Do You Have "Rhythm"?

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The Business Habits

There are several key habits that you can use in growing through the barriers of growth and toward being a great company. These fundamental are "blocking and tackling". Verne Harnish has done an excellent job in his book, *Mastering the Rockefeller Habits*, of identifying 3 fundamental habits for companies:

1) priorities;
2) executive team meeting rhythm; and
3) data-driven

In his biography of John D. Rockefeller titled *Titan*, Ron Chernow provides some insight into some of the management practices of John D. Rockefeller. John D. Rockefeller was one of the founders and the prime architect of an oil company in the mid to late 1800's, Standard Oil. By the time John D. Rockefeller was 39 years old Standard Oil controlled 90% of the world's oil flow. John D. Rockefeller was the wealthiest man in the United States during the late 1800's and early 1900's. In *Titan* you will find these similar habits practiced by John D. Rockefeller and his organization.

Priorities

An organization needs to clearly understand the #1 thing it needs to accomplish for success, at any given point in time. What is the most important thing we need to do the next 3 years, this coming year, this quarter? This is the simple idea of focus.

In his book titled Focus, Al Ries provides us with the analogy of the sun to illustrate the power of focus. "The sun is a powerful source of energy. Every hour the sun washes the earth with billions of kilowatts of energy. Yet with a hat and some sunscreen you can bathe in the light of the sun for hours at a time with few ill effects. A laser is a weak source of energy. A laser takes a few watts of energy and focuses them in a coherent stream of light. But with a laser you can drill a hole in a diamond or wipe out cancer. When you focus a company, you create the same effect. You create a powerful, laser like ability to dominate a market."

Peter Drucker recommends organizations focus "scarce resources on the greatest opportunities." The idea of the power of focus is not new. It has been around a long time. Single-minded focus has been an underlying characteristic for successful individuals and organizations throughout time. Just to jump back a little bit in time, there is a story Verne Harnish shares in his workshops with executive teams about Ivy Lee.

Ivy Lee was a "consultant to management" who did work with both Andrew Carnegie's steel company and John D. Rockefeller's company, Standard Oil around the turn of the century…last century. Ivy Lee visited Charles Schwab who was at that time the CEO of Bethlehem Steel. Charles Schwab quickly let Ivy Lee know that he didn't need more knowing but that he needed a way to get done the things he already knew.

In about 20 minutes Ivy Lee shared with him a simple tool. He told Charles Schwab to take a card and write down the six most important things he needed to do that day. Then he had Charles Schwab prioritize them; #1 through #6. Ivy Lee told him to stick the card in his breast pocket. He should begin at the top of the list and work on that item until it is done only moving down the list after he accomplished the most important item. Ivy Lee told Charles Schwab he should do the same thing each day.

As the story goes, Ivy Lee parted and told Charles Schwab to send him payment for what he felt the advice was worth. Ivy Lee later received $25,000 – a king's ransom in those days, let alone the fact that it was for 20 minutes of Ivy Lee's time.

Now let's bring this concept back to a company level. You need to know at any time what are your Top 5 and #1 most important areas of focus as an organization. These should be the issues where team focus will have the greatest impact for the success of the organization. What is your #1? What are your Top 5 (maximum) most important things?

It's the old adage if everything is important nothing is important. Usually the #1 is that big, ugly issue that is being avoided. It is that issue that hangs in your gut and haunts you in the still, dark, quiet moments of the night.

Within a company you should know and post your #1 priority and Top 5 priorities for the long-term future, the current year and then down to current quarter. They should be articulated for the company, each department and then down to each individual. It should cascade down into the organization so all individuals and positions can have a "line of sight" that connects what they are working on day-to-day and week-to-week to the overall objectives of the company.

Rhythm

This all begins with the CEO and the executive team, but as we mentioned, the priorities for the company need to be cascaded throughout the entire organization. This leads us to a second Rockefeller Habit, rhythm.

What we are going to look at with rhythm is a specific executive team meeting rhythm, but first let's review the general nature of rhythm. Rhythm is all about frequency and routine.

Let's look at a familiar situation that highlights the point. If you were to graph a student's activity curve for an assignment given by a teacher at the beginning of the semester that was due at the end of the semester what would that curve look like?

The student would rush right out and get the assignment done with a month to spare, right? No! Not if the student was like the majority of human beings on the planet, including myself! Human tendency is to work against deadlines. In fact, the curve in this case would probably not even look like a gradual incline but, in all likelihood, would not show up on the chart until two weeks or two days before the assignment is due at which time the activity curve would swoosh up in dramatic fashion. Maybe it even culminates in one of those "all-nighters" we liked to brag about. Oh, yeah, there are few individuals out there who would start diligently working on the assignment and complete it with two weeks to spare. In general, though, activity increases as a deadline approaches.

Now what would happen if we were to break up the intervals of the assignment? The assignment was still due at the end of the semester but the teacher gave us a number of interim steps that were due along the way. Maybe first it is a one-page summary of our thesis, then a list of our research material, then an outline followed by a rough draft.

Each step would be due 3 weeks apart. Now, what does the curve look like? We would see a bunch of little swooshes all along the line, right? You can complete the simple graphic for this example on page 8 of the TuneUpTM workbook. Now we would be working with human tendency as opposed to against it. There will be a natural increase in activity leading to an increase in results.

The bottom line – if you increase the frequency of something you will naturally increase the results! If you change nothing else except increase the frequency you will increase the results, it is that simple. This is the first underlying element of rhythm.

The second underlying principle of rhythm is routine.

Routine sets you free. Is anyone here a jazz musician? If so, you understand what we are talking about. In jazz there is an underlying rhythm, or beat, that all jazz musicians adhere to. This allows musicians who have never played together before to sit down and create beautiful music. To a listener there is great improvisation taking place and the music seems to be very spontaneous and creative. This made possible due to a strict underlying rhythm.

A good meeting rhythm allows executive teams to capitalize on these two underlying principles. An executive team meeting rhythm is a container that increases the frequency and frees individuals to be creative within the structure.

Both of these will lead to increased results for the company.

The executive team meeting rhythm we are going to lay out is a structured format that utilizes less than 10% of an executive team's total time.

Data Driven

The third Rockefeller Habit is being Data Driven – using metrics to run your business. John D. Rockefeller was an accounting clerk by trade and served his early working life as a clerk in a commodities trade business on Lake Erie in Cleveland. He was very particular about tracking every penny – business and personal. It was a habit he carried throughout his life and taught his children, long after the family had to be concerned about money.

Standard Oil developed a card system to track the key information for their own operations and their competitor's operations in all their sales territories around the world. They were one of the first to invest in a direct trans-Atlantic telegraph line between London and New York City so they could send and receive information more quickly.

When talking about data, we need to make clear that we are not just talking about a few financial indicators like revenue, profit, etc. The executive team needs to be reviewing data from a **balanced view in four key areas:** 1) finance; 2) operations; 3) customers; and 4) employees. It is important that decisions are made based on hard data vs. emotional or anecdotal evidence. The executive team should be seeing key data on a scorecard of some sort -- at least weekly, if not daily.

Three Types of Numbers

In general we talk about three types of numbers:

1) standard corporate numbers
2) smart numbers
3) a critical number

Let's put some definition around each of these. Standard corporate numbers are just what you would expect. These are typically financial and operational numbers or ratios. Included here would be typical financial statement numbers and ratios along with operational metrics like cost of quality, etc. The challenge with standard corporate numbers is they provide a rear-view look at the business. By the time a company looks the monthly financial statements, they are usually at least to the middle of the following month – at the earliest.

This is far too late to have any impact on the results. That being said, there are valid reasons for financial statements and standard corporate numbers. Understand and use them for what are designed to do – historical reporting and compliance.

Smart numbers are leading indicators around business drivers. Typically there are 3 – 5 key business drivers in any business. Some smart numbers may be a ratio. If you are monitoring these numbers consistently you can see trends and respond in time to have an impact. The executive team needs to spend time hammering out these numbers. What are your key business drivers? What metrics give you the best indicator today of how the company will perform financially this month?

Many entrepreneurs have an intuitive sense of these numbers and they may even keep a little sheet in their desk drawer. Every company should know by 2 or 3 weeks into the month, if not sooner, whether or not the company will have a profit and to what extent. The idea is to eliminate surprises as much as possible. Once you determine the smart numbers they need to be communicated in a scorecard format – essentially beginning with a daily or weekly simple flash report to the executive team.

One example of a smart number would be a homebuilding company who looks at the
number of closings scheduled for the coming month and quarter. This number is generally known with a high degree of accuracy a quarter since it takes about 90 days to build a home.

Take an engineering services company with a large part of work done on a time and material basis. They can look at billable percent and total number of billable hours on a weekly basis.

Another example is a staffing firm that looks at its plus/minus number weekly and monthly. A simple plus 3 for the month means they have 3 more contractors that started -- compared to the number of contractors that came off of assignment. A plus is a net addition to their total number of employees and a minus is a net decrease.

The third type of number is the critical number. A critical number is 1 or 2 numbers targeted at a specific weakness and targeted for a specific period of time – maybe one month or one quarter. You just want to highlight a number and see it move in a certain direction by putting the attention of everyone in the company on the number.

A simple example could be targeting your average customer satisfaction score. Maybe it has dropped recently and you know that if some energy and focus were put toward improving the number you could move it to new level. An important element in working with critical numbers is to make sure you are putting a new process in place to keep the number there once you move it to the desired level.

The Right Measurements

There are some basic requirements for measurements that we suggest, in order to maximize the impact of monitoring your data.

Number one – graph the data such as actual against plan, etc. Few people are like the accountants or engineers that can look at a table or spreadsheet of numbers and see trends. Make it easy for people to understand the data, so your energy can be spent identifying ways to improve the results as opposed to deciphering the data.

Number two – make it visual. Get it up all around the organization in multiple mediums: scoreboards, posters with graphs, whiteboards with numbers, internal presentations, the company's intranet home page, etc. People can't act on something they aren't aware of.

Number three – get it frequently. Get data for the executive team on a daily basis or at least weekly. It takes six data points to spot trend so you determine how quickly you need to respond. Would it be better to act within a week, within six weeks, within six months, or longer?

Number four – measure what is important, not what's easy. We live in the information age where data comes spitting out of every machine and computer at a prolific rate. You need to decide what data you do not need to look at. What is important to delivering quality product or service to the customer while maximizing profitability? Sometimes it may be difficult to measure but you need to figure out how.

Number five – learn when to use absolute numbers as opposed to percentages. Computer uptime of 99% may seem great for a website until you realize that means it is down 88 hours in the year. Can you live with that? Another key area to watch for this is with service delivery measurements.

There is a great example at FedEx -- when then COO Jim Barksdale asked about their service level. The answer was something like 98.3% on-time delivery. Jim then asked how many customers that translated into. How many customers did not get their delivery by the committed time? The answer was 100,000+ shipments that hadn't made the 10:30 a.m. deadline. He demanded that they begin measuring service failures in absolute numbers, not percentages. For years, when FedEx employees turned on their terminals in the morning, the first thing they saw was a 4 inch high number that represented the number of service failures, network-wide, from the previous day.

Rockefeller Habits Recap

In review, the 3 Rockefeller Habits number one is priorities. Get down to the #1 and Top 5 priorities for your company. Next we talked about rhythm. Make a commitment to a tight executive team meeting rhythm. The increased frequency will increase results and the routine will set you free – you can improvise and be creative within the structure.

Last we reviewed being data-driven as an organization. Get the data when making decisions. These are a few fundamental habits that will help your company move through the barriers and toward becoming great.

As we close out the Rockefeller Habits, there is an example that illustrates all three habits. Back in the early days of Dell Computers, Michael Dell would have his employees walk around with slips of paper in their pockets and record issues they were seeing in the operations or were hearing from customers. Every Thursday these were turned into Michael. Thursday night, Michael would spread all of them out on a table and identify the one thing that seemed to be the most critical.

On Friday morning the company had what was then known as the “hour of horror”. Depending on what issue Michael had chosen, you might be called in to deal with it. For the next week the company would work on fixing that one issue. Michael’s premise was simple; “...we can’t fix everything, but if I can fix one thing each week compound interest is my friend.” We all know today what that “compound interest” has become –the dominant computer company in the world.

To this day, Dell Computers has a direct-to-customer model that allows them to get data right from the customers every day. And Michael, and his executive team, are still setting one big priority each quarter, to go after.

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