

## About Level Three Performance Solutions

Losses — Failures – Poor Performance – Erosion of Trust – Unsustainable Growth — Destruction of the Environment – Social Chaos – Human Suffering – Hopelessness: are some of the important consequences of enterprise leaders failing to consciously take and shape initiatives serving the Common Purpose of the Community or placing their self-interest against the Common Purpose. **Readiness means the enterprise’s Board and its leaders are consciously prepared, have the capacities and capabilities needed available, and are ready, willing and able to act when called on. Their actions are coherent, aligned, and intentional creating the possibility for further development of the enterprise and the Community.** These actions in service to the Common Purpose provide legitimacy and value to the Community. Overarching selfishness and intentional action against the Common Purpose destroy value in the Community and ultimately threaten the coherence and very essence of the Community itself.

Governance is the process by which individuals provide leadership, taking actions shaping the development of the enterprise. Governance is the responsibility of the Board of Directors, the individuals, who freely take on responsibility for directing and shaping enterprise activity and for balancing and reconciling these conflicting forces at the root of development. Accountability for the results lies with those called to lead these activities.

Poor management judgments resulting in major losses and business failures; allegations of fraud and other illegal activity; willful and intentional deception and self-dealing; self-serving behavior by management at the expense of customers, employees, suppliers, other stakeholders and investors across the value chain; all are symptoms of a persistent and pervasive failure of Boards and leaders to sustain enterprise coherence, and to govern enterprises effectively by establishing and sustaining a value creating culture and ethos.

Author James Champy states:

“Everything we’ve learned drives toward one solid conclusion: The rules of governance (and self-governance) for effective business enterprises today are being determined by their culture, not their organizational structure.”

Organizational culture is the cumulative actions, behavior, feelings and thoughts of the enterprise or organization expressed through the people acting on its behalf of or in its name. Our business performance problems and organizational challenges are rooted in governance dilemmas whose seeds are the fruits of organizational culture. Improving performance, sustaining those improvements and desired changes, and balancing the conflicting and contradictory forces in this vortex of activity are the most challenging of human endeavors. The Board and individual leaders routinely address and attempt to resolve insoluble problems and irresolvable dilemmas. These are developmental issues and cannot in fact be resolved finally. They can only be acted on, the consequences of the actions or inactions assessed, and additional actions taken. This requires uprightness, resiliency, discipline, consciousness and the individual resolve to act in the face of unknowns and uncertainties with no guarantee of success and no expectation of reward.

Barriers to success are limits on individual and organization action. Enterprise development requires overcoming both individual or personal and organizational barriers limiting success.

Richard Foster of McKinsey & Company states that in effect, in knowing the impact of culture, knowing the limits of our available approaches, we can go around them. Finding ways around these limits and changing the way people think, feel and behave not only provides better solutions to known problems, but also opens up unanticipated opportunities on an unimaginable scale.<sup>i</sup> Level 3 Performance Solutions (L3PS) provides enterprises and leaders with the means to create a value creating culture and ethos and to achieve “unanticipated opportunities on an unimaginable scale’ through our unique Governance, Strategy, Readiness, Alignment, Leadership, Implementation and Execution Improvement Programs for the Developing Business Organization.

This L3PS essay discusses readiness in terms of an enterprise and its leaders being ready, willing and able to act and the enterprise having the capacities and capabilities to act successfully. Readiness is the way to overcome the risk associated with these unanticipated opportunities. Readiness involves the enterprise cultivating entrepreneurial action and the entrepreneurial spirit. Risk readiness is a consciousness and awareness for development, identifying adjacent opportunities and intuiting risk before it appears while we have far more opportunities and time to address our exposure, to foster potential development, rather than to be compelled to make compromises limiting the ability of the enterprise to prosper and grow. The Developing Business Organization is fundamentally a value creating business embodying the Entrepreneurial Spirit, and encouraging individuals to overcome the limits of existing organizational culture and conventional thinking and concepts of risk by looking holistically at the enterprise and its place in the new world of opportunity.

### **About Effective Governance and Driving Forces for Action**

All life involves creativity, hazard and risk. The underlying driving forces in enterprise life, i.e. the activating and restraining forces, are alternatively creative and if unbounded destructive. Human beings can develop and become more consciously able to perceive and to work with these forces and their effects. These latent capabilities when developed are available for use in governance. An enterprise can obtain needed capacities and capabilities by consciously taking action: to identify and to develop them internally; key hires; acquisitions; and, strategic alliances. L3PS provides the means and processes for enterprises to identify, obtain and extend these needed capabilities, when needed, at key inflection, tipping and crisis points on its developmental trajectory.

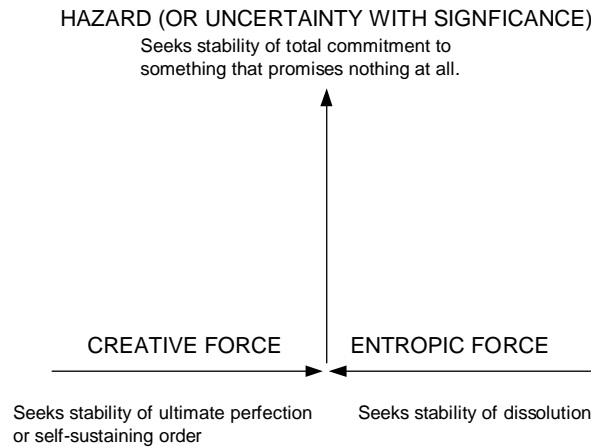
Within the soul of each human being the same driving forces are active. Though largely unconscious except in thinking, the developed human being can use such capabilities in ways that more fully express their individuality, affecting a wider field of action. In so doing, these individuals become able to engage in and shape initiatives with different purposes and intentions and result in more far reaching potential and consequence.

The driving forces also are the basis for development of factions. Factions or groups can emerge or be called forth to action when two or more people become aware of and choose to act together as an expression of a deeper intention. Others can be intentionally excluded from groups and become the object of manipulation and coercion by them to the detriment of the whole enterprise. One of the key leadership challenges is to establish sufficiently strong and persistent coherence and alignment to mitigate the hindering effect of these tendencies. Other community building forces act from a still deeper level affecting larger numbers and groups of people. As a result, larger collections of people, groups and communities can arise within the sphere of enterprise life.

Governance must take into account these fundamental phenomena in order serve the enterprise effectively. **Effective governance is cohering all of these disparate elements and sustaining the coherence over time according to the identity, potential, and destiny of the enterprise and those individuals involved.**

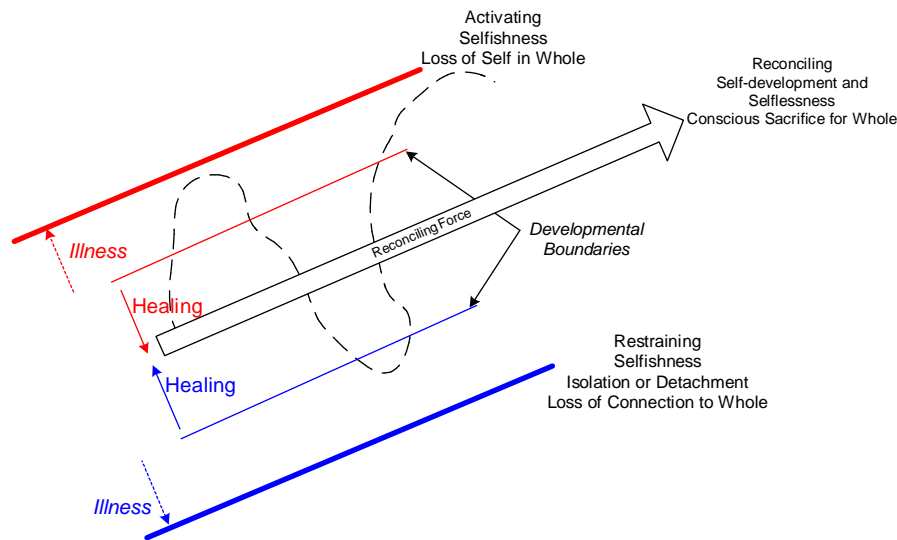
Creative forces in life can be understood as a continuum of action and interaction between two polarities —activating and restraining forces — cohered by third or reconciling force. The activating and restraining forces are antinomical, i.e. they exist as fundamental principles, cannot be eliminated, therefore must be reconciled. Application of a reconciling force overcomes their selfish tendencies shaping and cohering them intentionally into a focused, purposeful result. The author J. G. Bennett has written on the meaning of “hazard” – there is no “life” in life without it””. Figure 1 – The Driving Forces shows his way of conceiving the interaction of the three forces.

**Figure 1 – The Driving Forces**



A persistent tendency towards either pole results in illness and ultimately death with dissolution or transformation of the entity's life form created through the interactions of the reconciling force and sub-ordinate and super-ordinate worlds. Figure 2 – The Developmental Trajectory depicts the upward path of development between the two polar opposites of Activating and Restraining forces shaped by the Reconciling Force. The Developmental Boundaries, i.e. the space in time where coherence is present, are depicted as the solid lines paralleling the Reconciling Force arrow. Coherence bounds the field of action of the activating and restraining forces within the developmental boundaries. Operation in this domain is healing and the state of the enterprise is healthy. Much like homeostasis in the human being the whole is functioning and the parts are functioning in service to the whole within these boundaries. The developmental path through space and time is the developmental trajectory.

**Figure 2 – The Developmental Trajectory**



A one-sidedness to either the activating or restraining pole, the dominance of selfishness over service, moving action outside the developmental boundaries, results in illness and can become life threatening if untreated, i.e. not brought back inside the developmental boundaries by the reconciling force. Apple Computers is a case study of how the persistent tendency towards one pole is both the source of success and limitation reducing it over time from a market leading firm to a niche player.

The developmental trajectory, i.e. the meandering dotted line, depicts the developmental path of the enterprise throughout its life in space and time. The interaction of these several forces with the sub-ordinate or elemental and super-ordinate or supersensible worlds create a vortex of activity related to the enterprise itself, placed within the context of the still larger vortices of history, social and economic arrangements and the efforts of various factions and interests intentionally to will development in one or another direction.

Governance is the actions taken to perceive this milieu, to conceive developmental possibilities, to take and shape initiatives to create possibilities. Crisis points, also called inflection or tipping points, are those points on the enterprise's developmental trajectory, when actions are taken, interactions occur, outer circumstances compel changed conditions, and consequences in the form of reactions, attenuated possibilities, and the like are realized. Governance is the process of the enterprise which works in this developmental domain providing coherence, intentionality, will, energy and focus on the developmental path we call the developmental trajectory.

The Board is accountable in a legal sense for certain mandated, regulatory activities. More importantly, the Board's overarching responsibility is for effective governance embracing the developmental possibilities and for enterprise readiness to meet any and all developmental needs. The failure to adequately address the latter is the root cause of the losses and failures and deteriorating situation prevalent today.

### **About Readiness**

Readiness is the ability of an individual and enterprise to make a total commitment, to act in the moment. Preparedness means the capacities and capabilities needed to act successfully are present when needed. Freedom lies in the choice of how, when, and why to act including the choice to sacrifice one's freedom to act in a situation for some super-personal purpose. As described in Figure 2 – The Developmental Trajectory the field of action for life exists between two polarities: one called the activating, universal or perfecting pole and the other the restraining, individualizing or separating pole. Individuals and enterprises bear and reconcile both tendencies within themselves at all times throughout their lives. The career of Steve Jobs and Apple, Next Computers, and Pixar and his interactions with John Scully at Apple, Bill Gates at Microsoft, and Michael Eisner at Disney, provide examples of the ways these developmental dramas unfold. Readiness involves the Board and leaders using, with discipline, the needed capacities and capabilities, proven ideas and approaches, to individual and enterprise development, extended to serve the developmental needs of the enterprise.

Three ideas are key to understanding our concept of readiness: 1) Preparedness is having the capacities and capabilities needed for coherent, successful action; 2) Readiness is acting in the face of uncertainty, learning from failures, and becoming more resilient, i.e. sustaining the ability to act, fail and learn (3M provides a good example of these capabilities); and, 3) The key to sustainable success is coherence by fostering a persistent reconciling force capable of permeating the whole enterprise. The reconciling force expressed through the human consciousness acts to cohere restraining both the activating and restraining forces placing them in service to the whole enterprise. Restraining here means to bound or limit the tendency to one or the other pole or to manifestation in factions or other anti-cohering phenomena which are symptomatic of illness. Healing means to apply, focus or increase the force of the one pole interacting with the other to shape and move the interactions within the developmental boundary called healthy, changing the developmental trajectory.

Coherence in a self-aware enterprise is the vessel for the reconciling force to act as a healing and vivifying impulse. This might take the form of cost controls, efficiency and productivity improvements and other concentrating activities. Prepared means having the capacities and capabilities present for coherent action when needed at potential inflection and crisis points. The truly value creating enterprise is ready, prepared, coherent, consciously serving the Whole Community and is capable of self-correcting and self-healing when in ill health. All of this is guided through the actions of the Board.

Risk management generally means trying to manage reality to minimize or eliminate known and established risks of loss and failure. Most enterprise risk management efforts are after-the-event attempts to minimize the cost of the failure and similar future failures. The underlying assumptions and beliefs about reality behind these programs are flawed revealing only a simplistic grasp of the nature of risk. Risk management decisions are based on a simple set of principles which define the basic choices that a company adopts regarding treatment of its risk:

- 1) Transfer the risk (by contractual agreement or by buying insurance)
- 2) Absorb the risk (buy no insurance and pay the bill if something happens)
- 3) Eliminate the risk (sell the risky asset), or
- 4) Reduce the risk (enhance the safety program, install fire alarms, etc).

Risk Readiness involves developing the capabilities of people throughout the organization to see and consciously change in order to meet all forms of risk. Readiness is the only strategy truly and completely qualifying as *managing* risk. Few enterprises pursue this option to its full potential.

## **About Accountability**

Accountability is an often overlooked and fundamentally important element of economic activity. While the Board may focus its attention on delegating authority and responsibility it is ultimately accountable for failure and losses. Although the immediate consequences of failure fall upon the visible leaders of the organization – the CEO, COO and CFO, the larger cost is paid by the Community. Bhopal is an example as are asbestos, oil spills, and other environmental disasters, MTBE, thalidomide, Chernobyl, Three Mile Island, and others. The ultimate cost might include the premature destruction of the enterprise, unnecessary and unhealthy impacts on individual human beings and communities and the environment. More importantly is the possibility for losing a sustainable, humane future. Johnson & Johnson showed in the Tylenol tampering crisis how an embedded ethical corporate ethos sustains and shapes effective action in crisis.

Individual accountability is the foundation for meaning in life in our culture. Individual accountability and risk taking are the foundation for economic and social development. Wholeness and a wholistic way of operating in the world are the keys to unlocking the mysteries of sustainability. They also are the keys to inspiring Board action to shape a more constructive future, avoiding and mitigating the likelihood of large scale failure, loss and corruption now evident everywhere. We expect to see more emphasis placed in the future on public disclosure and accountability for individual Board members who fail to act responsibly on behalf of the Community in these matters.

## **About Development**

Readiness involves the conscious choice to act in a disciplined way preparing the capacities and capabilities needed to bring about sustainable change. This act is the initial step of the enterprise on the path to becoming more self-aware and consciously self-developing. Development involves preparing the enterprise and its people for the next stage of its development. Readiness involves actions taken by the Board to create sustainable intention, energy, will and focus of the enterprise and its people on the self- development of the enterprise. A lack of consciousness for development and readiness by the Board leads to excessive, one-sided and unhealthy consequences for the enterprise. A striving for consciousness leads potentially to reconciling the driving forces of the enterprise, which if working unconsciously lead ultimately to unintended consequences, in a way that is healing and healthier for the individual, enterprise and Community. This is a fundamental choice facing enterprise leaders today.

## About Thinking Developmentally

L3PS uses wholistic thinking to understand and to work constructively with enterprise development. The term wholistic refers to seeing the whole enterprise within the context of the larger Community. The term development refers in organic phenomena to growth within a structure or model until a limit is reached. Beyond the limit the existing structure or model can no longer impose order on the larger mass. The consequence is either disintegration (death or chaos) or a step up to a higher level of order. These developmental phenomena are observable across the continuum from the single living cell and higher organisms according to intrinsic patterns and potentialities, to human created economic and social organizations.

In human development and economic and social enterprises there also is a psychological development that occurs. Therefore, change initiatives must accommodate both the human and the enterprise physiology and psychology. To think and to act developmentally means *to set in motion changes in the direction of the next stage of development of which only the general outline is known*. The form and content of the next stage emerges out of the actual potentialities of the people involved. The developmental process is ongoing and irreversible. <sup>ii</sup>

L3PS looks at the enterprise and its interactions and interrelationships operating across a continuum of motive, aim, interest and action between joint consultation and collaboration or conflict and strife. In this context, the Board faces on-going complexity based upon How it chooses to interact with the World; How the World acts and reacts shaping and limiting the enterprises' field of action; and, in terms of the dynamics of collaboration and conflict with customers, competitors, allies, adversaries, investors, owners, regulators and other stakeholders and interests. With this unique approach, L3PS is able to ready enterprises with capacities and capabilities to reconcile and resolve important contradictions and dilemmas internally among conflicting beliefs, philosophies, world views, principles, behaviors and models.

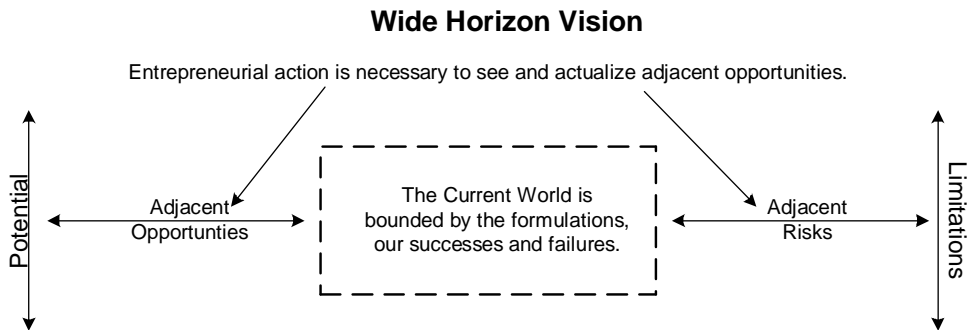
A value creating culture and ethos is the key to sustainable change, performance improvement and enterprise development. The reconciling force of L3PS involvement, by the action and choice of the Board or individual leaders, potentizes the latent reconciling force potential in the enterprise, objectifying enterprise self-awareness, purpose, identity, potential, and manifestations of the intrinsic activating and restraining forces, reconciling, aligning and harmonizing them.

## About Entrepreneurial Action

An enterprise requires boldness and energy. An entrepreneur is an individual who calls the enterprise into being, organizing and managing its development and unfolding with significant initiative, and at considerable risk. Entrepreneurs are the manifestation of the Entrepreneurial Spirit in the World. The entrepreneur's capacities and capabilities express both the potential and the limitations of the enterprise at any point in time, and the well-developed entrepreneur has an extraordinary capacity to see and "face into" actual and potential risks. The essence of Risk Readiness lies in fostering the keys to enterprise success: value-creating entrepreneurial spirit and action, and a culture that nurtures and cultivates them. Calling forth, nurturing and embodying such a culture is the ultimate Board challenge.

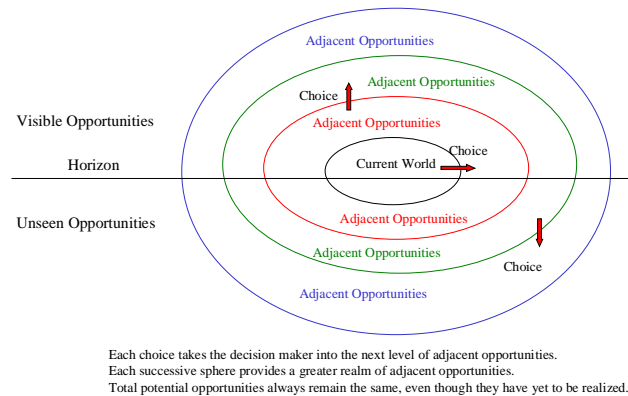
Entrepreneurs are called to act. This is true whether they work within an existing enterprise or are trying to start one of their own. No matter the environment in which they work, they often see what others cannot, including the risks inherent in any endeavor. What separates the entrepreneurial spirit from those who see only “more of the same” is that they can envision the adjacent possibilities or opportunities—as well as the risks—that lay just outside the current world within which they operate, and can act on them (See Figure 3 – Entrepreneurial Action). These opportunities hold the greatest potential for innovation, development, growth and change. Claiming this ground can make the difference between moving forward or enterprise stagnation and death.

**Figure 3 – Entrepreneurial Action**



The fact that every action has a consequence is well known and understood. What is less well understood are the consequences of failure and the possibility of development in the ash of failure when resilient enterprises and people learn and develop. When intentions and commitments are made the whole world moves calling forth both support and potentially resistance. When committed actions fail the effects of the failures on the initiators and enterprises are thus multiplied. These are the root causes of unintended consequences and the ultimate depletion of the vital energy, focus and resources of failed enterprises and individuals. Figure 3 shows the field of entrepreneurial action as both bounded and permeated by the interaction of potential and limitations.

Figure 4 – Adjacent Opportunities and Risks shows the whole world as primarily an ocean of infinite opportunity and intrinsic risk. To operate successfully in this whole sphere requires boldness and genius of the leaders based on entrepreneurial action. The Board provides the coherence of the enterprise as the vessel for individual entrepreneurial action. The Strategy charts the path of action for realizing intention. The Culture shapes the alignment of will, energy and feeling for action. The Implementation delivers the focus and resources binding together the activities coherently. The Operation is the living body interacting with the World to provide goods and services, breathing in and out rhythmically to provide life and meaning.

**Figure 4 - Opportunities and Risks**

Why isn't every enterprise activating this entrepreneurial energy and seeking this new world of opportunity? The answer is because the opportunities lie outside the current world, in unknown or uncertain territory, so *they generate the greatest concern about loss and risk*. This makes doing more of the same feel like potentially the safest action to take, when in fact, it is a proven path to failure and if unaddressed, to dissolution. This cultural fallacy lies at the heart of our misconceptions about action in relation to risk. The wholeness of every action contains the associated risk. Being blind to it due to cognitive limitations or failing to see it because of cultural issues does not eliminate or address the risk. Failure to anticipate and address the risk leads directly to failure to succeed and to losses.

If we look again at adjacent opportunities, risk and entrepreneurial action in relation to this distinction, adjacent opportunities fall under the side of potential and risks in the realm of limitations. Entrepreneurial action is influenced and actualized between these two poles. Since both risk and opportunity reside within every entrepreneurial action, we must be prepared to address them simultaneously in order to assure success.

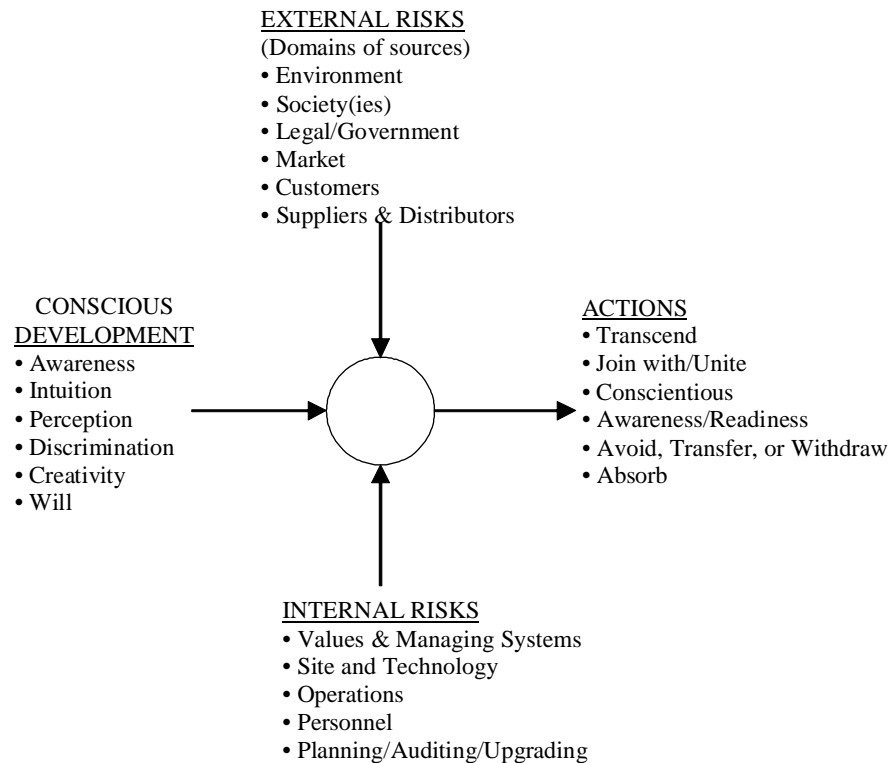
### About Risk Readiness

Fear of the consequences of risks of loss limit innovative pursuits, often creating the opposite effect for which our management of them was designed. If the primary source of risk is, as we propose, failures of thinking, then failure to manage risks is inevitable.

Enterprises often manifest their failures in risk thinking by creating greater infrastructure than is required to run their operations. The thinking is that infrastructure equals security and reduced risk. In fact, excessive infrastructure fixes costs and establishes performance limitations that, much like arteriosclerosis, can lead to illness, paralysis, and loss of competitiveness and loss of value.

The answer, Risk Readiness, lies in developing the ability throughout the enterprise to access a wider horizon of opportunities, and to see and manage all current and potential risks through this growing ability. Risk readiness is the capability and behavior that identifies current risk, adjacent opportunities, and adjacent risks, and surfaces and manages risk before it manifests into destruction of value. It yields far more opportunities and greater time to manage exposure and create potential growth, and doesn't lead to making rotten compromises that only limit an enterprise's ability to prosper. Figure 6 – Dimensions of Risk Management presents a new way for enterprise to look at approaching risk in light of this wholistic perspective.

**Figure 5 – The Dimensions of Risk**



Conscious Development manifested through the Governance Process provides coherence shaping initiatives and thinking about External and Internal Risks. Enterprise Strategy suffused with this coherence looks at risk in the new world of opportunity to encompass the unknown unknown as well as the known unknown. The enterprise takes actions extending its thinking and actions to be wholistically value creating and to create and sustain a culture permeated with a value creating ethos. Readiness involves the commitment and action of the Board to pursue a course of action for becoming value creating. Preparedness involves the Board and leaders insuring that needed capacities and capabilities are present when needed — there are no key performance gaps.

Finally, The Board and leaders have to act with confidence in the future, with uprightness in the face of uncertainty and adversity, with resilience to overcome setbacks and failures, and with a commitment to development in the new world of opportunity. L3PS people and processes provide enterprises and leaders with the additional capacities and capabilities needed to act and to create a value creating culture and ethos.

### **The Compelling Need for a Course of Action to Change Thinking About Risk**

Because change initiative failure rates are so high, most organizations and businesses have great difficulty in fundamentally improving enterprise performance. A survey of recent business literature shown in Table 6 – Change Risks shows this grim reality. Can your enterprise afford to absorb or even risk losses such as these? Enterprises seeking to develop, grow and change have to find new approaches, strategies, tactics, capacities and capabilities for improved success in leading and managing change.

Our Risk Readiness process provides an enterprise with a high-quality vision, a sound capability building strategy, and a focused course of action for successful change.

**Table 6 – Change Risks**

<ul style="list-style-type: none"> <li>• More than 50% of all change initiatives fail<sup>iii</sup></li> <li>• More change initiatives, from strategy to I.T. systems to merger to reengineering, fail as a result of cultural issues than any other single factor.<sup>iv</sup></li> <li>• More than 2/3's of all mergers and acquisitions fail to realize their expected value<sup>v</sup></li> <li>• More than 50% of all Enterprise Resource Planning (ERP) based programs fail. Of those only 58% were finished on time and under budget – executives of CRM software providers Siebel Systems and SAP report failure rates of between 60-70% and usage rates between 25-40%<sup>vi</sup></li> <li>• Employee disengagement levels nationally are in the 15%-20% range with an estimated annual loss in productivity in the range of \$350 billion<sup>vii</sup></li> <li>• Employees are “disengaged passionately” – More than 40% of employees said they had negative feelings about their jobs: Nearly one-third is actively looking for other jobs.<sup>viii</sup></li> <li>• The impact of a strong culture on productivity is ... as much as one or two hours of productive work per employee per day<sup>ix</sup></li> <li>• Recent study shows the more successful companies achieved 68% ROI for IT investments<sup>x</sup></li> <li>• Payoffs to IT investment occur not just in labor productivity increases but also in multifactor productivity (MFP) growth, and that the impact on MFP growth is maximized after a lag of four to seven years. ... these returns are correlated with decentralized computing architectures, suggesting the diffusion and networking of computing throughout the organization contributes substantially to the payoff.<sup>xi</sup></li> <li>• 70% of the market value of a typical US company resides in intellectual property assets.<sup>xii</sup></li> <li>• <i>Fortune</i> 1000 companies sustained losses of more than \$45 billion from theft of confidential and proprietary information (i.e. trade secrets).<sup>xiii</sup></li> <li>• More than \$70 billion is spent annually on training with little or no discernable impact on productivity or effectiveness.</li> <li>• “How do control, permission and risk fit together?... markets outperform companies because companies have not yet found a way to change at the pace and scale of the markets without losing control”<sup>xiv</sup></li> <li>• “We are clearly living through the death of the mass market.”<sup>xv</sup></li> </ul>
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## About Preparedness

L3PS makes a clear distinction between risk readiness and risk management. Preparation and readiness to meet risk involves crossing the chasms of understanding and cognitive limitations to look at the field of action and the enterprise as a whole. The traditional approach to risk management doesn't necessarily look at the separate ingredients in the mix, it accepts the product as is, and works from that assumption. This is why it fails so often to protect what it was designed to secure. What we neglect when we look at risk in this narrow fashion are the sources of risk.

We divide these sources into three categories – 1) poor alternatives, 2) poor choices, and 3) poor execution. These sources of risk are actually the products of a cognitive failure; a failure in our thinking surrounding what has to be accomplished and how to do it. In our drive to get things done quicker and more cheaply, traditional risk management accepts these failures of thinking as rotten compromises and attempts to minimize and contain their impact. (See [Table 6 – Risk Readiness](#))

We think there's a better way. We call it Risk Readiness. Being ready means that we must begin addressing risk as soon as we formulate a new opportunity so that we are aware of the limitations inherent in the formation. And, we have the capacities and capabilities and are ready willing and able to act on them at all times. This requires us to have a clear awareness as to what we mean by each of our three risk categories.

## About Poor Alternatives

Cognitive and cultural limits are the root causes of failure with respect to strategy — the home of the rotten compromise. Since we can't identify a good alternative or don't see the reality of the problems and issues we face, we are forced to manufacture poor ones in the absence of good ones. In the name of expediency and getting it done, we make trade-offs that will ultimately be the source of our undoing. Our intentions may be good, but the thinking behind the decision is flawed.

Accepting these rotten compromises is a reflection of our inability to envision reality and propensity to seek the "right" idea or engage others to discover the "right" idea when in fact there is only the adjacent possible. Facing that breakdown, we may call on what has worked in the past, without understanding that what has worked previously may not reflect the current conditions and situation. Poor alternatives are a reflection of the limitation and failure of our thinking – cognitive failures. And, as in any area, when the limitations outweigh the potential, failure is a foregone conclusion.

## About Poor Choices

When the alternatives before us are bad, we can only make poor choices. We think a choice *must* be made and rather than appearing to not know the right answer, or delay the decision, we are willing to proceed with the bad choice and accept the rotten compromise. Poor choices are a reflection of the limitations of our alternatives and a failure of imagination and courage to confront reality.

## About Poor Execution

Poorly implementing bad choices and expecting good results is a sure sign of disconnection from reality. But poor execution can also be the downfall of good alternatives and their subsequent good choices. Poor execution is an indication of the limitations of our ability to act, to have a clearly defined call to action and course of action to follow and issues related to alignment of accountability.

How an enterprise breaks this habitual pattern of bad alternatives leading to bad execution and changes how it views risk is through the development of what we call “Wide Horizon Vision.” (See Figure 3 – Entrepreneurial Action.) What Wide Horizon Vision provides is greater access to the adjacent opportunities available to an organization and subsequently, an increase in the number and quality of alternatives from which to choose.

Our initial tendency when confronting specific business dilemmas is to focus our perspective narrowly on the problem directly before us. Just put out the fire. By narrowing the focus prematurely or due to cognitive limits, however, we limit our alternatives to the exclusion of a raft of other opportunities that lay just one step away from actualization, and which may hold the key to innovative entrepreneurial action and growth. The fire may need to burn for a while to clear out deadwood, so that new growth can take hold.

## About Our Conclusions

Our concern and fear of the consequences of risk and loss lead to our attempt to manage it and end up limiting innovative pursuits, often creating the opposite effect for which our management of them was designed. And if the source of risk is, as we propose, the failure of our thinking and cognitive limitations, managing it only hides and delays the failure. The answer lies not in accepting and making poor choices and rotten compromises, but in the ability to access a wider horizon of opportunities and be ready for risk if and when it surfaces.

Enterprises often manifest this failure of thinking by creating greater infrastructure than is required to successfully run its operations. The thinking is that infrastructure equals security and less risk. In fact, excessive infrastructure fixes costs and establishes performance limitations that much like arteriosclerosis can lead to illness, paralysis and death. The same is true of other decisions like paying premiums to market for acquisitions, investing large sums on bad strategic bets, and the like that fix non-competitive cost and capital structures. When deconstructed, organizational security is simply a fear of the death or destruction of the organization. In this fashion, security is playing to lose, rather than playing to win. On the other side of the coin, what provides a developing business enterprise with growth, generating and regenerating the living organization, is preparedness, readiness and a value creating culture and ethos — a culture of change.

Of course, if establishing a value creating culture were as easy as repainting the exterior walls of a building there would be fewer business failures and far less risk. All we can do within our organizations is continually assess the situation within each operation to make sure that the thinking and culture aren't limiting the scope of entrepreneurial action required to operate the enterprise successfully. What we are doing, then, is assessing our potential risk exposure while opening our thinking to greater sources of information and subsequently a wider view of the adjacent opportunities.

Managing risk is an after-the-threat attempt to manage failure and loss. Risk readiness is identifying adjacent opportunities and surfacing risk before it arrives. We then have far more opportunities and time to address our exposure to create potential growth rather than be forced to make rotten compromises that only limit an enterprise's ability to prosper and grow.

Risk can and will surface, and it often arises in unexpected and devastating ways. But we can greatly limit its impact when we can maintain a wide horizon view of the potential and limitations of the adjacent opportunities that surround us.

**Table 7 – Recent Failures and Losses**

<u>Enterprise</u>	<u>Losses</u>	Strategy	Tactics	Implementation	Governance & Leadership		
		Poor Alternatives	Poor Choices	Poor Execution	Culture	Infrastructure	Information
Adelphia	Bankruptcy		X	X	X		
Arthur Andersen/Andersen Consulting	Split Apart		X	X	X		
Arthur Andersen	Deceased		X		X		
Accenture (Andersen Consulting)	Prospering				X		
ENRON	Deceased	X			X		
MCI/Worldcom	Bankruptcy						
	\$74B WriteOff	X			X		X
QWEST	At Risk		X	X	X	X	X
Rhythms/Netconnections	Deceased	X			X	X	X
Sprint	Officers ousted		X		X		
Time Warner (AOL)	\$200 Billion						
	\$50B WriteOff	X			X		
Tenet	\$24 Billion		X	X	X		
McDonalds	Troubled		X		X	X	X
United Airlines	Bankruptcy		X		X	X	
United Way	Troubled		X		X	X	

Other Examples

Mutual Fund Scandals, Front Running Floor Brokers, Long Term Capital Management, Salomon Brothers, Drexel Burnham, Mortgage Markets, Savings and Loans  
 Bhopal  
 Chernobyl, 3 Mile Island  
 Tylenol Tampering  
 MTBE, asbestos, DDT  
 Exxon Valdez

## Footnotes

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- <sup>i</sup> Foster, Richard, INNOVATION The Attacker's Advantage, McKinsey & Co., Inc., 1986, page 262.
- <sup>ii</sup> Dr. B.C.J Lievegoed, The Developing Organization, Celestial Arts, Millbrae, Ca, 1980, p. 5-9;
- <sup>iii</sup> Senn and Childress, "change initiatives fail more often than they succeed", page 6.
- <sup>iv</sup> Senn and Childress, page 8., *Newsweek*
- <sup>v</sup> Kristen B. Donahue, *How to Ruin a Merger: Five People-Management Pitfalls to Avoid*, Harvard Management Update, September 2001, Volume 6, Number 9, pp. 1-2.
- <sup>vi</sup> Darrell K. Rigby, *Best Practice – Avoid the Pitfalls of CRM*, from a Gartner Group report, Harvard Business Review, Feb. 2002, p. 102.
- <sup>vii</sup> \_\_\_\_\_, *DISENGAGED AT WORK?*, Wall Street Journal, March 13, 2001, report on a Gallup Organization survey of worker disengagement, page 1.
- <sup>viii</sup> Kim, Jane J., *Poll Gives Workers Morale Boost*, Wall Street Journal, January 29, 2003.
- <sup>ix</sup> Senn and Childress, page 49, from Terrence E. Deal and Allen A. Kennedy, *Corporate Cultures*.
- <sup>x</sup> *Beyond the productivity paradox: New views on the value of information technology*, IBM Business Consulting, <http://www-3.ibm.com/e-business/doc/content/resource/pdf/26516.pdf>
- <sup>xi</sup> Jason Dedrick, Vijay Gurbaxani and Kenneth L. Kraemer, *Information Technology & Economic Performance: A Critical Review of the Empirical Evidence*, November 2002, forthcoming article in ACM Computing Surveys, P. 10.
- <sup>xii</sup> "Trends in Proprietary Information Loss", a joint study by American Society for Industrial security and Pricewaterhousecoopers, as reported in Chubb CyberRisk Handbook Guidelines for Risk Management, p. 11.
- <sup>xiii</sup> Op. cit. Chubb CyberRisk Handbook Guidelines for Risk Management, p. 11
- <sup>xiv</sup> Foster, Richard N., Sarah Kaplan, Creative Destruction – Why Companies That are Built to Last Underperform the Market — And How to Successfully Transform Them, Doubleday/Currency 2001, New York.
- <sup>xv</sup> Pallavi Gogoi and Michael Arndt, *Hamburger Hell*, Business Week, March 3, 2003, pp. 104-108, quote from Mats Lederhausen, in charge of global strategy for McDonalds.