WHITE PAPER

Gray Rhinos and Seeing What's Invisible

The ***Gray Rhino***, according to Michele Wucker's book by the same title, "*is a highly probable, high-impact threat: something we ought to see coming, like a two-ton rhinoceros aiming its horn in our direction and preparing to charge.*" Wucker postulates "*a Gray Rhino is something we ought to be able to see clearly by virtue of its size. You would think that something so enormous would get the attention it deserves*" but then, the predicament: "*We consistently fail to recognize the obvious, and so prevent highly probable, high impact crisis: the ones we have power to do something about.*"

Wucker's notion of the Gray Rhino makes perfect sense if its habitat and behavior were *linear* in nature i.e., where the rhino cause and effect can be isolated and dealt with rationally. Risk Management **has very effective methods** for those situations. But increasingly, we find ourselves living in a different, *non*-linear, complex world. Thanks to the advancement of technology, connecting everything to everything else, the volume and ferocity of gray rhinos continues to accelerate. Leadership teams need to be more vigilant than ever – and they need to be equipped with a new understanding of the nature of *this breed* of Gray Rhinos.

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Alberto-Lazlo Barabasi, Head of Northeastern University's Center for Complex Network Research and author of "Linked," gives us a starting point in observing: "*A string of recent breathtaking discoveries has forced us to acknowledge that amazingly simple and far-reaching natural laws govern the structure and evolution of all the complex networks that surround us.*" The laws of complexity can teach us such things as how order emerges from chaos, how self-reinforcing feedback loops form, and how dynamic networks grow, evolve, and bring about a change of state where 'more becomes different.'

Anthrax, in the time of Louis Pasteur – around 1780, is a good illustration of this non-linear world. Anthrax was 'highly probable and highly impactful' before Pasteur - killing cows indiscriminately, all over Europe, despite the best efforts of farmers highly skilled in animal husbandry. Anthrax was in their midst, staring them right in the face, but they were unable to see or do anything about it, even though they could detect its presence. Fortunately for the farmers, Pasteur knew a good bit about the habitat giving rise to anthrax and how to deal with it; he was at the forefront of what we now call biochemistry. Armed with the microscope and the laboratory and knowledgeable about the use of vaccines, he systematically eradicated one of the great gray rhinos of that era.

An understanding of the laws Barabasi references above would have accelerated Pasteur's assault on anthrax – in the same way scientists have applied them to quell COVID, the Gray Rhino of our times. In calling attention to the "laws that govern the structure and evolution of complex networks," Barabasi is telling us *the new lens is at hand* and with it, we can develop new risk mitigation strategies for *all* the animals out there – i.e. the Gray Rhino, black swan, white elephant, and even the 800 lb. gorilla! The aim of this paper is to open your eyes to that lens – as it relates to culture, strategy, risk, and performance.

The gray rhino staring right at you that you cannot see

In the non-linear, complex world we live in, *organizational culture* represents the same kind of habitat that can give rise to the risk of encountering a "highly probable, high impact" gray rhino. And like anthrax, it can cripple an organization. Eastern Airlines, Kodak, Blockbuster, and dozens of others got broadsided by the gray rhino of cultural risk. They all had smart executives, intelligent strategy, and even loyal employees – but obviously, they either didn't perceive the need to address the culture (highly unlikely) or were ineffective in dealing with the cultural malaise that ultimately did them in.

John Kotter, in "Barriers to Change: The Real Reason Behind the Kodak Downfall" observed *"The organization overflowed with complacency. I saw it, maybe in the late 1980s. Kodak was failing to keep up even before the digital revolution when Fuji started doing a better job with the old technology, the roll-film business. With the* *complacency so rock-solid, and no one at the top even devoting their priorities toward turning that problem into a huge urgency around a huge opportunity, of course they went nowhere."*

Eastern Airlines, innovators in airline strategy, loved early on by its pilots, flight attendants, and customers, squandered that loyalty by the late 1950's to such a degree that it gave rise to the formation of a public organization called WHEAL ("We Hate Eastern Airlines"). A succession of CEOs (three between 1963-1975) made attempts to avert bankruptcy but at the expense of engaging in bitter warfare with the unions. As one report cites: *"On the outside he [Borman] appeared very personable, trying to foster a family image to show he cared. Yet on the inside he a strong dislike of unions. Allegedly, he once said, 'Unions tend to protect the marginal and incompetent.'"* Their distrust of each other and the showdowns that ensued ultimately ripped the company apart – the final chapter etched with the purchase of EA by Frank Lorenzo, CEO, Texas Air.

Blockbuster's demise was in part, a failure to confront the reality of a technologically evolving market that was rendering its flagship product obsolete. In Blockbuster's case, the gray rhino they did see, staring them right in the face, was Netflix. But instead of accepting a deal that would have kept them afloat, CEO John Antico, regarded by many as a "retail genius," opted to invest heavily in an online product to compete with Netflix. The gray rhino he didn't see however - the one that ultimately did him in, was the viral effect of the network that Blockbuster and Netflix were a part of. That ecosystem, aided by social media, tipped popular opinion so quickly that Blockbuster simply ran out of time and money to mount a credible counterattack (the lesson? Know when it's smarter to ride with the two-ton rhino!).

Lou Gerstner, on the other hand, was onto the gray rhino of cultural risk, as he makes clear in his reflections of his time as CEO of IBM: *"Until I came to IBM, I probably would have told you that culture was just one among several important elements in any organizations makeup and success-along with vision, strategy, financials, and the like…I came to see, in my time at IBM, that culture isn't just one aspect of the game—it is the game.* He quickly sensed a great big gray rhino staring him in the face -- IBM was perceived as arrogant and inflexible, using fear, uncertainty, and doubt, i.e. FUD to get business by reminding clients "no one will ever second guess you for choosing IBM." Given the changes taking place in the ecosystem of connected systems and data, he needed to steer IBM into becoming a more collaborative and opportunistic 'business solutions' provider -- looking to add value vs build backlog on the backs of clients.

Culture's impact on performance

Peter Drucker is famous for his phrase "culture eats strategy for breakfast." If we take as a given that performance depends on strategy and risk management, Drucker was implicitly stating that culture eats performance for breakfast too. But this only holds true if we treat culture, strategy, risk, and performance as independent of one another wherein one has dominion over the other. That argument does not hold up when dissecting Gerstner's observation that "*In the end, an organization is nothing more than the collective capacity of its people to create value.*"

Gerstner concluded correctly culture *is the game*. Gerstner found IBM's culture as "*having a general disinterest in customer needs, accompanied by a preoccupation with internal politics,*" where "no one *would* say yes, but everyone *could* say no," (which they frequently did, by exercising the institutionalized practice they called the 'non-concur' option). His interventions, chronicled in "Who Says Elephants Can't Dance?" shifted IBM culture to one whose mantra was "*win, execute, and team*." IBM became relentless in focusing outward, as a connected network, seeking opportunity in an evolving technological landscape and coming up with new solutions to solve customer's most pressing challenges. The remarkable turnaround not only saved IBM from the horn of the gray rhino but allowed it to increase share price from a paltry $13 in 1993 to $137 six years later.

Gerstner grasped enough about the nature of culture to save IBM but since that time, a lot of advances have been made that he would have likely seized upon, had they been available. The new science of complexity, born in late 60's but only coming of age after Gerstner's time, starts with the recognition that organizations are essentially *networks.* As such they are subject to the laws that Barabasi alluded to earlier. In particular, organizations are *networks of people wherein conversational 'flows' are continually taking place.* These flows and the laws that govern them pertain to everything that makes up a company's strategic activities (see fig 1).

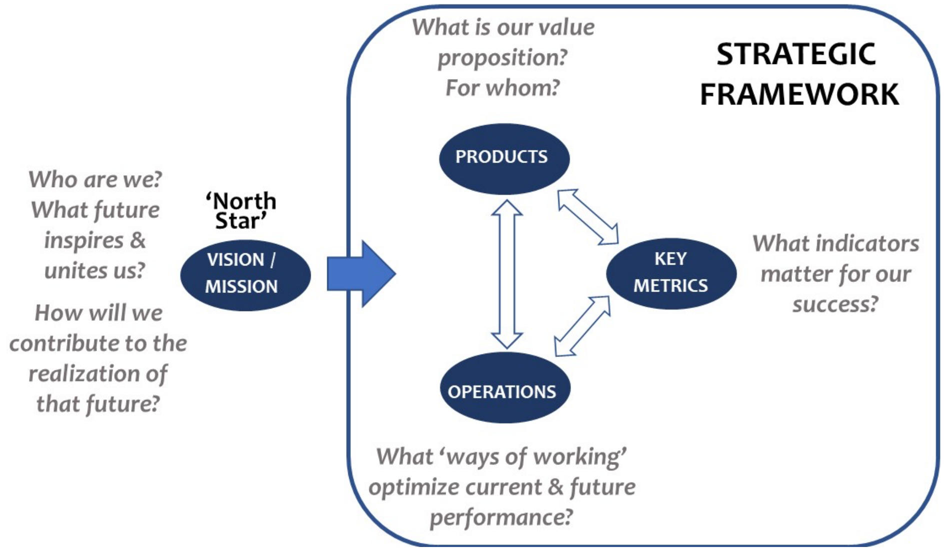


Fig 1. Elements of Strategic Framework

When conversational flows are aligned and robust (i.e. back and forth, in every direction), an organization will experience *synergy* -- and performance will soar.

In synergistic cultures, the "vision" is alive, flowing in the foreground of interactions. Vision serves to provide an effective 'north star' for informing the development of products and services as well as configuring operational "ways of working" and the design of key metrics. All these elements must cohere, infuse, and provide feedback from every part of the organization in order to establish a vibrant performance-based culture.

When flow is impeded, distorted, countered, etc., you end up with non-synergistic cultures i.e. cultures that are characteristically tribal or mercenary. **Why this matters:** mercenary and tribal cultures lack *resilience* (ability to cope with local disruptions) and *agility* (ability to 'turn on a dime' to take advantage of opportunity or respond to threats). Both are essential for sustained, competitive performance. In mercenary and tribal cultures, the vision statement on the wall or website won't resemble what is reflected in daily interactions and thoughts. Products and services will lack inspiration, and operations will fall short of meeting the needs of customers.

Mercenary cultures impede flow in part by their characteristic hub and spoke arrangement, as depicted in figure 2. Performance in mercenary cultures is reduced to the sum of achievements defined by contractual agreement. Tribal cultures are more networked than mercenary but separated by self-imposed boundaries. Visions are 'local,' flowing within a tribal network but do not cross boundaries; tribal cultures compete with one another to establish the vision that will prevail and the priorities that logically follow. Exactly what Gerstner found in the early days of his time at IBM.

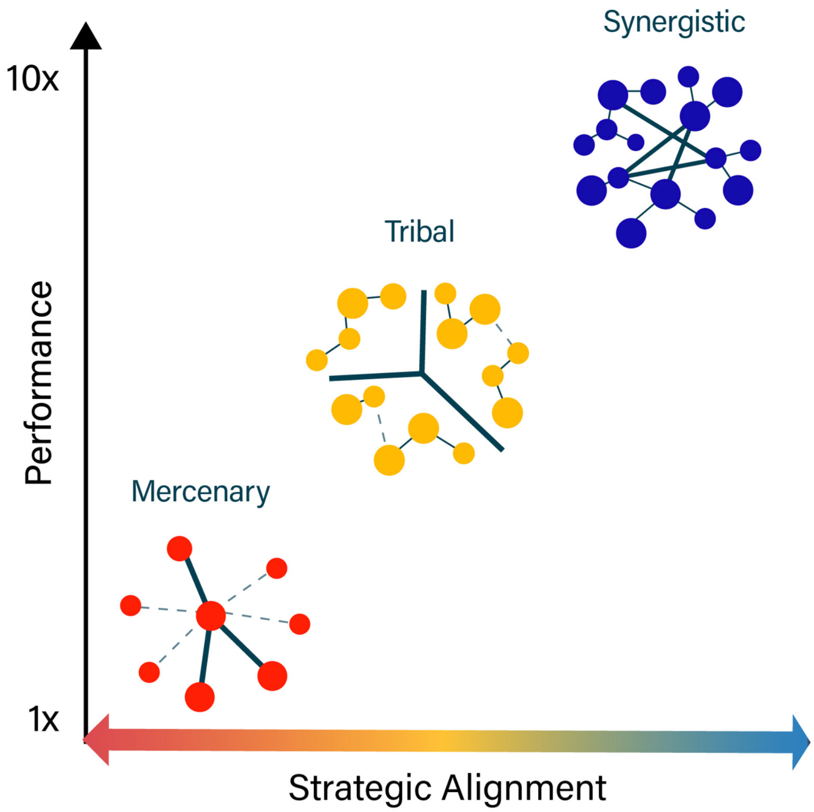


Fig 2. Strategic Alignment & Performance

What should be clear by now is this: organizations that lack strategic alignment i.e. mercenary or tribal cultures, are at risk of creating a breeding ground for the gray rhino. That risk translates into the inability to *cope with current challenges* as well as lacking agility for *pivoting toward the future.*

As stated earlier, resilience (ability to cope) and agility (ability to turn on a dime') are the two vital capabilities for sustained performance.

How big is your rhino?

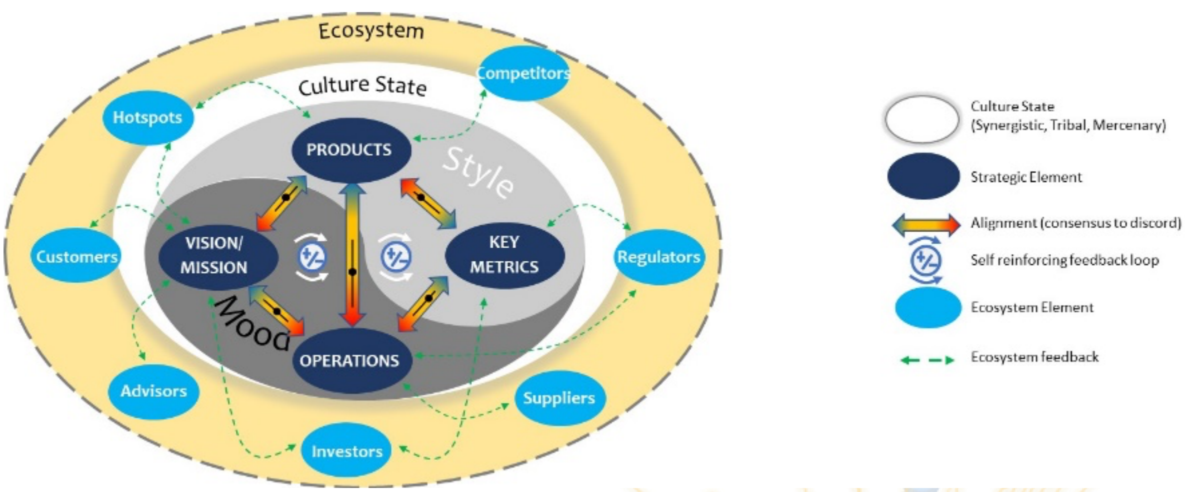
Warning signs that the gray rhino of cultural risk is in your midst shows up first and foremost in the mood of the organization. Mood is the canary in the coal mine. Moods come in many different forms – both positive and negative. Moods are contagious - negative moods are more virulent than positive moods. The dangerous ones are *resentment, fear, arrogance, and complacency*.

In Kodak, Kotter observed complacency. Eastern Airlines was caught in the throes of resentment. Blockbuster suffered from arrogance. Blame, hiding, deception/exclusion, and appeasement are the behaviors that accompany these moods. Kodak, Eastern Airlines, and Blockbuster, once exemplars of synergistic, high-performance cultures, could have changed the downward spiral, if they had recognized what their canary was telling them. They didn't and paid the price.

Strategies to keep the gray rhino at bay

Given that culture is complex, with all its elements affecting every other element, keeping the gray rhino at bay might seem an onerous task. However, Lou Gerstner shows us that it is possible, even without first-hand knowledge of complexity science. The task starts and ends with the simple recognition that culture is intricately tied to strategy, risk and performance – each dynamically affecting the other.

An effective way to stay ahead of the gray rhino is to listen to *where the gray rhino lives and how its habitat is evolving.* The framework depicted in figure 3 encapsulates the elements that are constantly being interacted with in the organizational network. What 'flows' in the network ultimately forms the organization's Culture State i.e. mercenary, tribal, or synergistic.



Strategic Framework Fig.3

The network's flow can be measured in terms of how aligned the organization is to the elements of the strategic framework. This can be done through a specifically constructed survey – designed to reveal where clusters of consensus and discord have formed. A partial example is shown in figure 4.

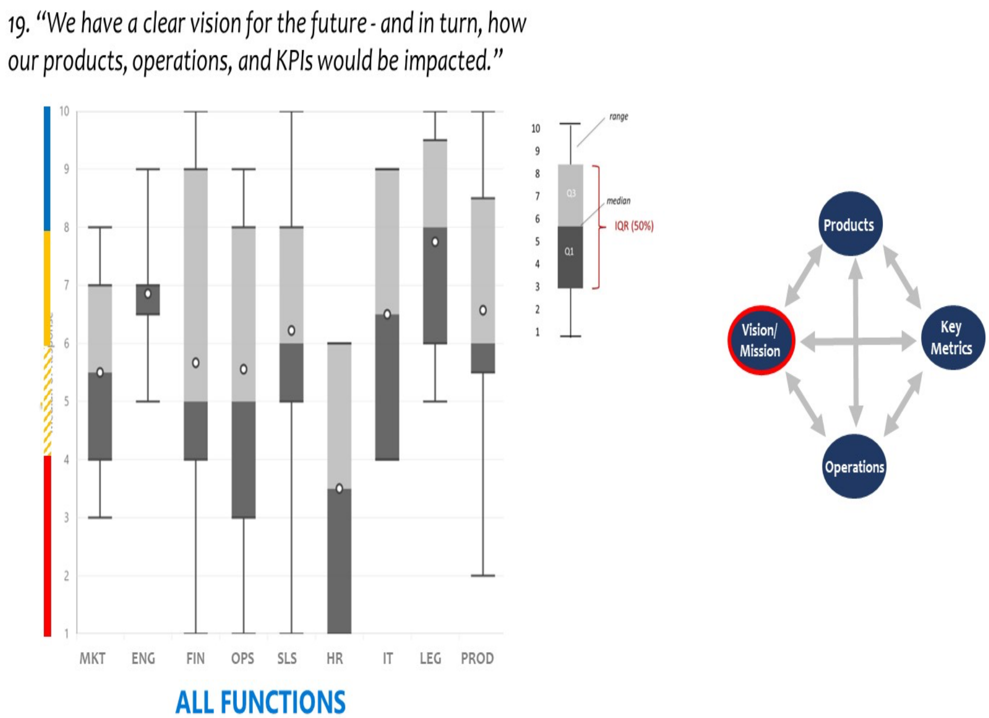


Fig 4. Survey question re vision for the future

These clusters are dynamic, tending to attract other clusters, forming self-reinforcing feedback loops that spread virally. Given enough time, they can 'tip' a once healthy culture into one that is at risk. Of course, the opposite is also true. Laws that govern the behavior of complex networks can be used to great advantage in making sense of the risks and opportunities within these clusters.

But if all that seems too complicated or you've got a gray rhino bearing down on you, put all your efforts into identifying the dominant negative mood(s) and shifting them to their positive counterparts and associated behaviors: *respect* (reciprocating), *confidence* (trusting), *appreciation* (including), and *ambition* (risking). Pay special attention to coming up with a compelling vision – it will shine light on necessary changes in other elements of the strategic framework. Start with the executive team; they form the cluster that will attract others. Once they form a coherent cluster, give each executive the mission to form new clusters within their own organizations and work with other executives to connect those clusters into self-reinforcing feedback loops throughout the organization. And keep listening for the gray rhino.

Appendix A – Studies on culture and performance

There are several academic and empirical studies that bear this out – Kotter and Heskett's in particular is quite revealing.

Metric*	Firms *with* performance enhancing cultures	Firms *without* performance enhancing cultures	Performance lift
Revenue increase	682%	166%	4.1
Workforce expansion	282%	35%	7.8
Stock price growth	907%	74%	12.3
Net income improvement	756%	1%	756.0

**based on eleven-year study: "Corporate Culture & Performance," John Kotter & James Heskett*

"Corporate Culture and Performance," John Kotter and James Heskett, The Free Press, 1992
"Win from Within – Building Organizational Culture for Competitive Advantage," James Heskett, Columbia University Press, 2022
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"The Strength of Corporate Culture and the Reliability of Firm Performance," by Jesper P. Sorenen, Administrative Science Quarterly, vol. 47, no. 1, 2002, pp. 70–91, JSTOR, www.jstor.org/stable/3094891
"Parsing Organizational Culture: How the Norm for Adaptability Influences the Relationship between Culture Consensus and Financial Performance in High-Technology Firms," by Jennifer A. Chatman, David F. Caldwell, Charles A. O'Reilly, and Bernadette Doerr, Journal of Organizational Behavior, vol. 35, no. 6, 2014, pp. 785–808, JSTOR, www.jstor.org/stable/26610930
"Bringing Corporate Culture To the Bottom Line", Dan Dennison, https://www.researchgate.net/publication/13029854_Bringing_Corporate_Culture_to_the_Bottom_Line

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