

For More Profit, Shovel Away the Sand Over Those Whose Heads Are Buried in It

Minimizing the importance of any related problems or to trying to cover them up are the two most common defensive postures for dealing with irresistible forces. You can always find someone to convince you that there really is no problem even when there is one. And since the bearers of bad news often fear blame or punishment, they prefer to keep quiet about problems. Either way, you end up with your head in the sand and your vulnerable flanks exposed. Intel learned this lesson to its dismay. A version of its microprocessors contained an error that would in some instances cause calculations errors. Outraged customers immediately demanded to have their microprocessors replaced. Intel initially downplayed the problem by assuring customers that they would probably never have any wrong answers unless a certain type of calculation was done with great frequency. Few people were thought to be doing these calculations repeatedly at that time. The outrage grew upon hearing this information. Customers expected a perfect product for calculations, regardless of whether they needed that perfection or not. After a few days, Intel capitulated and announced it would replace all the chips. Along the way, however, the company lost an important opportunity to create confidence among those who used the company's products. Understanding the irresistible force of having ever more demanding customers and users is something that few enterprises can choose to ignore. Perhaps this is one reason that many personal computer purchasers began to migrate to less expensive microprocessors produced by Intel's competitors in the late 1990s. Similarly, in the many financial scandals uncovered in the 1990s (such as the ones at Sumitomo and Barings Bank) involving large losses from unauthorized trading in securities and commodities by individuals in major companies, the people involved always succeeded in hiding their errors for years. They invariably used the simple technique of only reporting enough of the trades to show a wonderful pattern of profits. One reason for being able to create an unauthorized "license to lose" seemed to be that their superiors in these companies had little incentive to inquire about how the good trading results were being generated. The superiors often depended on a continuation of these false profits in order to get their own bonuses and promotions, as well as hold their jobs. In fact, after such phony profits have been booked, many companies do not attempt to recover the financial rewards paid earlier to senior officials. The brokers who handled these transactions often knew or had good reason to suspect that the client's internal rules were being broken. Similarly, the brokerage firms had little reason to blow the whistle, because they would lose a very valuable account. These "loose cannon" traders went on to make even more gigantic and fateful errors while trying to cover up what had been going on. Added billions of dollars went down the drain.

About the Author

Donald Mitchell is an author of seven books including *Adventures of an Optimist* and *The 2,000 Percent Squared Solution*. Read about creating breakthroughs through 2,000 percent solutions and receive tips by e-mail by registering for free at <http://www.2000percentsolution.com> .

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