



NotesOn: The Sinking Ship School Of Business

Why Fundamentals:

Before we dig into the fundamentals of IT, it is critical that you understand why fundamentals are the foundation of true success. Fundamentals are so important that individuals, businesses, governments, countries and entire civilizations have collapsed for the lack of them. And. Continue to do so.

Einstein once said: “Insanity [is thinking and] doing the same thing over and over again and expecting different results”. I modified the quote fractionally by including “thinking” as it, at some level, usually comes before doing.

The truth is: not knowing and/or ignoring the fundamentals of your field creates the appearance of insanity. It becomes a near text book case of doing the same, unsuccessful, thing over and over and expecting different, successful, results.

A Very Brief History:

While it is historically inaccurate, one of the iconic images of insanity is Nero fiddling away while Rome burns to the ground; around him and around his fellow willingly participating citizens.

The moral of that fable is clear: instead of properly evaluating the ongoing situation, drilling down to root causes and *then* planning and taking effective action, Nero and his Roman executives chose to cling to their arrogance and their misplaced sense of infallibility and superiority. In other words they “continued to do business as usual” while hoping something would change.

An incident etched into the world’s memory, that is true, and legendary, is that of the sinking of the Titanic. It required very little effort on my part to ferret out the root cause of this disaster; it was not hard to find:

The Titanic sank to the bottom of the frigid Atlantic ocean for the simple reason that, from the beginning, the engineers and owners thought their new ship unsinkable. This untested notion being firmly entrenched, they ignored the hard-won fundamentals of safe seafaring (condensed from thousands of years of experience) and took engineering shortcuts, in spite of mounting evidence that the technology of the “industrial age” of the 1900’s was not the least bit infallible.

The potential for disaster due to the built-in engineering flaws were then compounded by the desire for Speed and PR (public relations) *and* short-circuiting of standard procedures in the radio room as one example. [*The History Channel* had a tremendous show on the subject recently that is well worth the watch.]

To put it another way, the “face” the owners wished to present to the public and the money they wished to save were, combined, far more important than the safety of their passengers ... thereby setting the stage for one of the world’s best known disasters and sealing the fate of everyone left on board.

We, in our supposedly more enlightened era, have a virtually unlimited supply of such case studies to hand; examples that demonstrate, clearly, that the Romans’ and the owners of the Titanic have not been the only ones steadfastly applying the “sinking ship theory of management”. It is, unfortunately, alive and well and very much with us.

Indy Mac Bank, Lehman Bros, AIG, Goldman Sachs (a key player in this economic debacle), Washington Mutual, and a host of other financial institutions continued (and in some cases continue) to do business as they “always have” ... leading everyone up to and then over the brink of disaster like the fabled lemmings.





With incredible arrogance, a wholly misplaced sense of infallibility, a complete disregard for long-term consequences, and a nearly psychopathic objection to applying their own previously expensively learned fundamentals, these and other companies charged ahead into their own version of the Titanic's iceberg.

Each and every one of these institutions, along with the U.S. Federal government, were well aware that attempting to make something (money and power) from nothing (derivatives, rotten-to-the-core loans bundled together and sprinkled lightly with a few good ones, etc.) was utterly destructive to the fabric of the U.S. and the world economy. It was a known fact. Why? Because permitting such "investments" violated known fundamentals.

I have it from several very reliable inside sources that SEC inspectors were in place, were observing and were auditing Indymac Bank every 90 days, for years. They and Indymac's "outside auditors" were present *while* Indymac handed out loans worth many hundreds of thousands of dollars to individuals who could barely pay bus fare to get to work (if they were working). They were also present as Indy Mac bundled and repackaged these loans prior to foisting them off on "investors" in a grand con game. The SEC and big-name accounting firms were present as a host of other financial institutions committed similar "crimes" against humanity as well.

The root cause of The Economic Collapse was known to everyone on the inside, it was right in front of them. The end result was written on the wall in such large letters they had to build skyscrapers to contain the words and sentences. Every single financial institution, every single Federal government employee who had anything to do with banking, finances and money knew (or had the data in front of them to know) that the collapse was coming ... long before it hit. Rather than "standing up and being counted" as ethical honest human beings they too continued to play their fiddles and continued to pretend that everything was okay ... while their financial ships sank to the bottom around them.

By the way, before anyone outside the borders of the United States starts (or continues) pointing fingers, U.S. financial institutions were hardly the only ones believing they had "mythological", grandly self-delusional powers that enabled them to wave a magic wand and set aside all of the fundamentals of banking and economics. Banks and financial institutions the world over thought themselves and their notions of "what works", "what is right" and "what is best for everyone" as absolutely infallible ... despite mounting, painfully obvious, evidence to the contrary.

Nor are we individuals entirely off the hook. For how many years have we *all* been waiting for the "Real Estate Bubble" to burst? We too knew it was coming. Just not the order of magnitude of the explosion and subsequent crash.

The constant violation of fundamentals does not exist within Financial institutes alone, however. The notion that it is okay to throw overboard all prior knowledge and lessons learned for short term gain is rampant in nearly every industry. And within governments. As but one example:

The State of California's Legislature still insists, to this very second, despite being at least \$23 Billion in debt (this year), that they can continue to tax and spend and spend and tax, and even go on spending after the tax flood gates were closed. Bluntly, California's State Government is also a text book example of insanity run amuck. This utter nonsense has been going on for a decade and has caught up to and is bankrupting the entire state. Their governments' "we can do whatever we wish" philosophy has taken the state so far south that California's Bond Rating is close to, if not at, junk bond status.

What is very disheartening is that there are not more than a handful of politicians willing to step up and say: enough is enough we can't continue to manage California as if its citizens possessed magic wallets that automatically, endlessly, refill each and every night. And unlike the Federal government, California doesn't own its own money printing presses.

The citizens of California (even the screamingly liberal ones) are on the verge of "fed up and utterly disgusted". It wouldn't surprise me if every single elected official were impeached / recalled on charges of complete and utter





stupidity ... and greed ... followed by the state equivalent of a constitutional convention to re-engineer the constitution and form of the government in order to prevent this insanity from continuing to sink California's ship of state.

Closer to home: my wife (a CPA and CFO/CAO) and a close friend of ours were chatting the other day about a couple of businesses with which they are intimately familiar. To make a long story short, they were continuing to be amazed and appalled that the executives of both outfits (one a bank and one a corporation) continued to blatantly ignore every single solitary common sense fundamental available to them. The almost ludicrous decisions, self-destructive strategies and inane policies being set seemed to be asking for an invasion from the FDIC or the FBI or the SEC or all of the above.

When one steps back, far enough, it is almost as if world's business community was and is suffering under a mass hallucination that is preventing it from noticing that we are all racing towards the edge of a very tall cliff with a nearly bottomless canyon far, painfully far, below.

The Sinking Ship School Of Business:

At the tail end of the conversation between my wife and our friend, a light bulb went on and I piped up and said that it sounded to me like a "Sinking Ship" philosophy of doing business. My wife looked at me for a moment and then said: "You have a point."

I thought about it a bit longer and decided, based on an historically unprecedented number of failures, that there must be a "Sinking Ship School of Business" out there somewhere (with a more publically acceptable name of course) that is teaching executives, senior managers and owners alike how *not* to succeed.

As I continued mulling this over, a synopsis of the curriculum for such a college began to take shape and ultimately resulted in the following fanciful, somewhat cynical, but nevertheless relevant abstract from the "Sinking Ship School of Business":

To obtain your Master Of Business (MOB) degree you must learn by rote, know in your sleep and believe without question the following truths which we believe to be self evident:

1. Fundamentals are over-rated. They are "old school" and thus irrelevant. What you learn *here* is all you will ever need to know.
2. History, greater than 5 years past, is merely extraneous information for use at cocktail parties. What worked prior to then has no tangible bearing on what works now.
3. Past successes have near zero value as a guide for future planning purposes. Public opinion (a la Web 2.0) and "what everyone else is doing" are all you need concern yourself with in our "computer-centric" age.
4. The Golden Rule (Do unto others as you would have them do unto you) is dead as a Mission Statement. Don't waste the time or ink on this or any variant as no one of importance will believe it anyway. The good news is that this opens the door to an entirely new brand of business management.
5. To prevent internal discord and push-back against the following strategies it is best to hire graduates from this or allied schools of business only. Ignore practical hands-on experience at all costs, it is highly over-rated.
6. With a few microscopically small exceptions no executive ever goes to prison for malpractice in business. At worst your company will receive, as a cost of doing business:





- a. an insignificant monetary fine which is barely discernable to your bottom line, and easily buried in the 10Q and 10K fine print; or
 - b. a public slap on the wrist which may be quickly excised (eliminated) from the “public mind” via a short moderately expensive media blitz; or
 - c. both.
7. It has been proven time again that government agencies exist solely to satisfy the restless un-washed masses, via long-winded press conferences which bore everyone to death, and congressional “investigations” that lead nowhere. Further:
- a. Experience has shown that, unless you commit absolutely egregious crimes for which you have not provided sufficient layers of defense and levels of deniability, you can safely ignore all governmental “threats” of “inspections and audits”.
 - b. Enron was an anomaly. There is a mathematical probability of near zero that such an event will ever occur again to Big Business – the fix is now in.
 - c. NB: it helps to have a large legal team on board in case some “do-gooder” gets into office momentarily.
8. Sarbanes-Oxley has no teeth whatsoever, so don’t worry about it. In the event of a material weakness or significant deficiency you merely have to call your “sins”, “crimes” and “significant ethical violations” incompetent business decisions and after so doing, short of doing an Enron, you’ll walk away virtually scot-free.
9. Public Accounting / Audit firms won’t put up much, if any, fuss if you offer them enough money (i.e. “contracts”) to look the other way. This practice is absolutely almost fool-proof.
- a. For all practical purposes, audits are for public consumption, only.
 - b. However, it may be necessary to put up a “good faith” front for stockholders, even though they hardly ever pay attention, or vote, at stockholder meetings.
 - c. In other words: don’t sweat the audits. Lip service is sufficient.
10. Effectiveness, efficiency and delivery of quality goods and services are no longer requirements for doing business. Barely acceptable *is* the new standard and *is* good enough (you need not invest in Six-Sigma or similar QA/QC programs).
- a. Thanks to off-shoring, “quality” is no longer a word in common usage nor part of nearly anyone’s expectations. Thus. It is no longer necessary to strive even for “close enough for government work”.
 - b. The evidence to support the success of the strategic re-alignment of corporate goals to a lower quality level, e.g. lowering the bar, is clearly present and virtually overwhelming.
11. Out-sourcing in general and off-shoring in particular are near perfect solutions for your company’s short-term bottom-line. Which. Today. Is all that counts.
- a. As noted above, Stockholders have a “short attention span” and thus, if they notice at all, don’t mind seeing your entire firm – except for the executive level of course – headed overseas ... as long as it garners them an extra \$0.02 per share for a quarter or two.
 - b. Thus, since stockholders never look further back than two quarters, a year at the most, and haven’t a clue what a 10Q or 10K report are all about, you can safely disassemble and ship your company overseas ... as long as you declare a dividend (for at least one quarter, two is recommended).
 - c. NB: by the time everyone realizes shipping a country’s jobs overseas is counter-productive it will have become the new accepted norm and, in any case, it will be too late to reverse course.
12. An ideal way to justify the need for out-sourcing is to carefully craft an organizational structure that is nearly incomprehensible, is never published and is designed to make it all but impossible for loyal dedicated staff members to get anything worthwhile done.





- a. The primary metric the tattle-tale that will let you know when you are on the right out-sourcing / off-shoring track is: number of meetings required on a daily basis to “reach consensus”. An increasingly sharp, post-implementation rise is the desired result.
13. To execute an out-sourcing or, preferably, an off-shoring initiative:
- a. Tie your senior executives’ bonuses to out-sourcing and, preferably, off-shoring. Make it abundantly clear that they are to thin out as much of the, indigenous, local, population in their portion of the company as possible ... without, of course, destroying the executive level.
 - b. Fire all executives and managers who have a history of completing tasks and projects on time and on budget or in any way object to out-sourcing or off-shoring. Fabricating negative annual reviews so you can terminate without severance is the recommended approach.
 - c. Bring in out-side consultants, with a blatant vested interest in off-shoring, to do the “dirty work”.
14. Best Out-Sourcing / Off-Shoring Strategies:
- a. The most direct route is to simply off-shore as much as you realistically can without endangering your own position. But do go through the motions of an “in-depth” cost/benefit study as it makes for good public relations.
 - b. The indirect route is to out-source first. Though not as “cost effective” in the short term, it has the advantage of providing you with a shield wall of contracts and commitments which provide you a certain level of “deniability” when the out-source partner “decides” to off-shore your functions – their justification is that they need to cut their costs to save you money. You will note that this results in two off-shorings for the price of one.
 - c. Where your customers and clients have the option of going elsewhere, i.e. where you still have competitors, you may need to maintain a local “help desk”. However. There is no need to go overboard. In most cases, as long as you provide some minimal local support level, you can safely ignore all complaints about slow and / or nearly non-existent customer support. Today, poor service is often expected or at least accepted by nearly everyone. Support is another CCC (cost cutting center).
 - d. As a note of warning: off-shoring has a modest personal risk factor, there is a chance of you ultimately losing your job too. The upside is that in the meantime it greatly reduces your “responsibility signature”. A viable work-around to this minor detail is to cut a deal with another company that is also out-sourcing and/or off-shoring. Once the twin initiatives are complete, the two executive teams switch companies.
 - e. NB: it is recommended that you keep all off-shoring initiatives as far under the radar as possible. Despite all the short term benefits it is not popular with the public masses; for obvious reasons.
15. Addendum #1: When you’re company does collapse under you and if you have not covered yourself by applying 14-d above, put some spin on your resume and you’ll be hired as a C-Level Executive at another company, or become a highly paid Board member.
- a. Resume Tip: in broad terms only, highlight your “experience” with what did and did not work at your prior company(s), even if you don’t have an actual clue. At that level no one checks anyway. Be sure to push all of your successes with “out-sourcing” and “off-shoring”. Those are big “go buttons” these days.
16. Addendum #2: In the unlikely event that Addendum #1 fails, as a final fall-back ensure you have your golden parachute locked in and bullet proofed. Ensure that the majority of your “get out of town” funds are attached to a “retirement package”, in one form or another, for maximum asset protection from “upset customers and stockholders” in the infinitesimally small chance that lawsuits are brought against you personally.

At this moment in history every single one of the above “tenants” of modern business remains in play. You hear about my “Sinking Ship School Of Business” Rules and Addendums, in one form or another, in the mass media and trade





magazines nearly every day. They are, however, described, when they are, as “failure points” rather than “modern principles”.

Let’s take but one example:

Out-Sourcing & Off-Shoring – Panacea Or Con:

Do you recall how not all that long ago one mass media outlet after another, one out-sourcing vendor after another, and one highly paid consultant after another happily reported on and made promises about the wonders of off-shoring and how beneficial it was to everyone? How much money it would save? How great it was for profits? How good it was for business? And the country? ...

Have you noticed that you don’t hear much of any of that in the main stream media anymore? (Although the vendors and consultants are still hard at it.)

The promise was: if you were having “issues”, if you were having production problems, if you were having budgetary concerns, if you were having delivery concerns, if you were experiencing an increase in the ratio of upset clients and customers ... the answer you were told to believe as absolute fact (not manufactured fantasy) was that you merely had to hand over some or all of your IT operations to one or more outside companies or, preferably, send almost everything overseas. ... Like “everyone else” in IT was doing. ... And voila! Problems solved. Right?

So what if service levels plummet from minutes, hours and days to weeks, months and years. So what if clients and users start going elsewhere or doing it themselves (these are often known as “shadow IT groups”). So what if none of the vendor solutions integrate with each other or your few remaining “legacy” systems. Everyone else is dumping IT over the wall into someone else’s lap, so why shouldn’t you. ... Right? ...

The only problem, well, the main problem with this particular Recommendation from the “Sinking Ship School of Business” is that it doesn’t work; either. Never has. Never will. At best you are trading short term gains for long term pain. At best.

We will delve into specific pain points of out-sourcing and off-shoring in other posts. And they are legion. And fatal. But for now consider (you don’t actually have to do anything), just consider the possibility of what it would be like if your IT group was back on its fundamentals. Do you have any idea how many of your “IT issues” would evaporate? ... Perhaps even ... all of them?

IT – The Good Ole Days:

Once upon a time, IT was considered a field of engineering. Where “things” and “theories” were examined in detail before being adopted. IT used to be a profession where systems were tested before being “thrown over the wall” to the users – until some knuckle-head decided it was cheaper to let customers do all the testing (a verifiably un-successful theory).

IT used to work. Smoothly. Efficiently. Professionally. And. Believe it or not ... economically. Until IT lost track of its own fundamentals. And. From that point on. IT began working not so well anymore.

Yes, the software tools changed. Accelerating the development process. That was and is good. But. The rest of IT did not need to and should not have been turned upside down, along with the tools.

The loss of IT’s fundamentals has resulted in some very “unusual” solutions, one might easily call them “insane” solutions.





For instance:

The demand for degrees has skyrocketed. While the demand for experienced professionals trained in a particular field of IT has not. On the contrary. Experience is rarely a significant factor in many job postings these days. If mentioned at all it is more of a foot-note, a “plus”. The absence of a degree is a primary target of filters on most every automated job application processing system. Style over substance. “Face” over effectiveness. Politics over Production.

Here is another one:

Too often it is assumed that anyone in IT can be a Project Manager. Or a Business Analyst. And. Even worse (if that is possible) ... users are now routinely allowed to be Systems Architects. To the point that anything and everything they want is agreed to ... whether it makes sense or not (often not).

Let me paint an IT scenario for you and see if it doesn't sound familiar:

1. Demands on IT skyrocket while Budgets are slashed, repeatedly. (We'll address why this occurs another time.)
2. To “solve” this, technical head count is butchered. Not administrative head count, technical head count.
3. In the face of such “reductions in force”, angry clients and customers raise their voices louder and then louder still until the sheer volume requires an entire system to keep track of all of their “noise”, along with Web 2.0 “solutions” that are tossed into the gap in an effort to stem the blood loss.
4. High priced consultants are brought in to help “fix” IT's problems and they recommend that most functions be “out-sourced” to their company (no conflict of interest there) or that everything but “management stubs” be shipped overseas to a company or two they just happen to know of (no conflict of interest there either).
5. Within two years, three at the most, your IT group is such a “dog's breakfast” of inefficiency and incompetency that you are out looking for a new CIO / CTO position.

The above “solutions” solve nothing. In the “not so long” run they merely accelerate, exacerbate and magnify the simple, basic problems which initially existed.

Wait a minute. Just hold on a second. Simple? Basic? Regarding IT? Those two words shouldn't be on the same page let alone on the same web-site with IT issues. And. What do you mean there was an initial problem? In the first place? That existed just before everything went “to hell in a hand basket” (to put it crudely). Are you out of your flippin' mind, *Mister DP Harshman!*? IT is complex! It is a royal pain! IT is a financial sink-hole! IT keeps me awake night after night with all of its major, mind-boggling absolutely unsolvable problems!!! Simple my ... my foot!

I really hate to disagree with your personal experiences. Because they are very personal ones. But. I must. For the truth is: solving IT issues is simple. It only requires basic, fundamental solutions, ones that do not necessitate ordering earth-moving equipment or the covert purchasing of a few cases of corporate dynamite to solve.

I'm guessing, with a fair degree of experience based accuracy, that if you took the time to trace back all of the unsolved problem threads in your IT group, all of the failed projects in your IT group, take them all the way back to their origins ... you would find that they began with an initial ... “failure to deliver” ... that went uncorrected.

It went uncorrected because the original IT manager(s) and/or executive(s) ... did *not* know or chose to ignore their IT Fundamentals.





Laws Of Fundamentals 0 Through 3:

Law Of Fundamentals #0: Before one can truly fix a problem one must first isolate the root cause of the problem.

Law Of Fundamentals #1: The instant, the second, the minute decisions are made without reference to the appropriate fundamentals it is absolutely guaranteed, without equivocation, that the decision and resulting plan will be ... wrong.

Law Of Fundamentals #2: discovery and verification of new fundamentals does not negate the above rule. Fundamentals are built one upon another.

Law Of Fundamentals #3: it takes time to fully develop and appreciate a fundamental. But only a moment to ignore it.

The decisions the IT manager(s) and/or executive(s) dreamt up to solve their “initial issue” went “off-the-rails” and possibly completely “off the map” for the simple reason that they violated the above Law #1. Then. On the heels of their initial error. When no one at a sufficiently high level (organizationally or politically) recognizes their “solution” for what it is, further such “solutions” are subsequently ordered and fixed in place and thereafter problems began to compound ... and compound ... one after another ... one atop another ... sticking to each other ... until the IT group begins to take on the appearance of being an “unsolvable” morass of issues, and a “financial” sink-hole of problems.

If you are experiencing such symptoms ... please don't take the “easy way” out and send *your* ship into someone else's ocean ... please do not become a short-sighted student of the “Sinking Ship School of Business”. And for pity's sake, please do not just let things go on as they have been by not addressing the lack of fundamentals issue(s).

Bottom-line:

If it ain't working. It ain't working. Invest the time to find out why. It will be more than worth it.

Discover the real root cause, first. Before ordering up a “fix” plan.

Look for the executive or manager or project manager, often with lofty degrees and certifications, who in fact does not have a clue how to run an IT group and who hasn't the vaguest notion that an IT fundamental even exists – they often go hand in hand. Then work your way back up because the management levels above the primary failure point don't know either.

You *can* tell. Really. Whether they do or don't know them. By just asking and listening. Here's a “how to” outline:

1. Get a general idea of the area of failure.
2. For the moment focus on that area.
3. Quiz, in a friendly way, that executive or manager. Look for competence, confidence (misplaced or otherwise), knowledge of fundamentals, willingness to accept responsibility, rational action plans to resolve and prevent, etc.
4. Then talk to the folks who report-to “the most obvious” executive or manager in that area or are indirectly (perhaps dotted-line) managed by that individual.
5. Look for orders that contravene known fundamentals. It might be a “higher up” problem.
6. Absolutely talk to your “Techies”. In most cases they know all and see all and are your best barometer and truth gauge – just make sure you provide them the protection they will need after telling you the truth.
7. If you honestly look and listen. You will find one or more violations of IT's fundamentals. Willful or negligent. But they will exist. I guarantee it.
8. Fix or replace as appropriate.
9. Fix or replace the hierarchy above the failure point as they didn't know either.
10. Repeat as necessary.





Don't sink your ship to "fix" a Fundamental. There's nothing that needs fixing about a Fundamental. Or it wouldn't be one. ... Just fix the person(s) who doesn't know or isn't using IT's Fundamentals. Repeat as necessary.

Then you will get results. Positive results.

You are likely aware of it already, but it will take a bit of time for your IT group to shake off the layers of jumbled orders, snarled policies, tangled procedures and twisted organizational structures that have accumulated. But. Like old deck paint the contra-fundamental PnP's will peel and wear away. As that happens *your* foundering IT group will start to sail straight and true with a "damn the (economic) torpedoes" attitude that will make you proud and allow you to sleep soundly at night ... as if you were on a vacation cruise.

Hope this helps.

DP Harshman

