Organizational Self-Awareness: A Key to Sustainable Competitive Advantage

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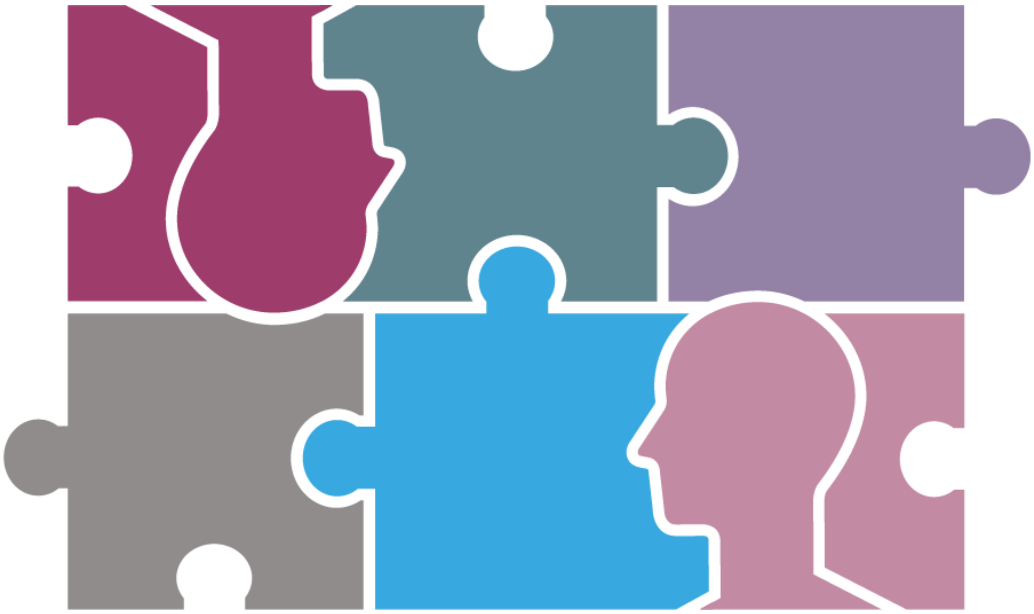


By Dr. Michael Seitchik

In a study of over 22,000 companies, published in MIT's Sloan Management Review, researchers found over 80% of companies that outperform their industry peers on Total Shareholder Return (TSR), by more than 20%, lose all of their advantage within 5 years. In fact, many of these leaders underperformed their peers in just a few short years (Sull et. al, 2020).

They found, of the companies that sustained their competitive advantage, one of the key differences was their ability to learn quickly and not get stuck in the "If it ain't broke, don't fix it," mentality.

Companies may be aware of lagging indicators such as declining revenues, a lack of innovation, or critical talent leaving, but they are typically unaware of what specific aspects of their operating culture contributes to these problems and therefore cannot take effective measures to improve them. They do not know what is actually "broke".

As a result, too often companies try to fix the symptoms of poor performance without knowing the root cause. They see what other companies do to "fix" poor performance and assume it will work for them. It is analogous to taking the same medicine as a friend who also has stomach pains without getting the source of your pain diagnosed. It might work if you're lucky, but if this is your strategy for all your pains, you are unlikely to use the right cure to the problem. In fact, the medication that is working for your friend might exacerbate existing, or create new problems for you. It isn't just an "If it ain't broke" problem, since, in our experience, leaders are often oblivious to what is actually broken.

> *It isn't just a "If it ain't broke" problem, since companies often don't know what is broke.*

It is this lack of awareness of the root cause of their problems that dooms companies—even industry leaders—to underperform. To sustain a competitive advantage, company leaders must increase their awareness of what is really going on in their organizations. They need organizational self-awareness.

Organizational self -awareness occurs when leaders and employees truly understand how their organization actually works rather than how they believe it operates.

A Case Study in Organizational Self-Awareness

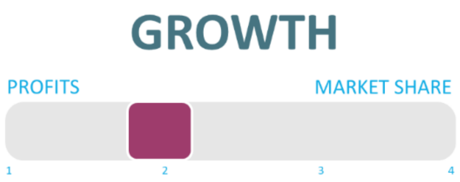
Take the case of Devcn, the fictional name of a real client. Devcn was in trouble. For twenty years it was the technological leader in four markets, envied by its competitors, and praised by corporate ownership for annually exceeding profit forecasts. However, now Devcn was failing to correctly read a changing marketplace. Almost imperceptibly, Devcn's competitors began to steal market share by collaborating with customers to co-create new, customized, innovative products. Customer demands were changing and Devcn failed to react.

Devcn was stuck in "the way things have always been always done around here". They were a victim of the "if-it-ain't-broke-don't-fix-it" mentality. Their engineering-focused culture and way of doing business that had helped them thrive for 20 years was now a major impediment to change. And, it was costing them dearly. Revenue was falling.
They implemented some tried and true change initiatives, including a new ERP system, but nothing seemed to work.

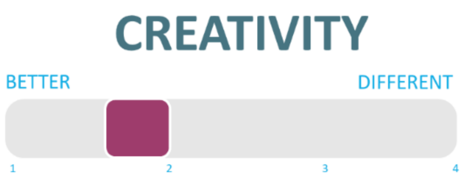
Then, Devcn agreed to have everyone in the company complete our Strategia Diagnostic™ assessment to reveal what was getting in the way of the changes they needed to make to regain their market leadership position. The data from the assessment gave them insights into precisely what to change and what not to change.

For example, the data from our Diagnostic showed that employees felt the company operated in a way that focused on making current products better rather than different. While the competition was taking market share by innovating new products, Devcn was tweaking current products and losing customers as a result.

The data also showed that the company operated in a way that emphasized profits over market share—a clear indication of a way of doing business that needed to change if they were to try to regain their leadership position in the industry.



This data was both a shock and a gift. For example, it was a shock because Devcn executives had no idea there was such a disconnect between their desire to grow market share and the prevailing culture that emphasized profit over market share. But, it was also a gift since they now knew where to focus their energy and time. They were now aware of some major aspects that were broken.



And now that they were aware of what was broken, they could fix it.

As a result of the changes they implemented, after several years of declining revenue, the next two years saw revenue grow by 14%. By relying on real-time data, unique to their culture, they were able to quickly pivot and regain their competitive edge.

> *You can't fix a problem if you are unaware of the cause of the problem.*

In fact, once everyone became aligned around the need to gain market share, they were able to leverage the ERP system to make innovative products more quickly. When the ERP system was first introduced, because leadership did not know the root cause of their problems, implementing the process just allowed the engineers to make existing, unwanted products even more quickly. Of course, that did little to improve market share or revenue growth. After the Diagnostic revealed the root cause of poor organizational performance, the ERP system became an invaluable process for supporting making new, innovative products more efficiently.

The point is, Devcn leadership lacked self-awareness of what was wrong. And, you can't fix a problem if you are unaware of the root cause of the problem.

The Lack of Organizational Self-Awareness

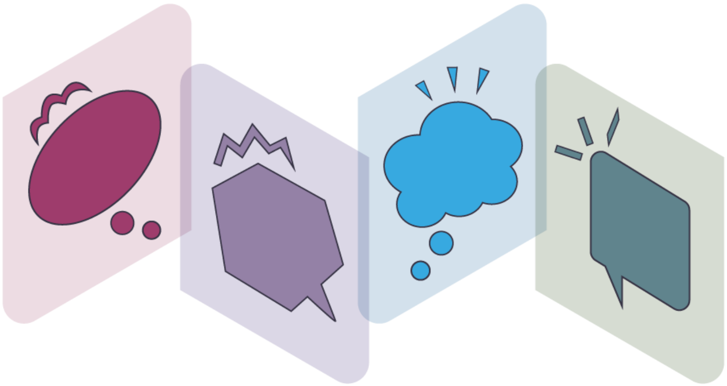
Devcn executives are not alone in their lack of organizational self-awareness. In our experience with over 140 companies, many senior officers are unaware that their declared purpose and strategic goals are out of synch with actual operating environment. How they imagine or want the company to operate is very different from the actual beliefs and behaviors of the workforce.

> *We often find CEOs are shocked when they learn the true beliefs of some of their own C-Suite members.*

Our experience has been validated by others. For example, research by faculty at MIT on over 500 companies showed no correlation between the company's official values and actual behaviors (Sull et. al, 2020). In fact, they found that "All of the correlations between official and actual values were very weak, and four of the nine — collaboration, customer orientation, execution, and diversity — were negatively correlated."

If people within the organization experience an operating culture that is very different from its stated purpose and aspirations, and senior management is unaware of this gap, the organization is headed for disaster.

Most senior executives would be shocked to learn just how little they understand what really goes on in their companies.



In fact, we often find CEOs are shocked when they learn the true beliefs of some of their own C-Suite members. For example, when we worked with a small European consulting firm, the data revealed that someone on the team felt the company's purpose was unclear. The shock on the CEO's face was apparent to everyone! Like most CEOs, they could not believe anyone, let alone a senior officer, did not "know" the company's purpose.

In our experience, it is common for people to be unsure about a company's strategy. The author of this article was once hired by a COO to find out why the four divisional leaders who reported to him were not successfully implementing the strategy. When the divisional leaders were asked, in private, to rate how confident they were that they understood the strategy, the average was a 4.5 out of 10 with 10 meaning they were very confident they knew the strategy.

Too many CEOs believe that just because they put out an email stating the company's strategy, everyone will feel confident they know the company's priorities. But just because senior management knows the strategy because they have been debating it for months, does not mean everyone can glean a similar understanding from an email. This lack of awareness leads to poor strategy execution because senior leaders do not know what is broken.

What is Organizational Self-Awareness

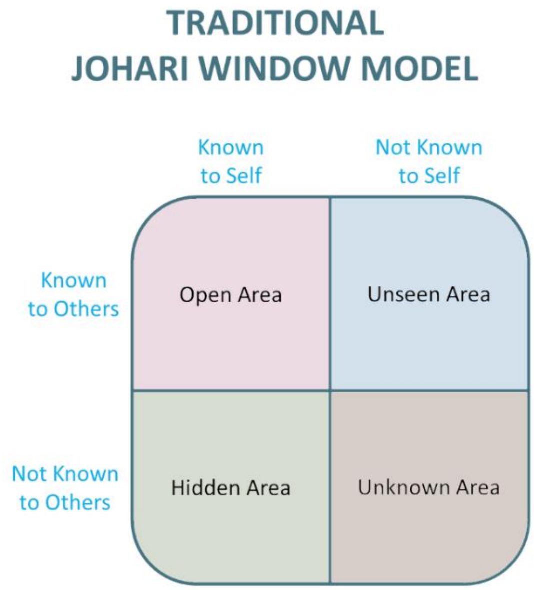
Organizational self-awareness is a key factor in the ability of an organization to create and maintain a competitive advantage. It is the capacity of leaders to know how their actual operating culture—the actions, beliefs, and behaviors of their workforce—matches what they assume their operating culture needs to be to meet their business objectives. It is the ability of the organization to understand what they know and don't know about how they actually operate.

The senior executives at Devcn thought they knew their operating culture, but they were unaware of key factors that were causing them to lose their competitive edge. They didn't know what they didn't know but needed to know—the unknown knowables.

> *Organizational self -awareness occurs when leaders truly understand how their organization actually works rather than how they believe it operates*

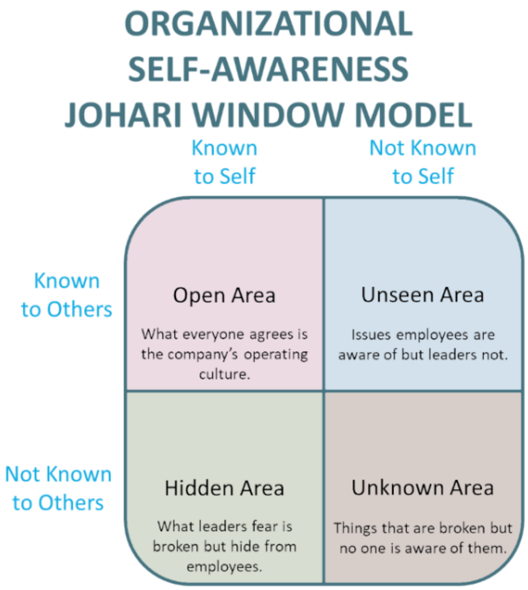
One way to visualize the lack of organizational self-awareness is to use the classic Johari Window created by Joseph Luft and Harry Ingham in 1955.

The Johari Window Model has been used for over 60 years as a tool to help improve self-awareness by comparing what a person knows about themselves to what others may know about them. For example, the upper left-hand quadrant is the outcome of someone knowing something about themselves and others seeing the same thing. The upper right-hand quadrant is labeled "unseen area" because while others perceive this about the individual e.g. the person is being hostile, the individual does not know they are coming across as hostile. That is, the individual is oblivious to how they are perceived.



For the purposes of this article, we can use the same model to help improve organizational self-awareness.

In the figure below we have modified the classic Johari window to apply it to organizational self-awareness.



The upper left-hand quadrant (Open area) now represents when what is known to the leaders is also know to everyone else. For example, everyone in the organization knows who is their biggest competitor. Here there is organizational self-awareness.

The upper right-hand quadrant (unseen area) represents what employees know but the leaders do not. For example, if people in the call centers know that customers are unhappy with a specific product but are afraid to say so, assuming no one will listen to them, senior leadership will be unaware of the problem. The call-center people are mum, and as a result, organizational self-awareness suffers. Leaders can't fix a problem if no one has a safe way to tell them about it.

The lower left quadrant (Hidden area) represents what the leaders know but the employees do not. For example, perhaps the leaders have decided to acquire another company and need to keep this information confidential for strategic and legal purposes. But, it could also represent the fact that while the leaders have purposely not discussed ways to meet their diversity goals to avoid difficult conversations, no one else in the organization knows about this conspiracy of silence.

Finally, the lower right quadrant represents those things that are not known by either the leaders or the rest of the company. For example, at Devcn no one knew for a long time that their competitors were stealing market share. It took several years of declining revenue for them to become aware that something was wrong. They did not know their approach to product development was broken.

Using the Johari model as a guide, it is clear that true and complete organizational self-awareness means your company is totally in the "Open area" quadrant. All the other quadrants represent some degree of a lack of self-awareness. And, any degree of low self-awareness can mean trouble for an organization.

So why do so many executives lack the organizational self-awareness they need?

Causes of Low Organizational Self-Awareness

The leading causes of a lack of organizational self-awareness are:

1. A lack of curiosity and courage among senior executives
2. A lack of psychological safety among the employees
3. Poor measurement methods
4. Giving outside consultants too much power

Let's look at these factors, starting with the senior executives.

A lack of curiosity and courage among senior executives

In our experience, many leaders are not curious about how others perceive the company's operating culture.

> *Leaders fear that if they find out what people really think, they might have to change how they are leading the business.*

Leaders often do not seek what employees have to say because they have been led to believe most employees do not have any valuable insights. "What do they know? We can see the big picture and connect all the dots. They have little understanding of what it takes to run a company."

So, why ask?

At the same time, leaders fear that if they learn how other people view things, they might have to change how they are leading the business. This becomes especially worrisome if they have not been adequately equipped with the means of understanding and effectively using these differing perceptions, and they do not know where to begin in making useful changes.

That is, leaders often lack the courage needed to risk trying something new.

So why ask others what they think if they are not ready to deal with the answer?

Because these leaders are not curious about what others think and lack the courage to ask, they are often left with the misperception that everyone agrees with them.
Research tends to support our experience.

First, a study published in the Harvard Business Review found that "the power and privilege of being a CEO can leave you insulated from information that might allow you to detect that need for change" (Gregersen, 2017).

As a result, leaders tend to believe everyone else thinks the same way they do. Studies have shown that "powerful individuals erroneously assume that others feel allied to them" (Cameron et. al., 2013).

If leaders, especially CEOs, tend to believe everyone agrees with them, then there is nothing in need of fixing.

Secondly, a recent study found that "managers are frequently stuck in their own ways of working and identify so strongly with the status quo that they are fearful of listening to contrary input from below" (Sherf, et. al., 2019).

In summary, leaders often lack the curiosity and courage needed for high levels of organizational self-awareness.

A lack of psychological safety among the employees

Contributing to the lack of organizational self-awareness is a reluctance of employees to speak up and share their views with people in power.

Why are employees so reluctant to speak up and share their concerns?

Firstly, many people are intimidated by people in power. People are less likely to speak up to those in higher positions (Detert & Edmondson, 2007).

Secondly, in addition to concerns about the power differential, most people have seen leaders "shoot the messenger". That is, leaders get angry at the person who dares to relay bad news rather than focus on trying to understand or resolve the problem the employee is raising. We have all seen it happen over and over again. Employees get the message—speak your mind at your own peril.

The result of "shoot the messenger" is the Mum Effect (Dibble et. al., 2010. In order not to anger their bosses, people soften bad news or don't share it.A recent study published in the Harvard Business Review showed "that people are prone to derogating those who tell them things they don't want to hear—we shoot the messenger" (John et. al., 2019). Leaders will devalue people that tell them bad news. When the person who devalues you is your boss or your CEO, that's a powerful reason not to tell them something they do not want to hear.

> *At the same time leaders are numb to hearing dissenting views, employees are mum about what they think, feel, and believe.*

Not surprisingly, a recent study found that the number one reason employees do not speak up is that they believe leaders do not want to hear what they have to say (Hurt & Dye, 2019). Because employees do not speak up, executives can fall victim to the illusion that everything is fine with the status quo. Research has shown that the illusion that nothing needs to be fixed is the belief that unity and the lack of dissention is a sign of a healthy organization. (Morrison & Milliken, 2000).

When no one is bringing up issues and everything seems to be running smoothly, why ask what people really think? They must think everything is just fine! As a result, senior executives often do not feel the need to be curious about what others think.

Because of not seeking and/or not wanting to hear differing perceptions, leaders become isolated from knowing what people in the organization think, feel, and believe. They lack the organizational self-awareness to know what is broken.

Poor measurement methods

The third cause of poor organizational self-awareness is the lack of appropriate measurement methods to gain insights into a company's operating culture.

> *Too often, the goal is not to discover the truth but to win awards or accolades.*

We have found there are four typical problems with how company's approach measuring their culture.

Leaders often use surveys to make the company or leader look good, not to gain self-awareness.

We all know that it is easy to create survey questions that are worded in such a way that the results can tell the story the leaders want to tell.

For example, the author knows of one business school that was frustrated that it was never rated as number one. The Dean made a speech to the students saying that they are never number one because of relatively poor student evaluations of their teachers. He said the value of their MBA would increase (they could demand higher salaries) if they became number one. That is all he said. To no one's surprise, suddenly students gave their teachers extremely high ratings, and the school was rated #1.

How many employees rate their companies high on these surveys because either they feel pressured to give good grades to the company, or they see good ratings will benefit them personally? Too often, the goal is not to discover the truth but to win awards or accolades.

Organizations use the wrong surveys and ask the wrong questions.

For example, until recently Microsoft used a typical engagement survey to gain insights into their culture. But, after a careful look at the process, they realized that:

"It often took months to digest and plan actions around. Yet, we consistently encountered challenges in building a shared definition of engagement across the company. And often, despite employee engagement scores that would seem to indicate that things were going well, it became clear that employees were struggling when we dived deeper into the responses." (Klinghoffer &McCune, 2022)

Microsoft "discovered" what our experience has shown. Typical—and unfortunately popular—surveys do not get at root causes, take too long to interpret, do not lead to clear actions, and often create the impression that things are better than they really are.

Leaders do not get feedback from a broad enough sample.

To separate rhetoric from reality, you need to include feedback from a broad sample of your organization. Ideally, you would get feedback from everyone.

> *Workers see what is going on. The problem is no one asks them what they see.*

Everyone has a different reality. This is normal. People working in a call center see things differently than people working on new product development. Everyone has their own version of the truth. So, if you want a full picture of reality, you need to get everyone's perspective. This doesn't mean you need to react to everyone's perspective, but if you do not get the full picture, you are making decisions with limited data. Remember, sometimes the people on the "fringes" are also the people who see the future the best: The people in the field often see the coming storm first.

When the author was consulting for the CEO of a major telecommunications company, he wanted to know how I saw what was broken before anyone in the C-Suite. "I regularly talk to the people climbing the poles" was my answer. As I was driving to work or to the store and saw one of their repair trucks, I would stop and talk. That's how I gained insight into "reality". Workers see what is going on. The problem is no one asks them what they see.

Benchmarking.

A recent Bain Management Tools & Trends Survey found that benchmarking is the third most often used management tool world-wide (Rigby & Bilodeau, 2018). Yet, the same survey, which also asked companies to rate their satisfaction with management tools, rated benchmarking below average. The study concludes that benchmarking "may need substantial improvement".

So why do companies continue to use a tool that does not produce satisfactory outcomes? Because everyone else is doing it—the precise logic behind benchmarking. That is, benchmarking assumes that if something works for others, it will work for you. So, even benchmarking itself is a victim of its flawed logic: If others are doing it, it must work.

But, as everyone should know, each company's situation is different, and they need to find solutions that work for their unique market, objectives, and competencies. But benchmarking is seductive because it is easier. "Let's just do what they do!"—often a sign of being captive to a herd mentality and not a sign of a well-thought-out strategy.

Organizations give too much power to consulting firms.

The fourth cause of low organizational self-awareness is giving too much power to consulting firms. This may seem like a strange "problem" to mention given that the author works at a consulting firm. But, we have seen too many clients who are given advice by firms that seems too highly influenced by the consulting firm's desire to maximize billing. While there is obviously nothing wrong with trying to make a profit, it can interfere with what is best for the client.

> *You become dependent upon them—which is their goal.*

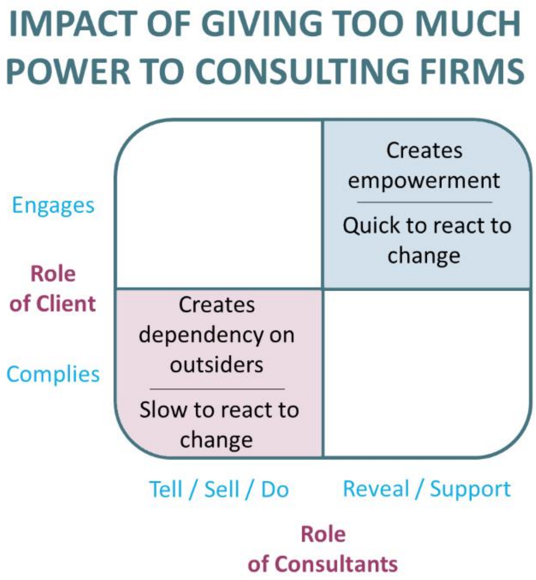
For example, we have seen too many surveys that ask questions or are interpreted in such a way that the consulting firm "just so happens" to offer workshops in those topics. Rarely do these consulting firms find problems they can't solve for you. That is because their questions and advice are limited to finding solutions they already have on the shelf.

The other issue is that these firms solve the problem for you, and you never learn how to solve your problems yourself.

So, you become dependent upon them—which is their goal.

Becoming dependent on a consulting company to tell you what to do, buying their "solutions" and them leading the change implementation, robs you of the opportunity to learn how to do it for yourself.

This approach was probably less problematic when significant changes in the marketplace did not occur very frequently, and you could wait a few years for the firm to come back and do another analysis. But, in current times when change is constant, you do not have time to depend on someone else. You need to have the ability to react quickly. And, this means you need both to have the ability to gather data quickly, anytime you need it, as well as the internal experience and skills to implement the changes that will drive you in the desired direction.



You need a consulting firm that will teach you how to fish.

Because many organizations use poor data collection methods and rely too much on external consultants, even if a company's leaders want to find out the truth about their operating cultures and employees feel safe in sharing their opinions, companies can find it hard to improve their organizational self-awareness.

How to Improve Organizational Self-Awareness

So, how do you find out your organization's actual operating culture? How do you increase organizational self-awareness?

You can't just fix one thing. You must fix the system. To fix the system you must:

- Have both leaders who want to hear and deal with the truth and employees who are not fearful or cynical about speaking up. That sets up a safe learning environment where everyone is open to speaking and hearing the truth.
- Find the root causes of what is broken. Freeing people to speak up can create a lot of heat but not much light or insight. To find the root causes, you need to ask the right questions, otherwise you suffer from garbage-in/garbage out. Asking the right questions helps you understand what is and isn't broken.

- Develop a clear, focused action plan that supports what is helpful and fixes what is broken. The action plan needs to be informed by the data you created by asking the right questions. But what you ultimately do should be determined by your experience and strategic priorities. The data should be a roadmap, not a straitjacket. You know the company best and have to live with the consequences. The data should empower you to feel confident you are making the best decision at the time.
- Tell employees what you have learned from the data, and what you are doing to fix what is broken, based on their feedback. People need to know you not only listened to what they said, but are taking it seriously. If you can't or don't want to make all the changes people suggested, tell them why. At least they will know you heard them. Without thanking them for their input and acting on it, employees will just become even more cynical and silent. They will not be fooled again. They will feel the data collection was a joke and a waste of time.
- Involve employees in implementing the fixes. Employees are usually closer to the problem and closer to your customers. Be sure to consult employees before you make any final decisions. Remember, how you implement change says as much to employees and as what changes you implement. If they feel they have no voice, they will remain mum.
- Create changes that employees can see and feel. Close the gap between rhetoric and reality.
- Find out what is and isn't working. Collect another round of data to measure progress. It is important to realize that since the previous measurement, dynamics have most likely changed. The competitive environment may have changed. So, what is important to fix may be different. For example, Devcn, the engineering-focused company referred to above was a market leader for a long time until their competitors started to partner directly with customers, totally changing the competitive dynamics. Devcn needed to change from a product-driven culture to a customer-focused culture and they did not realize this until we measured their culture.

Clearly, it is important to measure the root causes of problems on a regular basis.

The Impact of Low Organizational Self-Awareness

Research has shown that low organizational self-awareness creates major problems for organizations (Morrison et. al).

And, we can see these problems almost every day in news stories. For example, in a recent interview Jeff Bezos touted Amazon's great employee survey results which said 95% of their employees would recommend working there to a friend. Yet we know there are major labor issues and lots of stories about poor working conditions at Amazon warehouses. It seems that Bezos is, unfortunately, a great example of a CEO who lacks awareness.

> *Too often, there is a gap between the lofty rhetoric of a company's senior leadership and the reality of life on the ground.*

And, there is plenty of research showing "everyone" seems to know how out of touch top leaders are about what their employees are thinking and feeling.

According to a study by Gartner (George, 2018), only 31% of CHROs say their organization has the culture it needs. A study by Sull and others (Sull et. al., 2020) found that "Only 55% of the middle managers we have surveyed can name even one of their company's top five priorities." Too often, there is a gap between the lofty rhetoric of a company's senior leadership and the reality of life on the ground. That is why companies typically do not maintain their competitive edge. As Vicere states, "declaring aspirations is much easier than actually achieving them." He goes on to write, ". My research, coupled with my years of experience as a consultant, has convinced me that the key to resolving this perplexing challenge is rooted in the ability of leaders to reconcile the rhetoric of corporate aspirations with the reality of the corporate operating environments" (Vicere, 2009).

Our experience shows that the presence or lack of organizational self-awareness on the part of a company's senior executives can have an impact on performance.
Take the example of two different organizations facing the challenge of the Great Recession of 2008 -2009.

One was a financial services firm we'll call StockBiz and the other was a humanitarian organization we will call WorldSav. Our process can compare how a company's executive management team views their current operating culture to how everyone else in the company sees it on nine critical elements that create a culture. In the case of StockBiz, the executive team was aligned with the rest of the organization on six of the nine elements. On the other hand, at WorldSav, their executives were only aligned on two of the nine elements.

When we look at how each did during the 2008-2009 recession, there was a remarkable difference. StockBiz did extremely well, especially compared to their competition. Between the start of the recession in 2008 and the end in 2010, they had doubled their market share. On the other hand, WorldSav did not respond well to the financial crisis. In fact, they lost their way.

At WorldSav, our data showed that people were unclear about their purpose and were focused on preserving the past and not trying to adapt to a changing environment. And, the execs were unaware of this. They were oblivious to the fact that their operating culture was not one that could easily adapt to dealing with a crisis.

While StockBiz had leaders with great organizational self-awareness, WorldSav did not. Organizational self-awareness then is not a "nice-to-have" but a critical factor in success.

In conclusion

Our experience over 25 years has shown that by asking the right people the right questions to reveal what truly is and isn't broken, companies can learn how to continually self-correct and create sustainable competitive advantage. Organization self-awareness is a key to success.

> *To increase Organizational Self-Awareness, you must first fix the system.*

To increase Organizational Self-Awareness, you must first fix the system.
This isn't magic. It just takes the willingness to ask for, hear, and act on the truth.

As Vironika Tugaleva said, "To know yourself, you must sacrifice the illusion that you already do."

Partnering with us allows organizations to uncover and leverage valuable, diagnostic data.

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