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Black Holes in Organizations

Define, Dissect, Diffuse

The internal destruction of organizations and its effect on you

By Ron Lutka

Executive Summary

Continually booking the wrong sales tax codes can result in upset customers, wasted time, and hefty penalties. Failure to reconcile balance sheet accounts can lead to expensive restatements. Not removing the burr from the table can lead to customer returns and declining sales. Late deliveries can lead to nasty lawsuits. Improper processing of returns and customer charge-backs can bankrupt a company.

These are simple, yet common failures that occur in many companies and organizations. Do they sound familiar? It is indifference to simple, yet essential basic activities that allows these failures to occur. These small repetitive failures, *in volume*, harm organizations and cause large problems.

Why a Book about Black Holes?

Black Holes in Organizations came into being with the following goals in mind:

- To alert senior executives and directors to the *possibility* that a black hole exists in their organization
- To give senior executives, middle managers, supervisors, and frontline workers the *vision* required to determine if a black hole is forming, or has formed in their organization
- To help organizations *reduce the destruction* that black holes can cause

However, there was another reason for writing this book: to bring some humanity, purpose, and pride into an all-too-often cold and neglected workplace, and to do so in a way that ensures everybody wins. Making widgets may not be a tremendously rewarding human endeavour, but it can be – as can many other endeavours for those who are functioning as part of a well-trained, in-control, highly productive, tightly-knit unit that operates on a basis of fairness and produces wanted and needed products and services.

What is a Black Hole?

The *Oxford Dictionary of Current English*, third edition, defines a black hole as a “region of space having a gravitational field so intense that no matter or radiation can escape.”

Whereas astronomical black holes suck up matter and energy, black holes in organizations suck up valuable resources, including human energy, time, space, materials, and money. A black hole is a significant entity, not something to be ignored. One ignores black holes in an organization at his or her peril and, unfortunately, at the peril of many innocent people.

Black holes are failures of basic activities that, in volume, choke organizations causing a drag on their performance. More specifically, they can be defined as:

An area of an organization where there is, unbeknownst to management, an abundance of undesirable activities or a lack of desirable activities, both of which destroy organizations.

A black hole in an organization includes the following components:

- ***Destruction*** in some form occurs within the organization, whether in the form of undesirable activity or a lack of desirable activity.
- There is an ***abundance*** of undesirable activity, or a lack of abundance of desirable activity, not merely an occasional occurrence.
- Management might or might not be aware of the destruction, but management definitely has an ***absence*** of awareness of the root cause of the destruction.

“Conditions” that Allow Black Holes to Form

Over time, two conditions develop in organizations that allow black holes to form.

First, each activity within an organization was likely executed correctly, not necessarily at the same time but at one time or another. Forces worked against these activities pressuring them to break down—then they did.

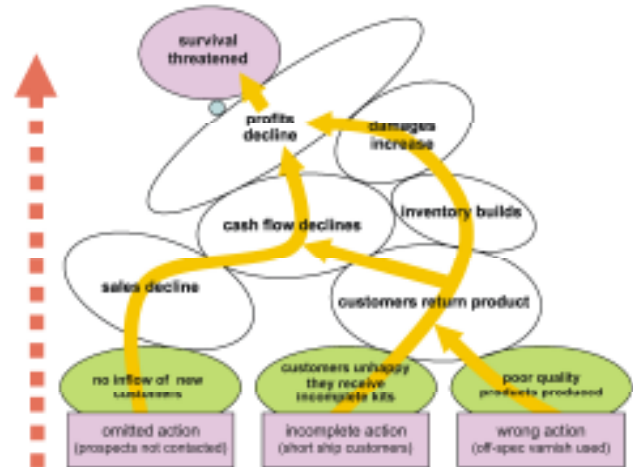
Second, senior management’s attention drifts toward top-end strategies and away from execution of basic grass roots activities. Understandable to a degree, since top-end strategies can provide leverage: leverage of company assets and leverage of executive time. However, when the drifting becomes excessive, black holes easily form.

Therefore, with nobody tending to *simple yet essential basic activities*—shoring them up when they break down—black holes form.

What “Causes” Black Holes to Form?

Big change events cause an organization a sudden jolt such as when it merges with another organization, when sales suddenly boom, when the organization moves locations, or when it adds a new product line. However, obvious, large and easily recognizable breakdowns caused by the sudden jolt are not black hole–creating. A big change event can fracture the workings of an organization suddenly causing obvious work flow disruptions, workloads to become unequal, and policies and procedures to become misaligned. However it is the accumulation of many small breakdowns unbeknownst to management that are black hole–creating and the target of our special attention.

More important than big change events are *subtle factors* for they creep up on an organization slowly and tend to become more deeply rooted. The same “big change event” basic failings can occur gradually: good employees leave one at a time; errors occur one at a time and are not corrected; a small change is layered on top of the organization that it could not easily support; a new procedure is implemented without properly training the users; and an old procedure is forgotten. Every process has many small parts that are not documented or noticed and with each departing employee a piece of knowledge walks out the door, leading to inefficiencies.



Connection between micro-level failures and their threat to survival.

Either a big change event or subtle factors can overwhelm an organization, one suddenly and the other over time—especially over time. And if management is unaware of the root causes of the destruction, then a black hole has formed.

What Damage do Black Holes Cause?

Having formed, black holes remain neglected and free to propagate. Choked organizations are held back from achieving their goals. Although black hole–creating items are usually failures at the micro-level, such failures *in volume* cause or at least irritate much more serious problems. Even relatively simple black holes drain cash flow, narrow margins, degrade products or services, lead to substantial write-offs, hamper an organization’s ability to deliver products on time, and upset customers therefore spoiling customer retention. Additionally, black holes complicate addressing problems when discovered. The true damage is elusive, as the cause of one problem could be the effect of another root cause. More common in administrative and financial processes, and less so in production black hole–creating items can exist anywhere within the organization.

This damage has repercussions that extend beyond financial statements and fouled operations: executives’ dimmed professional aspirations; lost jobs; and low employee morale to name a few.

What Do Black Holes Look Like?

Appendix A discusses 31 “what do black holes look like?” items, complete with examples; however it is not comprehensive. Black hole–creating items are as plentiful as grains of sand in the Sahara Desert. To list them all would be almost meaningless. Yet it is important to understand the types of items that can be either the causes or the by-products of black holes so the reader can *observe* and then *determine* if his organization is subject to a black hole. Dishonesty, unstable data, and problem solving replaced by blame are examples of the “black hole” landscape.

Twenty-five real life examples of problems and opportunities unearthed while addressing black holes in organizations are mentioned in appendix C of the book including: designed a system for verifying complex supplier invoices; worked with company personnel to close the thousands of completed and cancelled work orders that sat in the management information system as active; discovered the daily environmental checklist had not been performed for five months then ensured it was back in use.

Eradicating Black Holes

Black holes are pervasive and elusive; therefore their eradication requires a structured approach. The structured approach suggested includes:

- Approaching the eradication of black holes on a controllable gradient
- Removing known or suspected problems prior to performing a review
- Performing a detail-level review (see below)
- Maintaining an ongoing proper balance between review and repair
- Stepping back and viewing the organization with the benefit of having interviewed many people in several departments or the entire organization

To improve an organization’s functionality, we have to accept a basic premise:

We know something, but we do not know everything.

From this premise, two categories of questions to pose to an organization’s employees during the detail-level review are presented:

- systematic questions
- supplemental questions

Systematic questions are designed to fill the gaps in the inquiring person’s knowledge. However, the *systematic* questions go beyond “filling in the gaps in the inquiring person’s knowledge” to assisting the employee in providing a fuller answer to both the systematic questions *and* the supplemental questions.

An inquirer poses *supplemental* questions after posing systematic questions. These are questions an inquirer asks based upon his own personal knowledge of an area under his

review. As such, questions one inquirer asks will differ from those asked by another inquirer were he to also ask about that same area.

The detail-level review suggested consists of very few questions and has powerful attributes. Because the review addresses an organization at a low level common to all organizations the same few questions can be asked of any employee in any department in any company of any size in any industry in any part of the world.

Repairs Give Organizations Gains

Repairs *parallel* the review as best as possible for numerous reasons. Organizations shift after even modest repair is one.

Actions are basic building blocks of organizations. “Omitted action”, “incomplete action”, “wrong action”, “wrong sequence”, and “symbiotic actions disconnected” are some of the ways basic building blocks (actions) can fail. Basic activities sit just above these basic building blocks, and can fail to the degree the basic building blocks fail. This can lead to process failures, which can lead to failure to produce and deliver quality products and services or administrative failures, which in turn can threaten survival. It is individual basic actions and activities we want to first repair.

Although gains can be made in-house, the gains will be limited because employees trying to keep organizations functioning are often already over-stretched heroes. Black holes must be overwhelmed before they overwhelm the organization and this requires outside help dedicated *solely* to that issue, preferably help trained in this field. Corporate Streamlining Company Inc. has been established for that purpose.

The Future of Organizations

As management understands black holes and realizes they can be diffused, they will no longer tolerate them: who would tolerate a thorn at the bottom of his foot when he could simply remove it?

There will come a day in the future of large organizations when failing to man a post to *hold the form of the organization* as it moves forward will be perceived as a serious governance shortfall. This perception will be a natural outcome of organization personnel grasping the existence and the character of black holes then eradicating them. They will never want one to surface again. Pain has that effect.

The incumbent will have his attention riveted on organizational functionality. He will ensure the organization operates *as management intended*. He will venture below the business process level to continuously and systematically comb through the organization searching for black hole-creating items to ensure they are terminated early so they do not threaten the organization’s survival.

A Final Thought

There is something new in the business landscape: a cutting-edge way to view organizations and improve their functionality. Many corporations that seem successful might question the need for improvement. However, if you feel you are constantly putting out fires and do not have time to look for the source of the trouble, a black hole could be affecting your organization. If your company is not achieving its full potential, not returning full shareholder value, is fraught with personnel conflicts, or teetering on the brink of insolvency, a black hole could be draining your organization. Or your organization can *appear* fine yet still be the host of a black hole, because it takes time for black holes to manifest themselves on financial statements and elsewhere.

Trench work is never glorious, but this type of work was necessary to develop the technology to identify and eradicate black holes. Trench work is also required to fully implement the technology, because black holes must be eradicated in the board rooms, *and particularly* in the “trenches”.

The next wave of gains in organizational functionality will come from the bottom – where the majority of human beings reside – not from the top.



About the Author

Ron Lutka is the founder and President of Corporate Streamlining Company Inc. that specializes in identifying and eradicating black hole–creating items, developer of Corporate Streamlining Technology®, designer and facilitator of the Corporate Streamlining Technology course, and is a certified Corporate Streamliner.

Ron’s articles have been published in the Treasury Management Association of Canada’s *Canadian Treasurer* magazine, and the Society of Management Accountant’s *CMA Management* magazine where his article was a feature article. Ron also presented his case claiming black holes exist in organizations at the InterDoc Symposium in April 2006 and will be a speaker at the Symposium June 2007.

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Praise for the Book

“A thoughtful, thought provoking look at the perils today’s organizations face if they choose to ignore the fundamental actions that help to support their business.”

—*Ross Wace*

Partner, Wace & Associates Ltd.

“We experienced a few black holes within our own organization this year and when we discovered them it was too late, and costly. Too bad that I did not read the book *Black Holes in Organizations* before for it could have avoided me pain and made our company more profitable. Be pro-active, this book is an ‘ought to have’ if you want to have a streamlined company.”

—*Danny Boulanger*

President and CEO, Business Architecture, InterDoc Corporation

“Just when leaders in business and industry thought they thoroughly understood organizations, another major breakthrough is made—a breakthrough in organization functionality and corporate governance.”

—*Walter Ramka, FCI, CICP*

Associate Director (Credit & A/R Mgmt), Bell Canada

“Ron Lutka’s *Black Holes in Organizations* provides the reader with insight into the many causes of black holes that impede the success of business organizations. The reader of the book will have the opportunity to apply these causes specifically to his or her organization. Black holes are created by people. With proper support and encouragement, people can implement the remedial action to eliminate black holes. The book provides the reader with many examples as to how to eliminate black holes.”

—*Robert W Babensee CA*

Retired Partner, BDO Dunwoody LLP

“Ron Lutka deftly illuminates the destructive nature of organizational black holes that inevitably arise, and if untreated, fester and linger like a cancer within the belly of the business enterprise. Usually ignored and often never recognized for the damage they can create, these ‘black holes’, off the radar screen of management, continue to silently undermine the effectiveness of the organization.

“Like a good physician Ron Lutka carefully diagnoses the illness he labels as ‘black holes’. He presents comprehensive lists of examples for detecting broken systems and unfixed problem areas and then proceeds to offer us the healing cure. With his Corporate Streamlining Technology we are given a sensible, practical and consistent methodology to remedy organizational black holes at the level of root causes. Any business manager, owner, operational or financial executive truly committed to pursuing excellence and to improving their organization should pay very close attention. No matter the size of your business or its current state, there is much offered here to re-shape and re-vitalize your organization.”

—*Brian Gallinger, B.Ed., CGA*

Controller, Brydson Group of Companies

“Lutka’s work on black holes resonates with me, having spent time wrestling with data integrity issues, business controls, operations management, and the decision-making process. All four would be better served by the removal of black holes, as would my anxiety level. Surprisingly, the concept of black holes as presented by Lutka is easy to understand. More surprisingly, in my experience, pervasive black holes receive little or no attention.”

—*Robert Hutton CMA*

Controller, Balmer Architectural Mouldings

“Ron Lutka takes us to the middle of an organizational ‘black hole’ only to discover that it is inhabited by *people*. Our staff, customers, suppliers, and stakeholders all have the ability to help create the destructive black hole—but they are also the key to getting organizations out of the dark matter we create. Ron provides the clarity owner/managers need to snuff out ‘time bombs’ and align organizations for success.”

—*David S. Simpson, MBA*

Executive Director, The Business Families Centre

The Richard Ivey School of Business, The University of Western Ontario

"Black holes do exist because we find them in many companies while preparing continuity plans. They can mean the difference between recovering the business or going out of business after a disaster. Ron raises the awareness of black holes and the effects they can have on a business. As Ron points out, if these holes continue to exist, then the future of the business cannot be guaranteed under normal or abnormal circumstances."

—*Michael Wilkovesky*

Principal, Business Continuity & Recovery Consulting

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