# Confronting Reality – Seeing Beyond the Matrix

**Mike Murphy, Managing Partner**

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Any transformative journey, whether it involves a new product, system, market, or business, will likely encounter its share of setbacks, both planned and unplanned. The proverbial Murphy's Law applies; what can go wrong, will go wrong, when you least expect it and at the worst possible moment! The more transformational the effort, the greater the force of resistance arrayed against its successful completion. Each setback encountered is a data-rich opportunity to assess the strategy and its trajectory. Does the emergence of the problem confirm or challenge the strategic premise? Does it require a rethink of the scope, direction, or timing of the project? Intelligently and clinically assessing these issues is critical to successful execution. Overreacting can create a chaotic whipsaw progression; underreacting can cause a problem to expand out of control, going from a small fire to a blaze that engulfs the property. Interpreting the exact impact on the strategic premise is no easy task. Four (4) significant disablers can distort the proper diagnosis and cure of any challenge to a transformation initiative.

## The Inventor's Curse - Red Pill or Blue Pill?

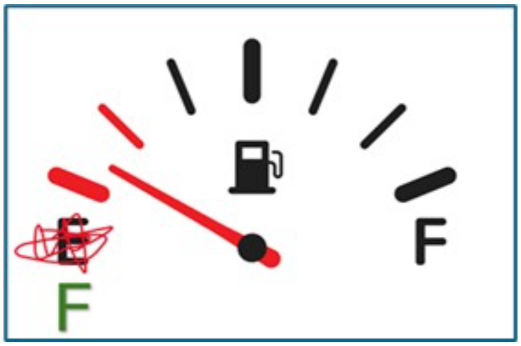
One of the great gifts of the disrupter-entrepreneur is their dogged pursuit of the mission and the intestinal fortitude to push through seemingly insurmountable odds to achieve their vision. Incumbent forces are aligned against them, and "conventional wisdom" is readily deployed to dismiss their solutions. But when does the attribute of "not being denied" go from being a blessing to a curse? In their mindset, they have taken either the red or blue pill, between the willingness to learn a potentially unsettling and life-changing truth or remaining in contented blissful ignorance.

Any executive who has been able to inspire investment with other people's money would never think of themselves as taking the blue pill. Still, it can be an insidious artifact of the very skill that makes our executive special. They carry a supreme form of self-confidence and see it as a necessary asset. Indeed, many great innovators possessed an almost maniacal ability to push through and overcome the stated orthodoxy of the day, so this is an essential part of their DNA. However, they have a blind spot in their steadfast refusal to critically and thoroughly assess their current strategy and performance. So, while they are convinced, they have taken the red pill and courageously push on, they are, in fact, still in a "Matrix" of their creation. In combating the naysayers, they can fall into the deadly trap of "obfuscate, deny, and then blame others," missing their Company's actual condition. Typical behaviors of the blue pill include:

1. They adamantly dismiss any contraindications to their mission, driven by an obsessive belief in their vision.
2. Those who report bad news "don't get it" and are not sufficiently "out of the box" in their problem-solving.
3. Critics are dismissed as "operators, not innovators" and “relics of the past”.

Our intrepid executive, who takes the blue pill, will lean on other narratives and data as evidence to support their assessment of the business. But three potential fatal flaws can distort the analysis, leading to a false positive attribution and support staying fully ensconced in the Matrix.

## Fatal Flaw #1: Misreading the Data




The first contributing factor is misreading the data or reading the wrong data. Even with robust reporting systems and metrics, it's a common flaw for leaders to miss fundamental changes in their businesses. The first common error is not having a properly balanced scorecard with directly correlated connections between overall performance, financials, key performance indicators (KPIs), and process diagnostic measurements (PDMs). An example of this is the use of web hits as a proxy for enterprise value during the tech boom. Another typical error is to ascribe an aberrational effect to the metric; it's a one-off, singular, one-time event, never to be repeated. While there can be "sleep protection" in labeling a bad outcome as a result of "force majeure", there is a significant risk in pretending that there will not be a continuing slate of one-time bad events, each new one subsequently filling in for a past expired one. The need to explain the shortfall as something out of management's control is far more soothing than staring into the abyss of a deeper, more disconcerting conclusion. Further, what's to say that outstanding performances are not subject to the same aberrational effect? You cannot prejudice the data analysis by pretending that only "bad guys" are "one offs" or by assuming that it was just a confounding impact driven by a singular set of unfortunate events.

## Fatal Flaw #2: Ignoring the Symptoms

The graphic above is decidedly harsh, but the second fatal flaw is simply ignoring the developing symptoms, a posture of "head in the sand." Although not deliberately ignorant of the challenges ahead, these executives still believe in the inevitability of their success. They pride themselves on maintaining an upbeat and strong, confident presence in the face of direct challenge: the glass is always half full, and "prosperity is just around the corner". Though, as a famous comedian once noted: "I can see the glass is half full…. of poison!"

By being oblivious to omens, signs, and other indicators, leaders overlook the shifting ground beneath them. They are caught completely unawares once the harsh reality hits their performance, and they have run out of time or resources to adjust. In some instances, they ignore the emerging signals, brushing them away as unimportant– "ah, that's nothing", or it's "static or road noise". In others, they create their own KPIs or indicators as evidence of progress toward the goal, despite less-than-inspiring financials.

This fatal flaw can also metastasize into a cultural problem, where "nary a dissenting view will be heard". An echo chamber is created in the boardroom, and groupthink is fostered as long as it conforms to the projected success of the enterprise, regardless of the reality of the situation.

## Fatal Flaw #3: The Blame Game

For the executive team that has not truly embraced the vision from the red pill, there is no shortage of villains to blame for their misfortune in the face of declining financial performance. In playing the "blame game," it's never the Company, its strategy, or solutions. Unrealistic customers, ignorant investors, activist regulators, immoral and/or incompetent competition, and poisoning the well are the usual suspects. There is comfort in identifying a single root cause, reduced to a simple variable that needs to be addressed, rather than a wholesale indictment of the business or strategy.

The more common and disruptive version of this flaw is the "Battle of the Boardroom", when the quest to identify a single tactical point of failure leads to internal strife. This "blamestorming" is typically between sales and operations, but skirmishes can also erupt between marketing and sales, operations and IT, and finance and sales. The charismatic department head with office political skills can deflect finger-pointing elsewhere in the absence of an objective, forensic breakdown of the root causes of less-than-plan performance.

The sales team is typically tagged as a culprit. "We have a great product, but our salespeople cannot sell". While there can be issues with the sales and marketing teams, a potential sign of a stressed organization is a revolving door with the business development staff. New customer acquisition or retention of existing clients is the harsh, honest feedback from the market on the value of the Company's strategy, goods, and services. Sure, there can be execution issues in department performance, but sometimes, assuming one has a people problem in sales can lead the executive away from the harder, more brutal truth.

## Conclusion


*Good News/Bad News*. Let's start with the Bad News. Most executives (if they are truthful with themselves) will admit they have fallen asunder to these flaws more than once in their storied careers. It is an unintended consequence of human basal behavior built on otherwise exemplary leadership attributes. The Good News is that solving this conundrum requires adding to, not taking away from, the exceptional qualities of our intrepid innovator.

Problem resolution begins with acknowledging that an issue exists. In the case of confronting reality and taking the red pill, just being aware of the potential pitfalls is a key start. Every analysis of missed plans should be pressure-tested to ensure the executive is not falling into the Matrix/blue pill trap.

Beyond that, discipline and structure in the following fundamentals will go a long way to ensuring the organization has taken the red pill and embraced its reality, regardless of how harsh it may be:

1. **Well-constructed Balanced Scorecard** - Companies must have a balanced scorecard that combines internal and external measures, along with a data dictionary that undergoes ongoing reliability testing to ensure the datapoint consistently and accurately reflects actual performance. Combining this dashboard with intellectual curiosity to identify issues in data output and pinpoint potentially disconcerting performance cohorts will ensure that the executive team is on top of early signs of trouble and ready with interventions to maximize company value.
2. **Vibrant company culture**. Fatally flawed cultures are usually built upon groupthink and a mandate for everyone to not only "fall in line," but also "fall in love." Building a culture of challenging, questioning, and not taking anything for granted ensures that sufficient and ample data and input flow into the decision-making process.
3. **Keep the Strategic Plan fresh**: Tracing company performance back to the original strategic plan can help in diagnosing the root cause of less-than-planned results and eliminate any potential biases in interpreting the data.

By building on the executive's resilience, inspiration, and leadership, and incorporating additional tools and promoting cultural awareness, these flaws, as referenced above, can be minimized.

## About the Author

Mike Murphy is a Founder and Managing Partner of Sunstone Management Advisors, a growth advisory firm focused on helping healthcare and insurance companies identify and unlock their full enterprise value. He is a C-level Executive with a history of building, growing, and improving the performance of healthcare service and technology companies, as well as insurance companies. He is an expert in Healthcare Operations (Provider and Payer) and Life, Accident, and Health Insurance (Group and Individual). In addition to helping Sunstone's clients, he has multidisciplinary experience spanning over 35 years, including senior leadership roles at CIGNA, United Healthcare, Hanger Orthopedic Group, Coventry/Aetna, National General, and HRGi Holdings. He has a Bachelor of Arts degree from the College of the Holy Cross

***Questions or comments? Need help confronting your own reality***? Feel free to contact Mike directly at mfmurphy@sunstonemanagementadvisors.com or connect with him on LinkedIn at https://www.linkedin.com/in/michaelf-murphy.