

“Assumption is the Mother of All Fuckups”

by Soren Eilertsen, Ph.D.

Unchecked assumptions, groupthink and human greed are behind the current economic collapse. Yes, unhealthy business practices caused the global economy to crumble. This is a brief reflection of the organizational factors enabling this to occur. As strategy and leadership consultants, we see these factors alive and well in many organizations. This ought to be a call to raise the level of consciousness, courage and ethics in business.

Introduction

Recent events in the mortgage industry have been unfathomable. How did smart business people get us in to this mess? Unfortunately, the answer parallels what we as leadership and strategy consultants frequently observe inside many organizations – only with far smaller scale implications than what has played out in the mortgage industry and on Wall Street.

By recounting and embellishing on a dialogue that took place with a very smart friend (an executive in the mortgage industry) over the past couple of years some insights may follow.

It started when our cleaning lady bought two houses several years ago. I was curious, so I asked my mortgage company friend to explain how a financial institution justified providing loans based on this individual's income and economic situation. Clearly, things were not hanging together and we both agreed on this so he attempted to give me the company line.

The answer was that competitive market forces compelled the mortgage company to offer these types of loans. They would not meet ambitious market share goals if they did not provide these loans. Consequently, if they did not provide these loans, they would not satisfy the shareholders who were promised growth by top leaders looking to stay in power and seeking huge bonuses.

Wall Street's demand for bundled mortgage securities assisted the mortgage companies. Wall Street investors did not challenge the underlying assumptions. All they were asking was, "where do I get yield beyond Treasury rates."

After the fact, I'm learning that the mortgage company did not want to forego any lending opportunity. If the risk profile stopped a loan process, the sales group simply pushed the loan up the executive chain and eventually most loans were approved. There was hardly a loan that could not be made. The practice is now referred to as "the tragedy of the lost loan."

At one point, my friend attempted to sidetrack the conversation. "We make the American dream of homeownership come true," he said. This mantra inside the company was intended to energize employees in the pursuit of service. It was difficult to disagree except to say that the home ownership for the most part was temporary since people were unable to stay in the home after the teaser rate period expired and the reality of the out of proportion payment to income hit. Interestingly, the mortgage company had developed a plausible vision that could explain the practice and make employees feel of service.

When pressed to explain how the mortgage company could justify the loan risk, I learned that a key assumption was the fact that the U.S. real-estate market has not declined in value as a whole since the Depression. On a regional basis

yes, but the real-estate market had not declined as an aggregate total. The leadership team at the mortgage company had started to treat this assumption as a fact in its strategic risk analysis. Consequently, the business model assumed that house prices would continue to rise. The rest is history and the mortgage company no longer exists.

In the following, we highlight three factors that often interplay within organizations. We believe that these factors played a major role in the mortgage industry and in the overall economic crisis. Addressing each of these factors from an organization and leadership development perspective requires great commitment on the part of the owners and top leaders. This brief paper does not provide an exhaustive analysis of the interventions although we provide hints of the antidote.

a. Leadership engaged in groupthink

Groupthink is a dysfunctional state that occurs when a leadership group fails to form adequately and therefore is unable to engage in healthy conflict. Group members attempt to minimize conflict and reach consensus without critical evaluation of ideas. For a variety of reasons, group members avoid expressing viewpoints that may upset the group's balance.

It takes deliberate action to build the trust required for groups to overcome the dangers of groupthink and it requires deliberate practice for group members to engage in productive sharing of viewpoints that cause conflict. It is through the engagement and examination of conflict that we learn as individuals and groups.

b. Unchallenged or unspoken assumption

Most leadership teams spend far too little time identifying and challenging the assumptions that go into their strategy and decision-making. Either unspoken or treated as facts inside the organization, assumptions become difficult to challenge. As eloquently stated in - of all places - a Steven Seagal movie, "assumption is the mother of all fuckups."

For leadership teams, conscious decision-making becomes a process that includes steps of gathering facts and separating facts from implications and assumptions. Similarly, for the process of strategic planning, the business plan cracks easily without a practice whereby strategy assumptions are openly evaluated on a regular basis.

c. Human greed without ethics

Although many studies show that pay is not the top human motivator in a job situation, executive compensation frequently becomes a competitive sport. The self-interest focus of executives on wealth and power comes at a price allowing ethics and service to take a backdrop. This, combined with the short-term focus of public

companies attempting to satisfy Wall Street's expectations, creates an unhealthy atmosphere hindering the decisions that furthers the common good.

The more a company's authentic purpose and vision can turn on the energy of the individuals' passion for service, the less need we will have for out of proportion executive compensation. With narcissism flourishing in the executive suites, we are not likely to avoid the human greed for wealth and power. How does a business circumvent having this psychological factor wreck havoc? More evolved businesses have begun to focus on how to practice capitalism in an ethical manner. This begins by starting a dialog on the duality and polarity that exists between self-interest and service. In the 21st century, it becomes a requirement of business to be of service to society and to advance the common good.

About the Author

As President of Kollner Group, Soren Eilertsen has helped numerous clients in different industries activate and align leadership teams around business results and innovation. Clients praise him for his ability to guide business leaders and teams to insights and new levels of success.

Soren works as a business consultant, educator and leadership coach specializing in strategy and organization development. He helps clients build effective leadership teams, create winning strategies, and obtain success with change initiatives.

Since establishing Kollner Group in 1999, Soren has helped shape the strategic directions and create results for numerous businesses and non-profits in both Europe and the United States. He has worked on world-class endeavors and been fortunate to engage with leaders in great organizations such as AECOM Design, American Suzuki, McKesson, Mission Critical Technologies, MK Sound, Motown Museum Project, Nordisk Film Biografer, Pacific Coast Producers, Pacific Theatres, Polar Air Cargo, Rand, System Simulations, UC Health System and Vulcan (Paul Allen).

Combining his education as a psychologist with years in corporate executive roles, Soren takes a unique integral approach that enables him to examine a business from the perspective of its internal leadership, systems, and culture as well as from the market-, business value-, and external customer perspectives.

Visit www.kollnergroupp.com to find out more about Soren Eilertsen and the Kollner Group.

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