CEOs AND THE CIA: LESSONS LEARNED?

> A closer look at the CIA's mistakes concerning India's nuclear plan suggests that the American agency was organized to fail. A study of its processes revealed that structural inadequacies made it impossible for the agency to anticipate Indian behavior. Those same inadequacies can seep into any organization's intelligence and information systems.
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> Looking at several recent corporate actions, we can see that similar types of mistakes are taking place in the private sector as well. Seeking to learn from the CIA's mistakes, we developed a set of objectives that can help the typical CEO avoid the pitfalls that undermined the CIA's effectiveness: (1) Place personal observations at the core of information-gathering systems; (2) avoid information addiction; (3) structure time to think and reflect (i.e., to focus) on what is being learned; (4) develop a context (i.e., an understanding) of what is taking place and use that context to guide decisions; and (5) look for discontinuities (i.e., do not assume continuity).

The CIA Report

As we mentioned in "The Risks of a Risk-Free Perspective" (**IF 1917**, 6/12/98), India's nuclear tests proved embarrassing to the American intelligence community. Specifically, the CIA was "out of the loop" in terms of Indian activities, and consequently the agency could not deliver a warning signal to Washington.

"Yeah, but it doesn't smell like a bomb!"

Chastened by the agency's failure, CIA Director George Tenet asked retired Admiral David Jeremiah, a former member of the Joint Chiefs of Staff, to study the agency's problems. His report went right to the heart of intelligence and the potential for costly mistakes. Among his findings:

✦ The CIA had **little "human intelligence"** (*i.e.* people on the ground watching) in India, and worldwide, the organization had come to depend too heavily on machine-derived information.

✦ The agency's spy satellites produced **too much information** for fatigued, untrained and overworked employees to digest and organize.

✦ Agency specialists **failed to focus** on specific test sites and political issues as they arose around the nuclear affair.

✦ The CIA **did not take the time to understand** India and to learn how much its public life gained momentum from national pride.

✦ The agency fell into a pattern of expecting behavior from the recent past to continue into the future – that is, they missed discontinuities in surface events because they **expected things to happen in a certain way**.

(*New York Times*, 6/3/98; *International Herald Tribune*, 5/26/98)

Looking at this list, we easily detected a pattern within the patterns. Without personal observations, the agency depended upon surveillance devices, which inundated personnel with data to such an extent that they could not examine and organize the material into accurate observations that would uncover real change. The overabundance of minutiae kept the agency from taking the time to delve deeply into the cultural context or to focus on specific nuclear sites or political issues that would have attracted attention. As a result, the CIA fell back on the practice of projecting past behavior into the future.

VIRTUAL BLINDNESS
MUELLER

In essence, the agency that is specifically charged with the nation's intelligence chores had structured itself so that it could not identify substantive change, a central purpose of intelligence. Said more bluntly, **the CIA was organized to fail**.

A CEO Report

Looking at leadership decisions lately, we wondered whether the CIA's mistakes in intelligence were being made elsewhere, particularly in corporate America, and whether or not the agency's failures could serve as lessons for others. Utilizing the list of identified mistakes – lack of personal observations, information overload, failure to focus, lack of context (or understanding), projecting behavior forward – we examined a few recent corporate market reactions.

Personal Observations – Nike has enjoyed a steady run as the sports apparel stylemaker and sport shoe industry leader. So dominant was the company's position that its market share for all footwear reached 61 percent, and its marketing staff felt comfortable throwing 350 new shoe models at the market every year. (*Wall Street Journal*, 3/3/98)

That success may have blinded the company to market intelligence that signaled trouble. Had the company utilized personal observations, it certainly would have seen inner-city youth – one of the company's key market segments – wearing ever-larger ski jackets and baggier jeans, a "look" that boded ill for the trim, little sneaker. As the oversized, bulky style grew in popularity, Nike officials should have anticipated the real possibility that another, larger shoe would better fit "the look." Also, teens were more and more rejecting all brand names and looking for styles derived not from athletes but musicians. No doubt, however, Nike marketers had "numbers," which when projected forward, showed ongoing market vibrancy for the company.

Nike should also have sounded an alarm when its college market segment showed signs of declining enthusiasm. Holding more than 200 special equipment deals (a.k.a. partnerships) with different colleges around the country, Nike's "swoosh" logo seemed to appear on television almost weekly as

college teams competed in nationally broadcast events, wearing clothes that Nike supplied. However, last year, Stanford University announced that its $2.5 million Nike sponsorship deal might be sending the wrong signals to its amateur athletes. Stanford added that it might want to reconsider all such special arrangements, including ones with Pepsi-Cola and other consumer products companies. Like CIA officials who could not envision India risking expanded trade connections with the rest of the world just to explode a nuclear device, so too, Nike officials probably figured that no university would surrender several million dollars for a principle. (*San Francisco Chronicle*, 2/21/98)

But Nike has had to confront other issues of principle, which when added to the Stanford position should have sent trouble signals up the line. College students have increasingly protested the company's overseas production standards, especially as they involved worker compensation and factory conditions. The company felt comfortable addressing each issue of principle separately. However, had Nike officials pieced these actions together, they might have seen their company's market vulnerability.

In addition to issues of principle, Nike could have looked internally and noticed that despite its 350 new products per year, it had not brought to market a significant product change since it first added air-cushioned soles to its shoes...in 1978.

All of these signals aside, the company expressed surprise when its sales started to fall, dropping 3 percent in the quarter ending November 1997. In the next quarter, Nike's U.S. retail sales dropped 15 percent, and earnings plummeted 69.2 percent. Gross margins eroded to 54.4 percent from 59.8 percent, and Nike orders for delivery through July 1998 declined 9 percent. (*Advertising Age*, 3/28/98)

This new reality sent the company scrambling, laying off first 450 and then one week later another 1,600 workers (7 percent of its work force). Nike then promised to cut $100 million in spending from its forthcoming fiscal year budget, but even in this late stage, company officials were deflecting attention by blaming the "Asian flu." (*Women's Wear Daily*, 3/19/98)

"And if this happens it'll be, like, really cool."
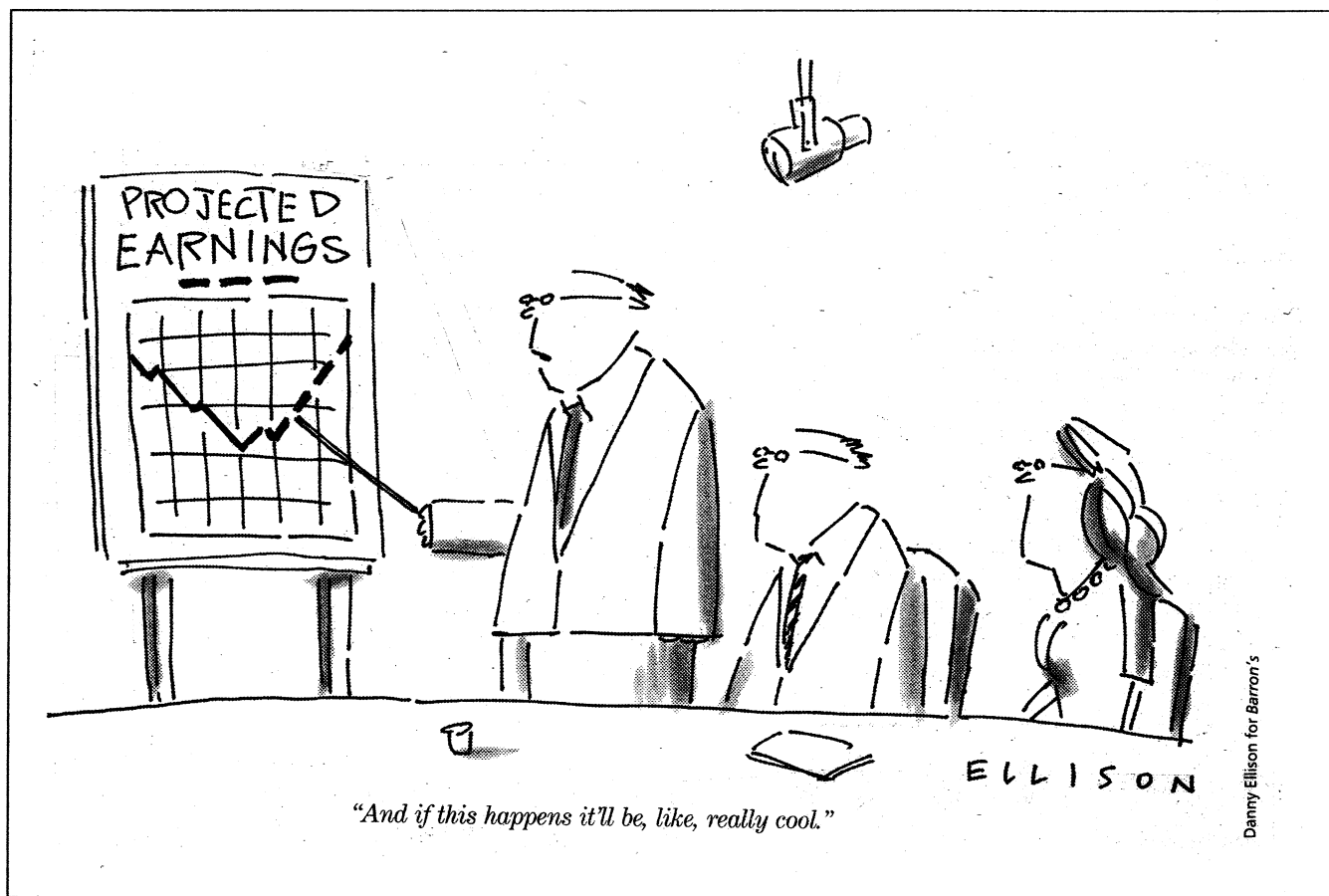
Information Overload – The abundant inflow of information has become a problem for most organizations. Electronic data processing has made data generation not only easier but nearly addictive; that is, the more information the system generates, the more it needs and wants, to the point where information generation displaces thinking as a key element in organizational operations. The average worker in an office sends and receives 190 messages per day, up from an average of 178 just one year earlier. Each message requires an action or a response, and each event deflects attention from the specifics of the regular work load. Predictably, from the third quarter of last year through the first quarter of this year, growth in worker productivity – despite the boost that downsizing was supposed to generate – slowed from 3.6 percent to 0.2 percent. (*Wall Street Journal*, 4/8/97; *Investor's Business Daily*, 5/29/98; *Business Week*, 6/8/98)

Information overload creates unusual work routines and even changes office procedures. At the office of CitySearch, an online guide to various communities in North America and Australia, workers wear red sashes when they do not want to be interrupted by fellow workers. But even if their signals are effective, the relentless flow of other information can still disturb their thoughtfulness. Sources of information generate material 24 hours a day. By conservative estimates, the World Wide Web now has 320 million different addresses, each generating more information in some way. (*Miami Herald*, 4/8/98; *Harper's*, 9/97)

Information tends to beget information, as users become addicts. "Perfect information," the saying goes, "leads to perfect decisions." But more and more information gathered in the name of the wrong context leads to worse and worse decisions. By the time Copernicus proved that the earth circled the sun, those subscribing to Ptolemy's theory that all planets including the sun circled the earth had volumes of intricate and detailed information they could marshal to circumscribe any problems that arose from a faulty context.

Another interesting scientific discussion is underway today, specifically, one about gene research. Biotechnology has swung its resources to mapping human DNA in an effort to know what makes life. The so-called Human Genome Project hopes to complete its gene sequencing research within a few years. But some scientists see this massive effort as an accumulation of information without context. "Learning about the genome for its own sake as a means of understanding the biological process," argued Dr. Claudio Stern of Columbia University, "is like learning a language by memorizing a dictionary."

Dr. Stuart Kauffman, theoretical biologist at the Santa Fe Institute, counters what he calls the Genome Project's "reductionism" by noting that individual atoms and molecules do not exhibit temperature, yet temperature emerges from their interaction. Deciphering the molecular structure of genes, he intimates, does not lead to the fundamentals of life at all. The collective interaction of the atoms and molecules plays a role in what makes life. Organisms must be understood as "dynamic systems," Kauffman insists, systems in which genes play a significant

"I had to get rid of the desk — it took up too much room."

but limited role. No matter how much information the Human Genome Project generates, it will not be sufficient to understand what makes life, even though the amount of information inundates those studying genetic schemes. Scientists must still set aside time to reflect on what they have learned in order to develop a larger context. (*New York Times*, 9/2/97)

Failure to Focus & Lack of Context (Understanding) – Finding this context or seeking a wider meaning to accumulated information takes time, and that is what the CIA's specialists lacked and the Human Genome Project scientists are seemingly ignoring. George Soros has started to set aside one-third of each day to think about issues he is addressing, and his decision to save that much time to think has a basis in research. According to medical studies, the brain needs 6 hours to store in memory any new skill. Should an interruption that requires new learning occur within that 6-hour span, then the skill does not settle securely in the brain. "You have to allow time to pass for the brain to encode the new skill," explains Henry Holcomb, a Johns Hopkins University psychiatrist who studies how people remember. That is, interruptions keep an individual from learning. (*Time*, 9/1/97)

The office worker responding to nearly 200 messages per day, the leader inundated with studies, surveys, polls and reports, and individuals dealing with media messages flying at them from all types of sources do not have sufficient time to let the information filter into the brain in order to adjust the overall context as necessary. That is one reason advertising has been less and less effective, and it is why individuals watching television cannot remember, moments later, what they just saw. Information crowds out information.

Information in context becomes knowledge (or understanding), and the CIA did not have that on India because its analysts were overloaded and because they lacked direct observations. Without time to think through the information and to wrestle with the specifics, they could not focus on issues and therefore were unable to gain any understanding of what might be happening. The CIA was not alone in misunderstanding situations. In the following examples, business leaders were operating within one context (cost saving), but the real changes were taking place elsewhere (human resources), and consequently they, like the CIA, were not prepared for what happened.

✦ AT&T executives wanted to eliminate 10,000 jobs. So they offered an "early out" for employees, hoping to get a start on the process through voluntary action. Rather than a start, the

A. BACALL

"*Richard, we need to talk. I'll E-mail you.*"

executives soon had to deal with an exodus, as 15,300 employees – 53 percent more than originally targeted – took the offer. (*AP Online*, 6/3/98 and 6/15/98)

✦ Bell Atlantic offered early retirement packages in order to meet requirements of the Nynex–Bell Atlantic merger but soon found itself watching the best and brightest leave the company. Last year, nearly 10,000 managers headed for the door when an offer came their way. More recently, when the offer reached one section of the union workforce, more than 11,000 accepted the deal, forcing the company to up retirement benefits and other incentives to try and retain the minimum number of workers needed to avoid any kind of service disruption. Now, that same offer must go to yet another union section, where 14,000 eager employees await their chance. (*New York Times*, 5/31/98)

Bell Atlantic admitted that the popularity of the Internet caught company executives by surprise. Furthermore, company planners failed to anticipate the increased demand for second telephone lines to the home that home offices and Internet access would require. In short, the company's intelligence system missed the biggest market shift in the past several decades and also misunderstood the mood and perspective of its own employees.

Project the Past into the Future – Without crucial intelligence based on personal observations and a viable and evolving context, Bell Atlantic inevitably projected what had been taking place in the past into the future. Executives did not think that so many employees would leave, and they did not observe a huge technological shift in their marketplace. No doubt, they had different "numbers...going forward."

The practice of projecting the past forward creates a series of systemic jolts when recognition of an error demands an immediate and severe change in course. For example, downsizing captured many executives' imaginations because it promised larger profits without increased sales. Removing costs by saying "good-bye" to employees became so successful that companies eventually found themselves short of workers and started to rehire in

a panic. Managerial unemployment declined to 1.9 percent in 1997, which has prompted a competitive hiring environment that is sending the cost of hiring and holding employees upward. Now, the hiring action has started to move to the extreme as 32 percent of roughly 15,600 employers polled said they planned to hire more people in the next three months, **the strongest hiring intentions for any third quarter since 1978**. In another survey, 56 percent of executives said they planned to add managers and professionals in the early part of this year. The urgent action to downsize became paramount and extreme, and that led to an urgent need to hire, which has led to a projection of future hiring, presumably based upon the assumption that the economy will continue to expand and support such additional expenses. (*USA Today*, 5/14/98; *Wall Street Journal*, 5/26/98)

Such purge-and-binge practices result from an unclear strategy, which results from the lack of dependable and accurate intelligence. Overall, American CEOs are committing the same errors the CIA did in India.

Accurate Intelligence, Successful Strategy

Looking closer at the CIA report, we can easily list agency errors in positive terms as an outline for developing effective intelligence. The list is simple:

✦ Place personal observations at the core of information-gathering systems.

✦ Resist information addiction.

✦ Structure time to think and reflect (*i.e.*, to focus) on what is being learned.

✦ Develop a context (*i.e.*, understanding) to guide decisions.

✦ Look for discontinuities (*i.e.*, do not assume continuity).

While these practices do not represent a complete system of intelligence, they are lessons learned from the CIA failure. CEOs can learn from the CIA's experience, and thereby avoid reaching a crisis point that both embarrasses leadership and costs the company dearly. Good intelligence, not

"perfect information," guides leaders toward more grounded decisions, a practice the CIA should be developing as it learns a key lesson: **Unobserved discontinuous change is extremely costly.**