel or delay scheduled meetings including employee annual reviews. The leaders of this organization were extremely “prideful”. Leaders that are plagued by their self pride often are blind-sided by negative trends. Prideful leaders will drive an organization to its knees before facing the fact that their plan is not working. Highly skilled employees that openly contribute to the innovation of organizations will ultimately reject association with such prideful leaders. Highly skilled employees are generally attracted to organizations that demonstrate more humbling attributes.

P&L Disclosure

Many politically driven companies consider the P&L a top secret document. They keep the P&L in a secured place for viewing by only the top executives. Forecasting is a process which companies conduct behind closed doors. It is often little more than next year’s wish list devised by those same few executives. A wish-list disguised as goals for next year filters down to the lower level managers and supervisors. These “so-called goals” become the moving targets for next year.

Hiring

I’ve interviewed lower level managers who are not allowed to participate in the hiring process nor discharge employees. Company policy dictates that this is not a part of the day-to-day job for managers and supervisors. This clearly under-

minds their authority and has a negative effect on the accountability for managers and supervisor performance.

These doomed dominating companies view changing global economics as trivial. Their leaders misconstrue the required organizational structure as dictatorship over-kill.

Tenets and Values of an Organization

Many organizations ultimately suffer extreme consequences from a lack of honesty and integrity. World leaders have ignored these two values and have faced internal and eternal consequences. Our prisons are filled with former leaders who anticipated a plea of ignorance would insulate them from honesty and integrity while consciously choosing to deceive thousands of people out of billions of dollars. These leaders have blatantly lied to employees, customers and investors causing family financial and emotional devastation. These leaders consistently attempt to justify their dishonest actions, weaving a web of lies destined to confuse and mislead people. A leader should contemplate only one thought: if the decision requires dishonesty, it's the wrong decision.

I personally witnessed a leader of a multi-billion dollar corporation willfully destroy a personnel file to justify a "rehire". This personnel file documented a person who had falsified company documents. Why would a leader destroy such a personnel file? Why would any organizational leader feel compelled to "rehire" a person who had previously falsified company documents? This is the world of politically driven organizations where individuals are consciously dishonest in an attempt to justify decisions.

"Trust" should be the most valuable attribute within any organization. Leaders must earn trust. Every time a business leader commits one act of dishonesty, he/she distances him/herself from his/her employees' trust. When

leaders of organizations grossly mismanage the business financials, request government bailouts and then attempt to justify million dollar bonuses, employees will cease to trust, given double standards and a lack of integrity. These politically driven organizations attempt to disguise their unearned bonuses through a deceptive practice called “retention”. Why would an organization give a retention bonus to a failing leader? Why would an organization feel compelled to retain a leader who cannot produce results? Result-driven companies retain the millions of dollars of unearned bonus monies by strategically replacing the unethical failing leaders with result-proven leaders.

Summary

Recent reports reflect an increasing and alarming failure rate among the world’s diverse businesses. These failures are a factor of inadequate business and strategic planning. A lack of planning is evidenced by inadequate pricing along with forecasting, poor execution along with inadequate internal controls, overspending contributing to high debt and poor capital structure, a lack of controls to maintain fix costs, ineffective marketing and selling, a failure to adapt to change and a lack of passion.

The success or failure of organizations is not entirely under the control of emerging global economic changes. The success of any organization lies with result-driven leaders, united with the power of an employee culture of collaboration that unleashes innovation. Result-oriented leaders must embrace honesty and integrity; invest in teaching and coaching employees which ultimately breeds trust throughout the organization. Great leaders humbly accept accountability; failure comes from the top of an organization while success is achieved by employees at the bottom of an organization.

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Leaders should steer away from the elements that bring organizations to their knees: politics, lack of forecasting, false pride, ineffective use of the P&L, dictatorship hiring and unethical tenets and values in an organization.

Let's place the negative aside. I'm going to introduce you to my very positive business model. Let's inject my model into your organization and begin the positive effects for you and your employees.