Six Disciplines for Excellence

(Building Small Businesses that Learn, Lead, and Last)

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(Book Report by Gary Tomlinson)

Introduction:

When it comes to achieving excellence, *figuring out the right thing to do isn't nearly as difficult as continuing to do them over the long term.*

Paraphrasing C.S. Lewis, "The key to understanding ourselves and the universe we live in is realizing that people know what to do and don't do it." All you have to do is read the daily newspaper or look in the mirror and you know that this is true.

This book describes six fundamental disciplines that help people learn how to overcome the obstacles that stand in the way of every growing business. The *Six Disciplines for Excellence* is different from other business improvement approaches in several ways. First, in contrast to the content of most business books, which focus 80% on principles and 20% on implementation, this book's content *is focused 20% on principles and 80% on implementation.* Remember: **the problem for most of us isn't knowing what to do, it's doing it.** Second, the Methodology is designed for small businesses. And third, the *Six Disciplines for Excellence* is the first methodology to distill and integrate what were designed as separate best practices into one cohesive whole. It integrates various portions of strategic planning, continuous improvement, integrated learning, business process automation, performance management and quality management.

Chapter One – Excellence:

Excellence, like beauty is in the eye of the beholder. Different people have different standards of excellence. If you're serious about pursuing excellence, you must decide what excellence means for your organization. You also need to be prepared to have your definition change, because as you learn and grow, your expectations will change as well. For businesses, it's useful to think of excellence in terms of two broad categories. They are:

> *Customer Excellence* – This has to do with those attributes that are of direct interest to customers, such as quality, price, reliability, taste, speed, etc.

> *Business Excellence* – This includes characteristics which are valued and highly desirable, regardless of business type: growth, profitability, predictability, longevity, etc.

Business excellence and customer excellence are mutually dependent, because neither can be sustained without the other. In other words, satisfied customers drive business success and business success enables investment to satisfy customers.

We can learn much about achieving excellence by taking a lesson from franchises. The appeal of a franchise is rooted in two promises. First, there's a very clear promise to the customer that's reflected in the brand. Second, there's a promise to the business owner (franchise) of a well-considered and proven business model that delivers on the customer promise.

The goal of *Six Disciplines for Excellence* is to help business leaders work on their businesses so they can be as satisfied with their businesses as their customers are with their products.

Learning, Leading, and Lasting: We believe excellent small businesses should have three primary attributes. First they should be learning organizations. Individuals in the organization should be like members of an Olympic team, where the best keep learning how to get better.

Second, excellent organizations should have clearly defined areas in which they have chosen to be leaders, and they should be relentless in their pursuit of those areas.

Third, the ultimate mark of business excellence is the ability to sustain success – to handle the difficult times well and to continue to grow stronger and better.

> **Learning** – Learning is the pathway to continually increasing levels of mastery. Even more basic than that, is the intrinsic motivation and satisfaction that comes from learning. In *The Fifth Discipline*, Peter Senge says it this way:
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> > "Real learning gets to the heart of what it means to be human. Through learning, we re-create ourselves. Through learning, we become able to do something we never were able to do…This, then, is the basic meaning of a 'learning organization' – an organization that is continually expanding its capacity to create its future."
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> The leaders of a learning organization must help its members do the difficult work of choosing what the purpose and strategy of the organization are, and recognizing how they individually and collectively can contribute to that purpose. The best leaders have a knack for fostering the kind of open environment where people have gained the courage to continually learn and be changed by what they learned.
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> **Leading** – Achieving excellence begins with deciding what excellence means to you or to your organization. However, general conversations about excellence without focused directions for action just gives people a spark of hope that's quickly dashed, because passion that's not applied to a purpose doesn't lead to excellence. The *Six Disciplines for Excellence* Methodology is designed to help organizations choose the areas in which they want to lead and, more importantly, to help people align their creative talents and their energy toward that purpose.

Lasting – The ultimate measure of business excellence is learning and leading for a long time. But how long is "enough?" That's a question only you can answer.

How the Best Differ from the Rest: We evaluated over 300 small business organizations based on a combined factor of growth and profitability. We thoroughly analyzed the results and looked for areas where the lowest- and the highest-performing organizations were the most different. We found several areas where the contrasts were significant. Let's review the top five, in order of importance.

1. **Strength of Leadership Team –** in our research, the leadership teams of top-performing organizations rated 155% higher than lower performers. There were two primary factors evaluated in this rating. The first was *the ability to define a clear vision for the company.* The second major factor was *appropriate involvement of leadership in leading and supporting projects that are strategic to the organization.*

   "People go in the direction leadership is walking, not pointing." The research suggests that the leadership of high-performing organizations know where they want the organization to go, make sure everyone else understands the direction, and are visibly engaged in helping the organization move in that direction.

2. **Attract and Retain Quality People** – Top performing organizations are rated 142% stronger at attracting and retaining high-quality people that the lowest performers. Finding people, motivating them, compensating them, keeping them focused, and keeping them satisfied are always hot topics with business owners. The best small businesses have figured out that success in this area starts with recruiting.

3. **Disciplined Approach to Business** – Top performing organizations are 114% stronger than the lowest performers when it comes to taking a disciplined approach to business. Top performing small businesses take the time to plan well in advance for changes that are likely to affect their organizations. They work at being realistic; they "sweat the details."

4. **Strategic Use of Technology** – High-performing organizations give more emphasis than lower-performing companies to using technology to impact the business in strategic ways – 109% more. Such organizations have developed a culture that figures out ways to deploy technology, not for technology's sake, but to better serve their strategy.

5. **Effective Use of Trusted Relationships** – Top performers are rated more than 100 stronger than the lower-performing organizations in their ability to utilize the expertise of external organizations.

Other Factors – Other contributing factors to top performance were: attitude, teamwork, commitment, quality-oriented culture, etc.

Barriers to Lasting Excellence: Following are six fundamental barriers to excellence that, if not addressed on an ongoing and systematic basis, will cause organizational performance to decline:

1. **Poorly Understood Strategy** – Most organizations have a strategy, but most people in most organizations do not understand what that strategy is. One study revealed that 85% of leadership teams spend less than one hour per month discussing strategy. Other studies indicate that up to 90% of strategies fail due to execution. A terrible strategy could produce terrible results, but experience teaches that most of us are better at formulating strategy than getting people to understand it.

2. **Weak Strategy Execution** – One of the major barriers to achieving lasting excellence is how little formal effort organizations put into learning how to execute strategy. Service offerings and product lines come and go, but the core competence to define and execute a strategy is forever.

3. **Unchecked Organizational Entropy** – Entropy is defined as "a measure of the degree of disorder in a system." Businesses are "systems" and they're subject to forces similar to entropy. Once a small business makes plans, the chaos of everything changing around it gradually erodes those plans. An organization must have a systematic and ongoing way to offset these forces, or it will eventually become ineffective to the point that its survival will be at stake. Stephen Covey once said, "We are too busy driving to get gas."

4. **Lack of a Systematic Approach** – According to Peter Senge, "vision without 'systems thinking' ends up painting lovely pictures of the future with no deep understanding of the forces that must be mastered to move from here to there." Thinking holistically about the business – how to make all its components, people, processes, key measures, assets, and strategies work together to meet the promises made to customers and other stakeholders in a repeatable and predictable fashion – is key to achieving lasting excellence.

5. **Impractical Implementation Methods** – Small businesses need to choose wisely when deciding to implement improvement methods and systems, focusing on "fit" rather than "form."

6. **People Are Not Engaged** – An "engaged worker" is one who's personally committed to the goals of the company. Unfortunately, "90% of the time, what passes for commitment is compliance." If you can't get the people in the organization engaged in moving beyond product excellence to business excellence, than no improvement approach can last. Therefore, an approach that's going to work over the long haul must engage the individuals in the organization.

The Importance of Small Businesses – The importance of small business owners grows clearer when you realize that small businesses are spawning ground for our whole economy. 98% of all businesses in the U.S. have fewer than 100 employees.

Most people will spend half their waking hours at work. To a business leader who takes the risk of owning and building a business, this both exciting and sobering. It's exciting because of the great opportunity to do something meaningful in the lives of other people. It's sobering because of the responsibility it implies, derived from the understanding that oftentimes a single decision may significantly affect the lives of many others.

The Top Challenges of Small Businesses – 80% of all new business start-ups are out of business within five years. And 80% of the 20% that survive the first five years don't survive the second five. That means, on the average, 960 out of 1,000 businesses that start this year will not be around in 10 years.

The top issues small businesses struggle with can be grouped into the following general categories:

1. Financial Issues.
2. Customer Issues.
3. Production Issues.
4. People Issues.
5. Limited Resources.
6. Growth.

The Small Business Advantage – Savvy business owners understand these advantages. They are:

1. **Connecting People to Purpose** – People are creatures of emotion and reason. The best performers want to belong to an organization that's on a mission, and they need to see how they're contributing to that mission.

2. **Effective Communication** – The biggest problem with communication is the illusion that it has taken place. The larger the organization is, the greater the illusion becomes. As organizations grow, communication challenges grow as well; in fact, they grow dramatically faster (exponentially) than the organization headcount does.

3. **Timely Decision-Making –** Decision making is also dramatically different in smaller organizations. As organizations increase in size, the leadership team moves from generalists to specialists who are responsible for a particular business area. Because top decision-makers in a larger organization are more insulated from the day-t0-day activities of the company, they no longer have the first-hand knowledge to make decisions without the input of several other specialists. The result is slower and often lower-quality decisions.

4. **Customer Intimacy** – In smaller organizations, a much greater percentage of employees work with customers directly. This kind of closeness to customers means the people in the company know customer issues and they can spot changing market needs earlier. And because their decision-making is more timely, they can act on those trends earlier.

5. **Attracting Team Members** – Small businesses don't have to take a back seat to larger organizations when recruiting top people. The advantages already discussed – connection to purpose, effective communication, timely decision-making, and customer intimacy – when explained very carefully to all candidates, can provide a great draw to the most talented prospects.

The point of all this isn't that small businesses are better than big businesses, but that they're different than big businesses. And learning how to leverage differences is what competitive advantage is all about. Yet many small businesses don't consciously develop strategies that use their advantages.

The Six Disciplines Methodology:

The Six Disciplines Methodology is just that – a synchronized, systematic approach for building your business to the point that you can sustain excellence. It put together into one integrated step-by-step process, what has formerly been thought of as different disciplines – strategic planning, quality management, integrated learning, business process automation, people performance management and measure-drive improvement.

You can think of the Six Disciplines Methodology as a series of annual, quarterly, weekly and daily repeatable cycles which, with each successive pass, helps your team learn how to better root out the barriers to lasting excellence. The Six Disciplines for Excellence are:

1. **Decide What's Important**
2. **Set Goals That Lead**
3. **Align Systems**
4. **Work the Plan**
5. **Innovate Purposefully**
6. **Step Back**

Knowing what to do isn't the problem: doing it is! The Six Disciplines Methodology has been specifically designed and optimized for execution.

Methodology Design Assumptions:

1. Those in the Business Know it Best.
2. A Commitment to Discipline Exists in the Organization.
3. People Trust Each Other.
4. People are Born to Innovate.
5. Principles for Excellence Transcend Type of Business.

Methodology Design Requirements:

1. Make it Easier.
2. Think Holistically About the Business.
3. Be Process-Driven.

4. Establish Business Habits.
5. Promote Life-Long Learning.
6. Instill Constructive Accountability.
7. Build a Measurement Culture.
8. Encourage Effective Communication.
9. Leverage the Internet.
10. Proactively Pursue Alignment.

Discipline I – Decide What's Important:

One of the biggest differences between the highest- and lowest performing small businesses was "strength of leadership." This characteristic has two aspects. The first is the ability of leadership to define a clear direction for the company. This includes explaining that direction so people both understand it and connect with it. The second is identifying and delivering appropriate amounts of personal involvement in leading and supporting projects that are strategic to the company.

The purpose of this discipline is to get the leadership team to decide annually what its long-term priorities are and are not. This involves reviewing, renewing, revising, and recommitting to its mission, values, vision, and strategic position, and identifying clearly what the absolute "short list" of critical priorities of the business are.

Step I-A: Renew Mission – A company's mission explains why an organization exists and what its purpose is. The purpose of this step is to make sure that, before establishing long-term priorities, the leadership team has a clear understanding of what the mission of the organization is. Hints and Tips:

- The most important attribute of purpose is authenticity. Purpose has to be something that comes from within; it should never be chosen based on what looks good to others.
- Ask yourself, "Will this purpose be valid in 20 or 30 years, or even longer?"
- The simpler the better. The most powerful ideas can be expressed simply with plain words and few of them, e.g., "bringing happiness to millions."
- Put your energy into communicating what the mission means and living it, as opposed to trying to get the perfect set of words or slogans.
- Focus on why, not how. "How" is strategy and will change over time.
- This is not about having posters. The best people aren't looking to work for a company that has a mission statement; they want to give their life to an organization that is on a mission.
- Process for Renewing Mission (See pages 65-67)

Step I-B: Renew Values – Whereas mission answers the question of "why" an organization exists, values speak to the character or "personality" of the organization. It has to do with what kind of people we want to be and what kind of organization we want to spend our lives in. The purpose of this step is to renew and refresh the commitment of the leadership team to the core

values of the organization before reviewing and updating its long-term priorities. Hints and Tips:

- Values should be based upon that which is already important to you, not what you wish was important to you. They have to be built upon passion and conviction.
- They must be enduring. Ask yourself questions like, "Will this be important 20 or 30 years from now? or "Would I hold these values if I went to another organization? or "Would I hold these values, even if it cost me my biggest customer?"
- Keep the list short and simple; three is ideal and five is a recommended maximum. People can't focus on a 10-point value system.
- Enduring success doesn't depend on a particular set of values – but it does depend on having clear values based on some enduring principles and sticking to them.
- Instilling values is a matter of both "talking the walk" and "walking the talk." People must both understand what the values are and mean, and see how they're applied in everyday decisions and interactions in the company.
- Give great emphasis on the values when recruiting people. Make sure new recruits are excited about the company's values before you hire. Doing this means that, as you grow, the entire team's commitment to your values will increase, instead of being diluted.
- Remember that every organization has values, whether you define them or not. The question is whether you're going to allow the character of your organization to be an accident or intentional.
- Process for Renewing Shared Values (See Pages 70-71)

Step I-C: Renew Strategic Position – Long-term business success is rooted in the ability to build and sustain a product or service offering that is different than that of rivals, and different in ways that are important to customers. The definition of this offering and how it relates to the customer and competitive offerings is a *Strategic Position.* The purpose for this step isn't to teach you how to formulate strategy, but to make sure you document what your strategic position is, so it can be used to help the rest of the organization understand it and align their activities to it. Hints and Tips:

- Keep the description of the strategic position simple. When you grasp it, it's usually straightforward to express: Dell's "be direct"; Southwest Airlines' "short flights"; Krispy Kreme's "freshest doughnuts"; and Federal Express's "overnight delivery."
- Although a strategic position in not forever, it should last 10 years or more. It provides a consistency to the annual planning and keeps the organization out of a constant reaction mode to competitors who have a different strategic position.
- Remind yourself and your organization that investing in activities outside the strategic position makes it easier for competitors to catch up.
- Understand that operational efficiency is about improving the processes and activities you have that support this strategic position. (Operational efficiency involves constant change, flexibility, and best practices, but strategy, on the other

hand, demands discipline, continuity; its enemies are distraction and compromise.)

- The strategic position should fit on one page and contain the following elements:
    i. Short phrase that embodies the main idea, (e.g., Be Direct).
    ii. Paragraph that explains what the short phrase means.
    iii. Bullet-pointed characteristics list of the target customer (geographics, age, income, occupation, industry, etc. – whatever it takes to clarify who's being targeted).
    iv. 5-7 strategic themes that identify the broad focus/investment areas required to support the strategic position (see example on page 76).
- Process for Reviewing Strategic Position (See page 75).

Step I-D: Renew Vision – This step helps leadership prepare to establish company goals, by reviewing and renewing its commitment to the company vision. The Six Disciplines approach to a vision statement is different. We use the organization's mission and values to paint the longest-term picture of the company – its purpose and character. Then we use the strategic position statement to define the longest-term view of where strategy is to lead. The purpose of the vision statement is to help develop a more concrete picture of what the company will look like in ten years, in pursuit of the mission and strategic position.

To do this, we tap the unique human ability to imagine what yet doesn't exist, by asking leaders to answer three questions:

1. What do you want the organization to be in 10 years?
2. What do you want the organization to have in 10 years?
3. What do you want the organization to do in 10 years?

Even though the resulting vision statement is more detailed than some experts recommend, we find that a more tangible vision increases understanding and motivation. It's one more step in the process of moving people from *"good intentions to concrete reality."* Hints and Tips:

- A vision is not a plan. Don't let the idea that you don't know whether you can achieve your vision to get in the way. The purpose of a vision statement is to stimulate and guide strategy formulation over the years.
- Don't revise it every year just because you think you might not make it. Give your organization several years to work and pursue the vision. The vision should serve to stretch and challenge the organization.
- Consider changing the vision only if there's something fundamentally wrong with it in terms of "direction" (in other words, it no longer leads you where you want to go).
- Keep the vision statement short and to the point. Most vision statements should be less than one page. Use bullet points and an outline format (see example on page 79).
- In day-to-day interactions and group meeting, look for ways to elaborate on the vision and help people connect what they're doing with that vision.
- Process for Renewing Vision (see page 78).

Step I-E: Define VFOs – Making things simple is hard. There's tremendous power in simplicity, but sorting through the myriad options and conflicting priorities to agree on the absolute most vital few objectives (VFOs) for the company is one of the fundamentals of leadership. The purpose of this step is to define the VFOs that over the next three to five years will best move the company toward its vision. Theses VFOs are recorded on the Company Goals Statement. VFOs as defined in this Methodology are general statements that are not measurable. (Quantified goals, meaning those goals which are measured, come later in Discipline II.)

Goals should be developed for each of the four views of the company. Each view represents a major category of assets every company had and must manage successfully. These views are:

- Financial
- Customer
- Production
- People

These views are interrelated and provide a structured way to think through priority development in the following sequence: 1) Financial 2) Customer 3) Production 4) People. The Financial view is the most basic. The most fundamental requirement is to protect the financial health of the organization. If this is sufficiently ignored or neglected, the organization will die.

The way the organization is kept healthy is to understand who its Customers are, what their needs are, and which of those needs this organization is going to meet. Once that has been decided, Production capability has to be developed to deliver on those promises. Last of all, a motivated team of the right kinds and number of People has to be in place to deliver on the goals for the Financial, Customer, and Production views of the business. Hints and Tips:

- Keep the total number of VFOs small. Remember, you're looking for the vital few. As a general guideline, one to three VFOs per view – for a total of somewhere between six to ten – is reasonable. Frequently, the Production view has the most VFOs.
- Define the VFO in simple terms; for example: *grow sales rapidly* or *increase profit margins.*
- Be relentless in eliminating conflicting VFOs. For example, in most industries, *grow sales rapidly* is in conflict with *increase profit margin rapidly.* Conflicting VFOs set up the organization for failure.
- The VFOs have to support each other. For example, if there's a VFO in the Financial view to grow sales rapidly, then in the Customer view, you should set a VFO that shows how you're going to grow sales; such as, *grow number of new customers* and/or *grow revenue to existing customers* (after market sales).
- Defer questions about how you're going to measure these VFOs and what the actual targets are until later.
- In the end, the VFOs should allow anyone in the company to tell a story (see example of a Company Goals Statement and story on page 84-85).

- Because the planning period for VFOs is three to five years, they shouldn't change every year. (Rapid changes in the VFOs means the company doesn't have a stable long-term strategy and produces less-than-optimal performance.)
- Resist the temptation to be all things to all people. Be very focused on a few things, and do them well.
- Process for Developing the VFO's (see page 83).

Step I-F: Agree What to Stop – The essence of strategy is deciding what *not* to do. Unless your priorities are clear enough that you know what not to do or what not to allocate resources to, you don't yet have "strategy." One way to test how committed the organization is to the VFOs is to get agreement on the projects and priorities in the organization that can be *stopped*. That is the purpose of this step. Hints and Tips:

- Think of the company resources as being divided among three categories: "critical", "discretionary", and "available for reassignment." The job of leadership is to stop doing that which is of a discretionary nature, and reallocate as much resource as possible to "critical" priorities.
- If you say that A, B, and C are the most important aspects of your company, but you're unwilling to stop allocating resources to D, E, and F, you've diluted yourself and set your organization up for failure.
- Not all items on the "stop list" are phased out immediately. Many are phased out over time. Sometimes *stop* just means "invest no more and maximize cash flow for the remaining life."
- Other kinds of projects should be killed immediately and put behind you. I know from experience it's difficult to "throw in the towel" on a project. We're taught from birth to "never give up." Sometimes, we must take the courage, move on and learn from that project.
- Teach everyone in your organization that stopping projects or activities in not "failure;" it's the mark of a disciplined organization. People should be encouraged and rewarded for identifying projects, processes, procedures, etc. to stop.
- Process for Agreeing on What to Stop (see pages 88-89).

Recap of Discipline I – Decide What's Important – Choosing exactly what the company is going to focus on is one of the most important roles of leadership. Deciding annually what the organization's long-term priorities are, and are not, is essential.

Selecting your VFOs (vital few objectives) will help you define your destination, and avoid becoming sidetracked and bogged down in activities that can and should be stopped. The following steps covered in this chapter help get that done in a systematic way:

I-A   Renew Mission
I-B   Renew Values
I-C   Renew Strategic Position
I-D   Renew Vision

I-E   Define VFOs
I-F   Agree What to Stop

Building on the foundation produced by Discipline 1, the next chapter transforms the VFOs from very broad statements of priority to specific, well-defined measures and targets. This transformation is necessary to help every worker connect what they're doing with the purposes of the company.

Discipline II – Set Goals That Lead:

The Purpose of *Discipline II – Set Goals That Lead* – is to help organizations formulate goals and initiative that lead people to take action that's aligned with what's most important to the organization. To be complete, a goal must include:

- A VFO (for example, grow *sales*)
- A measure that indicate how to track progress relative to the VFO (for example, *revenue growth per existing customer*)
- A target that quantifies the measure (for example, *10%*)
- A target date that indicates the deadline for achieving the target.

The process of setting goals starts by working through the VFOs that have come out of Discipline I. The leadership team needs to work through each VFO, identifying the measure or two that best represents the intent of the VFO. Once the measures are agreed upon, three- to five-year targets are proposed for each measure.

These long-term targets quantify how far and how fast the organization needs to go in pursuit of its vision. After targets are agreed upon, broad initiatives are identified for achieving the near-term targets. Then, someone is assigned to take responsibility for these initiatives, so that more detailed plans can be developed in Discipline IV.

There's no greater tool for improving the performance of an organization than setting well-thought-out goals. It's one of the most effective communication tools of leadership. But it takes a long-term, disciplined approach for an organization to learn how to do that.

Step II-A: Define Measures – The first step in translating a VFO into a *goal that leads* is identifying how progress against that VFO is to be measured. Picking the right measure is a critical responsibility because of how much the measure communicates about how to reach the VFO. To illustrate, let's assume the VFO is "Increase Market Share." That VFO provides no guidance as to how it should be reached. Following are different way to increase market share:

- Increase number of customers.
- Increase average sales to new customers by selling more products and services.
- Increase sales to new customers by increasing price.
- Increase *unit* sales to existing customers by lowering price.

- Increase sales to existing customers by marketing other products.

There are many different ways to think about market share. However, picking the measure forces the *leadership team* to clarify strategy. The bottom line is that through the process of carefully selecting measures, leadership is firming up what they want and why, significantly increasing the likelihood that others in the organization will understand as well. Hints and Tips:

- Keep the number of measures small, with one or two per VFO.
- Make sure measures are of long-term strategic value, not short-term or simply related to diagnostics. The company can have any number of detailed measures it needs, but such detail doesn't belong on the company goals statement (see example on page 98).
- Try to have a balance of leading and lagging measures. For example, the number of complaints might be a leading indicator of sales. In this case, sales are a lagging indicator.
- Avoid the temptation to load up on financial measures, which tend to be lagging indicators.
- Be specific about how the measure is computed. Try to keep it simple.
- It's better to pick a measure of average quality than a superb measure for which no data is readily available. Pick something practical for the short-term and work on improving your data-tracking capability over the long-term. For example, it may not be practical to survey every customer for satisfaction, but you could do a sample of every tenth customer.
- Process for Defining Measures (see page 97).

Step II-B: Define Targets – Big stakes are involved when you set targets for your organization. "Do we have the right target?" is one of the most important questions to answer. In setting your targets, it's important to remember that if you set them too low you will stifle creativity and under-perform. Set them too high and your people are frustrated and set up for failure. Admittedly, this isn't easy. There are many unknowns in any given "next five years," and developing detailed five-year plans is usually not practical.

Asking the team to estimate annual targets, however, forces people to drill down and think about the broad steps required to get there, and to identify possible conflicts among the targets. By looking out five years, the collective wisdom of the leadership team is used to reflect the pace at which the organization should move toward its VFOs.

It's best to think of this process as a combination of top-down goal setting with bottom-up planning to confirm the top-down targets. There's interplay between the two extremes until they converge. Hints and Tips:

- View the first version of the targets as a "draft" until teams have had the chance to define the initiatives associated with each of the targets. (This occurs next). The insights gained from defining the initiatives may justify revisions of the targets.

- Get the people who are responsible for delivering the results involved. They'll better understand the hurdles to be overcome, and will have more buy-in if they can have input in developing the annual targets.
- Wisdom is required to know how aggressive to make these targets. Lofty goals can challenge the organization to be creative and achieve greater things, but goals that are unrealistic can become discouraging. The best protection from being too aggressive is to ask highly motivated and qualified people whether these are achievable targets.
- Remember that these targets are set to guide the development of detailed plans, not the other way around. This means the goals have to be set by relying on the judgment of the team, rather than by the process of building detailed supporting plans first.
- While the vision statement should remain unchanged for several years and serve as a constant toward which the company is aiming, the five-year targets should be updated each year to reflect the most current thinking.
- The greatest attention needs to be given to the upcoming year's targets, because they will be used to build more detailed plans for the next quarter and year.
- Process for Defining Targets (See pages 101-102).

Step II-C: Define Initiatives – Identifying the *initiatives* required to achieve each target is the final piece in the company's strategy. An initiative is another name for a program or project. A well-defined initiative is associated with a VFO, has someone responsible for it, and includes a due date. Picking the right initiatives requires understanding the intent of the VFOs, measures and targets.

The main reason for placing the initiatives on the goals statement is to help everyone in the organization understand what the overall strategy is, and how a given target is going to be met (see example on page 106). This understanding helps people make better decisions, channeling their creativity and energy toward the purposes of the company. Hints and Tips:

- The purpose of an initiative is to bring about change. For example if the goal is to increase sales growth from 5% to 8%, the initiative tell how.
- Large initiatives should be broken into smaller phases or projects. For example, in a consulting organization, the decision to open a new office in another geographical area might be a multi-year initiative. Different stages might include: doing the research to size the potential market, evaluating real estate opportunities, recruiting and training staff, then launching the office.
- When forming a team to work on an initiative, make sure one person is responsible for the team and the results of the initiative. That person should develop supporting schedules, budgets, staffing and other resource requirements.
- Keep the number of overall company-wide initiatives that are underway at the same time to a small and manageable number. Such focus improves the predictability and quality of execution.
- Remember that change initiatives do not represent 100% of the activities of the company. Every company has the ongoing routines and processes that must be done every day to stay in business. The initiatives are those few, most important

things that guide how to deploy discretionary resources that are available each year to bring about changes that position the company for future success.

- Process for Defining Initiatives (See page 105).

Step II-D: Engage the Team – We said in Chapter 1 that the number one difference between the highest- and lowest-performing organizations was strength of leadership. The ability to motivate or engage the people in the company in pursuing its goals is a top priority of the highest-performing organizations.

Research shows that "less than 5% of the typical workforce understands their organization's strategy." The existence of a well-thought-out mission, strategic position, and values and goals statement provides an essential foundation for building this understanding. However, even though understanding is critical, it's only the first step.

The next stage for the team is that of being full committed to using their energy and capability in the pursuit of these goals. If leaders want others to be engaged, they must be visibly engaged as well. People need to see the leaders working hard to make sure the rest of the team members achieve the goals of the company. Hints and Tips:

- Ask yourself whether you're getting compliance or commitment to the goals of the company.
- Helping people become engaged is the role of every leader in the company, regardless of whether you're president or an individual with no formal management responsibilities. Remember that people are given more responsibility because they first demonstrate they can lead themselves.
- Leaders have to live the goals of the company. Goals have to be a part of everything they say and do. They need t consistently focus attention on these goals and hold people accountable for them.
- Think of the goals statement as the outline of a story. You're teaching each person in your organization how to tell the story contained in the outline.
- Rely on a mixture of group presentations and one-on-one reinforcement. Talking about goals one-on-one shows respect for the individual; it allows interaction with less intimidation. Interaction moves people from compliance to enrollment, and from enrollment to commitment.
- Make sure al the key company statements – such as mission, vision, values, strategic position, and goals – are available and visible to every team member and are talked about regularly.
- Process for Engaging the Team (See page 110).

Recap of Discipline II – Set Goals That Lead – The goal-setting process starts with the leadership team working through each of the VFOs that were established in Discipline I. Well-crafted goals that are specific and measurable help people in the organization understand how to pursue these VFOs. Properly defined, these goals keep people focused on doing the right things, by following the steps that lead to successful achievement of the organization's objectives.

The following steps describe how to set goals that lead:

- II-A   Define Measure
- II-B   Define Targets
- II-C   Define Initiatives
- II-D   Engage the Team

With a clear understanding of company goals, the next challenge is to identify and prioritize any barriers that might exist in the systems of the company. The elimination of these barriers will unleash company performance over time.

Discipline III – Align Systems:

Now comes the hard part! Although critical, deciding what's important and setting goals are not where most organizations fail. Up to 90% of effectively formulated strategies fail due to *execution*. It's after goals are set that companies run into one of their most challenging foes – their own internal systems and processes.

A small business is a system with many dozens of smaller systems that determine the performance of the company. Processes, policies, measures, technologies, and people all work together to develop formal or informal systems. One thorny problem is that many of the "systems" that exist in a business were not formally designed or, if they were, business priorities have change and the systems haven't. That's why having an organized effort for aligning systems is so important.

The term alignment means "close cooperation." So the discipline of "aligning systems" means getting all the components of the organization working in close cooperation to meet the goals of the company.

Step III-A: Identify Misalignments – The first step in attacking what seems like a myriad of processes, policies, measures, technologies, and people is to figure out which one or two opportunities will provide the best return on investment to the company.

This step leads you through the process of preparing and conducting a survey that provides a company-wide view of the suitability of current business processes, policies, measures, and technologies, when compared to the priorities of the company. The leadership team collects all that input and then sets final priorities for alignment investments in the context of all the other priorities in the company. Hints and Tips:

- Don't be concerned about the completeness of the survey responses the first time you administer it. Many people in small organizations don't realize that much of the activity they do each day is really part of a "system." By simply administering the survey, you'll gradually raise the awareness of what systems are and the need to improve them.

- When preparing questions for the survey, start with general questions, progressively gathering more detailed information in areas that are identified as "high priority."
- Be alert for processes that are "missing." These are the toughest to identify. People can rate processes if you put a list in front of them, but they may not think of identifying a process that's missing altogether. All you can do is keep asking people to consider "what's missing." This is especially relevant when there's a significant change in strategy.
- Focus. Resist the temptation to try to tackle too many items at once. Pick one or two items, and work on them. Don't move on until they're functioning well. A correctly-designed system will continue to improve and be self-sustaining because of the focus that measures bring to improvement.
- Example of Alignment Survey (see pages 123-124).
- Process for Identifying Misalignments (see page 122).

Step III-B: Align Processes – If your business isn't running right, it's likely you have a process problem. Either you have a missing process, or a poorly-defined process, or you're not properly executing the processes you have. Many business leaders can't even identify their core processes, let alone tell you how well they're working, based on measurable data. Yet businesses rise or fall based on the effectiveness of their processes.

Simply put, a process is a sequenced set of activities that produce an end result. Collectively, processes are like the blueprints that describe how the business works and keeps its promises to all its stakeholders. We strongly recommend that an organization pick one important process and build or rebuild it right, before moving on to the next. Make it solid, so it becomes a firm foundation you can depend upon working really well. You'll find that each time you do a process right, the next process gets a little easier to do right, because it's built upon and surrounded by other sound processes.

Well-designed processes have certain characteristic that make them robust and effective. Good processes are:

- **Defined –** The steps, sequence of steps that make up the process, and the responsibility for executing the steps are explicitly know and understood.
- **Transferable –** Others can be trained to execute the process.
- **Repeatable –** The steps are defined clearly enough that if you follow them you'll get the same result.
- **Flexible –** The process should be designed to allow for future changes.
- **Aligned –** The purpose of the process (its result) aligns with the strategy of the organization.
- **Measurable –** The output of the process has some way of being measured to ensure proper execution and to test innovations and process improvements for effectiveness.

Hints and Tips:

- In designing or improving a process, it's critical that you get the actual people who execute the process involved in defining and changing it. These are the only people who really understand all the exceptions and how things actually work.
- Start by getting the critical process defined. Just defining the way a process currently works often identifies significant improvement opportunities.
- Process improvement depends on a very simple cycle: make a change; measure the results to see if the change worked; if it does, then formally adopt the change and start all over again with the next change. Note that this cycle breaks down if the process isn't defined, repeatable, or measurable.
- Keep documentation simple.
- If you don't invest the time to maintain a process and keep it aligned with the business priorities, it will get more and more out of date over time.
- Example of a Process Definition (see page 129).
- Process for Aligning Processes (see page 128).

Step III-C: Align Policies – The purpose of this step is to help identify policies that are fighting against the priorities of the company, so that they may be fixed! A policy *is a decision rule that guides the operation of the business.* Policies are separate from, but related to, processes. The concept of a "policy" is good, but our implementation often is not. A well-crafted policy helps organizations function efficiently and deliver quality in a predictable, repeatable way. However, a poorly designed or outdated policy does the opposite – it hampers quality and efficiency.

By establishing a discipline that reviews policies on a regular basis, those policies that are no longer contributing to the goals of the organization are identified and improved, or eliminated. A well-implemented policy has the following characteristics:

- **It is necessary –** the existence of the policy helps people do their jobs more effectively.
- **The intent is clear –** the reason behind the policy is clear to those enforcing it.
- **The intent is honored –** people who enforce the policy have the freedom and aptitude for adjusting its implementation to better meet the intent in individual situations.
- **It is aligned –** the policy is designed in such a way that the results it produces support the goals of the company, as opposed to being at cross-purposes.
- **It is measurable –** just as with processes, the best policies are those which have results that can be measured.

Hints and Tips:

- Formal polices should only be created where they truly add value. Too many policies are burdensome. The approach suggested is to identify the critical few

policies that will drive the success of the business, and give a lot of thought to those few.

- Keep policies short, simple and easy to interpret. Many policies can be documented right inside the procedure itself, if the policy is brief. A simple log allows for a very quick review of all policies (see example on page 135).
- Make policies flexible by providing the principle behind the policy, and give people freedom to vary it if they think that makes sense.
- There are many policies that don't have to be in written form. If you want to approve any check over $1,000, that only needs to be known by a few people. Why put it in writing? The important thing is that the policy is clear and is known by those who need to know it. It you have trouble getting consistent implementation, then consider putting it in writing for the sake of clarity.
- Remember that almost all policies are implemented as part of a process. When you're evaluating a policy that isn't working effectively, you often end up looking at the process, too.
- Process for Aligning Policies (see page 134).

Step III-D: Align Measures – Measurement is part of the culture of an excellent organization. Excellence implies having a standard – knowing what you want to be good at. Measurement tells whether you are. Measurements frees us to try new things, because with measurement as a "tool at hand," we have a way of managing the risk of failure in a controlled setting. Clear measures help people to move toward a goal, giving them tangible feedback on their innovation and effort.

In Discipline II – Set Goals That Lead, attention was given to defining a very short list of strategic measures. Here in Discipline III – Align Systems, we're evaluating whether adequate measures are in place to manage key business processes in the day-to-day operation of the business.

People will focus on what you choose to measure, so choose wisely. Choosing appropriate measures is a learned skill. Hints and Tips:

- Use the fewest number of measures possible to manage a particular process. Simpler is better. Having too many measures reduces the value of them all.
- Make sure the measure is appraising the correct facet of the company's activity. Think about the most basic purpose of the process, and see if the measure is reflecting that purpose (see example on page 137)
- Measures should be presented as trended data because the meaning is much greater (see example on page 138).
- Because trended data is so valuable, you should consider carefully before changing the definition of the measure. Otherwise, historical trends are interrupted. Of course, if you must change a measure, the sooner the better, so a new trend can be started.
- Be cautious about measures that use absolute values. Often, a relative measure (ratio) provides a more meaningful perspective over time.
- Examples of Measures (see pages 140-141).

- Process for Aligning Measures (see page 139).

Step III-E: Align Technologies – The purpose of the Align Technology step is to identify the technology investments that would provide the best return on investment to the company. By following the Six Disciplines Methodology, and organization gradually learns how to make technology investments that serve the long-term purposes of the organization. This is one of the key differences between organizations that last and those that don't. Hints and Tips:

- Plan! Small incremental implementation steps are the right approach with technology, but it's important to look ahead several years so that your technologies will all fit together well.
- Trade feature depth for technologies that work together so processes and information flow smoothly and flexibly, and good measures can be produced. The ability to work together well is more important than having the absolute deepest feature set in some particular area.
- Select technologies that help you measure the effectiveness of key processes. Examples of the types of things you might like to measure include: time it takes to close a lead, employee turnover trends, and average duration of projects.
- Leverage the Internet. Information technologies should leverage the Internet so your people can work anywhere and get easy access. The biggest payoff for using the Internet isn't selling over the Internet; it's using the Internet to be better at strategy execution.
- Don't underestimate the investment required to get value out of the technology. More is usually invested in the ongoing cost of maintaining/using technology than the initial cost of acquiring it.
- Build lasting relationships with experts in this area, so that over time they come to know and understand what your priorities are. They can provide advice without having to come up to speed on your business,
- Examples of Technology Investments (see page 146).
- Process for Aligning Technology (see page 145).

Step III-F: Align People – The greatest wins in business are rooted in getting the right people in the right spots with a clear understanding of their priorities. Aligning people means bringing the right people into the organization in the first place. It means creating an environment that helps accelerate their growth; it means channeling the amazing ability of every person in the organization to innovate in ways that contribute to the organization's priorities; and it means structuring the organization so that the mission of individuals and teams are clear and complementary. Hints and Tips:

- Invest as much in making a hiring decision as you would if you were buying a $1 million piece of equipment.
- Establish a rigorous hiring process. It should include the following elements:
    i. A clear definition of position
    ii. A use of assessments to evaluate whether a person has the basic suitability to enjoy such a position and the skills to be successful at it.

      iii. A very thorough interview process by people above, below, and at the same level as this person.

      iv. Use every means available to be able to say with integrity to the candidate, "We believe you are the right person to join our team."

- Invest heavily in understanding the strengths and performance of every team member, with the motive of helping him or her leverage those strengths.
- Be clear about the goals of the company and an employee's specific responsibilities. You can't expect people to be aligned if they don't know what to align to.
- Build the kind of culture where organizational changes are a normal part of doing business, and not viewed as surprising or a sign that something's wrong. Instead, help people see this as a normal part of getting and staying aligned.
- One top priorities for process improvement and technology investments are identified, make sure people are well trained to implement and use the new processes effectively. A common error is to invest heavily to acquire new technology, and then under-invest in learning how to use it.
- Process for Aligning People (see page 150).

Recap of Discipline III – Align Systems – Of all the Disciplines, this is one that can seem like a "jungle" to the typical small business leader. It seems like a lot of discussion of technical and systems "mumbo-jumbo." And yet, it's this unfamiliarity and discomfort that's the very proof of the need to master it. Systems exist all over every business and many of them aren't designed – they just happen.

There is no way these systems are going to line up with the priorities of the company unless you diligently work to make them line up. And the more "out of line" they become, the more difficult it becomes to execute your strategy.

In this chapter, we've described some practical steps for aligning systems. These steps include:

    III-A   Identify Misalignments
    III-B   Align Processes
    III-C   Align Policies
    III-D   Align Measures
    III-E   Align Technologies
    III-F   Align People

At last we are ready to move on to where everything comes together!

Discipline IV – Work the Plan:

This is where all the other disciplines come together and the work gets done. In this discipline, every individual worker connects what he or she is doing on a daily basis with the long-term goals of the company. This is where the difficult work of figuring out who's responsible for

what, on a daily basis, is ironed out. This is where people learn how to develop plans and take responsibility for executing them, learn how to coordinate with others and self-manage.

This is where people learn to anticipate and set realistic expectations for themselves and others. This is where constructive accountability is developed, which provides the focus needed to keep the "urgent" tasks from overriding the "most important" tasks. *The result is an organization that has the most vital core competence of all – the ability to execute its strategy, to be excellent.*

To achieve this, every team member prepares a one-page IP (individual plan) quarterly. On a daily basis, team members are taught to self-manage by monitoring their progress against their IP and other measures relevant to their job. Each week, the IP is used as a template for preparing a status report, which takes no more than five minutes to read and fifteen minutes to prepare. Each team member's IP Status report is reviewed with the team leader.

At the end of the quarter, the achievement of quarterly goals is rated by the team member and team leader, to learn what could be done better. Then, a new IP is prepared for the next quarter and the process continues. Eventually, the team leader grows into a coaching role, as the team member learns to plan better and take responsibility for innovating to stay on plan.

Practicing this discipline improves communication, helps people learn how to continually align their work with company priorities, and empowers them to innovate to do so.

Remember that the research showed "fewer than 10% of effectively formulated strategies were successfully implemented. It's all about learning how to work on the business – to be great at executing plans, whatever they may be. And, indeed, the results are transforming!

Following this discipline provides the following benefits:

- Productivity and quality are higher, and wasted time and effort are lower. Paperwork is very low and meeting time is reduced, because communication is greatly improved.
- Team members grow in their sense of responsibility for meeting clearly defined goals. They turn into problem solvers, using their innovate abilities to overcome challenges and meet goals.
- Learning for team members and team leaders is accelerated. Both get better at their jobs faster. This discipline is one of the greatest "people development" tools you can implement.
- Team members are getting four quarterly abbreviated performance appraisals, so when annual appraisals come along, there are seldom surprises. The latter are much easier to prepare, because of the existence of the four quarterly appraisals.
- Plans are executed more predictably. Individuals and the organization, as a whole, stay more focused on long-term goals and are less susceptible to the interruptions and distractions of everyday business.
- Problems and barriers are spotted much earlier, and there's more time to deal with them.

In summary, this discipline is where the carefully formed company vision and goals meets every worker, every day. They help each worker align their energy, skill, and creativity with the mission of the organization. As stated earlier, the results are transforming.

Step IV-A: Define IPs Quarterly – The real challenge is business is not how to get people to work harder. Instead, it's figuring out how to get a larger percentage of the potential ability of each person aligned with the priorities of the company. "Work smarter, not harder," as the saying goes. This step helps each team member spend one to two hours per quarter to develop an individual plan (IP) that reflects company goals.

The creation and monitoring of quarterly IPs force team members and their team leaders to communicate with each other about their priorities. Experience teaches that the discipline of defining IPs for every team member surfaces a lot of misunderstanding, identifies areas of misalignment, and reveals resource issue much sooner.

This is a true "win-win" situation. It helps people understand how they improve company performance, and improves team member satisfaction. In essence, *this step is at the heart of the process for achieving lasting excellence.* Hints and Tips:

- Expect resistance at first. Concerns about practicality, difficulty in setting realistic goals, time required, etc. are normal. Explain that this is a learning experience, and allow two to three quarters as a trial run to the process.
- The team leader's role is to make sure individual goals align with company priorities. Ownership of the plan rests with the individual; responsibility for alignment rests with the team member.
- Get the team members to take as much responsibility as possible in defining and setting the goals for the quarter. This helps them grow professionally and learn to plan.
- The number of goals should be kept small. We recommend five summary goals as a maximum. Sometimes, its useful to break a summary goal into smaller tasks for better clarity of what's in the goal.
- One of the five goals should be related t individual / personal development, such as completing a training course, reading a book, etc. – any of a myriad of activities that expand the individual's professional capability. Such investments should connect with current or planned responsibilities.
- Goals will typically be a mixture of ongoing activities, like *number of sales orders processed*, and one-time projects, like *complete competitive pricing analysis.*
- Goals should describe deliverables produced, not the activity that produces the deliverable. For example, *redesign the sales process* describes an activity, whereas *first draft of sales process reviewed by Tom* describes a deliverable.
- Sometimes, the responsibility for one goal is shared by multiple people. In these cases, a team goal is defined and this goal appears on each of their IPs. It's better if individual responsibilities can be defined, but this isn't always practical.
- For jobs that are highly routine, just meeting the day-to-day expectations is often considered "success." However, consider asking team members to identify

something they can improve during the current quarter: reduce supply costs, increase discounts taken on payables, improve the filing system, etc. There's always something to improve.

- Once goals are set, the team leader's role is to help individual meet their goals.
- If you want to attach cash incentives or other "rewards" to quarterly goals, we suggest you wait until the process is working relatively smoothly, and that you keep the percentage of compensation involved small.
- Resist changing goals once they're set. Changing goals frequently sends the message that it's okay if you don't plan well ahead of time. It actually weakens the organization's development.
- Example of an IP (Individual Plan) – (see page 162).
- Process for Defining Quarterly IPs (see pages 160-161).

Step IV-B: Review IPs Weekly – This step is designed to encourage every team member and team leader to review progress toward quarterly goals on a regular basis, preferably weekly. This process leads to much better communication and understanding between team members, and provides many great opportunities for constructive coaching as well. Team leaders should think about these meetings as "staff development" opportunities. Hints and Tips:

- Remember the goal is "5-15" – read under five minutes and keep preparation time under fifteen minutes.
- Strive to identify problems as early as possible. Teach team members that anticipating problems is part of their job, and those who are unable to consistently do this are not fully developed.
- Establish a routine for meeting together – the same time each week is best. Turn status reports into a habit. Meet, even if you think there's nothing to discuss. Some of the biggest discoveries come during meetings when you think things are going well.
- Ask probing questions to see how well grounded they are. "What got accomplished this past week?" "Was it everything you expected?" Are you running into anything unexpected?" "How can I help make your job easier?" "What are you going to do next week?"
- When team members say a project is in trouble because someone else is late giving them a deliverable they need, remind them that it's their job to know the progress of deliverables they're dependent upon. They should raise such concerns in their status reports in advance of the issue. Proactive communication among the team members is the mark of a mature, self-managing team.
- When projects get off-scheduled, make the focus of conversation how to get back on track. Try to avoid changing the deadline. Help them through the problem, but don't take "ownership" of the problem yourself.
- The IP doesn't replace more detailed project planning. Some goals are big enough that a more detailed project plan needs to be prepared.
- Be patient. It can take three to four quarters for a team to get good at this. What's really happening is that you're teaching people to take responsibility for developing their plans and executing them.

- Examples of Weekly IP Status Report (see page 167).
- Process for Preparing the IP Status (see page 166).

Step IV-C: Rate IPs Quarterly – The evaluation of Individual Plans at the end of each quarter is a critical step. The process of formally comparing what was planned with what was delivered help team members grow in many ways. A wise team leader uses this process to coach, train, and develop team members. This process provides much-needed feedback to team members four times a year, which is much more effective than the typical one-time-a-year annual performance appraisal. Hints and Tips:

- Complete the rating promptly at the end of the quarter. Any learning can be applied to the development of the next quarter's plan.
- The team leader's job is to help the team member learn, grow, and maximize performance. Input provided should be constructive in spirit.
- If you're going to tie incentive payments to achievement of the IPs, it's recommended that you do so gradually.
- Make good notes and comments on the form, so that at the end of the year you have information that can be incorporated into the annual performance appraisal.
- Example of Quarterly IP Rating (see page 170).
- Process for Rating Achievement of Quarterly IPs (see page 169)

Step IV-D: Prioritize Daily – All the planning, prioritization and goal setting in the Six Disciplines Methodology eventually comes down to choosing what action to take – what you're doing today, at this instant. Is this work aligned with what's important to the company, or not?

Long-term excellence is about daily integrity in the little decisions. Choices made today determine whether you'll meet your quarterly plans. The quality and achievement of the quarterly plans determine whether the annual goals are met. Achievement of the annual goals determines whether the long-term goals are met, and achievement of those determines whether the vision is met. The significance of what each individual in the organization does compounds up through the layers and determines what the organization becomes over the long-term. Hints and Tips:

- Get in the habit of writing down commitments every time in the same place. A notebook, laptop, or PDA – it doesn't matter. Find something that works and stick with it.
- Prioritize daily, allocating enough time to achieve quarterly goals and sustaining responsibilities. There will always be more on the list than you can do, so you have to choose which are the most important. Adopt a simple ranking system like *A* for "critical today," *B* for "important," and *C* for "can wait."
- When you consistently have more '*A*' items that you can handle, you need to alert your team leader and ask for guidance on priorities.
- Example of Task List (see page 173).

Step IV-E: Monitor Measures – One of the most important objectives of the Six Disciplines Methodology is helping organizations build a *measurement-oriented culture,* one that realizes learning is rooted in measuring and observing results. It's the results that tell us whether the innovations we try are working. Organizations that want to accelerate learning should strive to have every person in the organization have a few key measures that help them do their job more effectively. Hints and Tips:

- Measures help promote innovation. People should be encouraged to try new things, but prove through measurement that they work, before general adoption.
- Measurement promotes empowerment. People have a clearer understanding of what's expected and encouraged to self-manage in pursuit of those expectations.
- Measurement promotes learning. People learn from cause-and-effect observations. The greater the frequency of observation, the faster the learning.
- The real purpose of measurement is not to correct a particular defect or service. It's to correct the process that caused the defect in the first place.
- Throughout the company there may be hundreds of measures, but for an individual, there should only be a few.
- Be patient. It takes a long time to get the right measures in place for every job, but the payoff is huge, with an energized and aligned workforce. Start slowly – one measure for one person, and work gradually to expand it.
- Measures should be trended. The learning value of a measure is much greater when you can see changes over long periods of time and understand how today's performance compares to the past. When an organization commits to tracking measures, it's building an asset that will increase in value as time passes.
- To be effective, measures need to be easily accessible. The organization needs to develop a technology strategy that facilitates the tracking of measures.
- Get rid of measures that don't ass value. Remember that every measure you track takes time and effort to produce and analyze.
- Process for Monitoring Measures (see page 176).

Recap of Discipline IV – Work the Plan – To achieve our most desirable future, we must master the moment at hand. Every team member, each day, is spending the most precious asset any organization has – time and energy. Whether or not that time and energy are being well-spent is a very important question.

The Discipline is designed to teach individuals and organizations how to invest in each moment in such a way that they build the most preferred future for the company, and make life and work more fulfilling for the individual. The key steps to doing this are:

IV-A   Define IPs Quarterly
IV-B   Review IP Status Report Weekly
IV-C   Rate IPs Quarterly
IV-D   Prioritize Daily
IV-E   Monitor Measures Regularly

In the next chapter we address how to harness the creativity of every individual in the organization so that it is applied to the purposes of the company.

Discipline V – Innovate Purposefully:

Discipline V – Innovate Purposefully is unlike the other five disciplines, because it primarily provides principles and tools that are used in the day-to-day execution of the steps in the other disciplines. Innovating purposefully is not an isolated event in an annual or quarterly cycle; it's a mindset that permeates the culture of an excellent organization.

Peter Senge points out that deep down, we're all learners. "No one has to teach an infant to learn. In fact, no one has to teach infants anything. They are intrinsically inquisitive, masterful learners who learn to walk, speak, and pretty much run their households all on their own." This creative nature is alluded to in the Bible, which records that God created people in His image and gave the human race the mission (and ability) to rule (bring order) all over the earth. The idea that people are designed for a purpose, designed to problem solve, has forever changed the way I view other people and myself.

As a business leader, you want to nurture and harness the full potential that exists inside your organization. The number one principle to be learned and applied is *"to engage everyone in innovation."*

Organizations that learn how to engage everyone, focus on the important, embrace constraints, take informed risks, and give learning time are creating the fertile condition in which innovation can blossom.

Step V-A: Brainstorm – A tool for generating ideas, brainstorming has been around for decades. Even though it's not new, it's still underutilized and its underpinning principles are as valid today as they've ever been. The basic principle is that people are more willing to put forth ideas in an environment where their ideas aren't critiqued at the time. The brainstorming exercise described below is used throughout the Six Disciplines Methodology to generate and capture ideas quickly. After the ideas are on the table, they can be evaluated in a separate process, using either the 100-Point Exercise or the Quick-ROI Analysis.

- Make sure there's a clear statement of what the brainstorming topic is. Be specific. For example, brainstorming on the topic, "How can we increase sales?" will produce a very different result that the topic, "How can we generate an additional $200,000 in sales in the next 90 days?"
- Do not permit evaluation or comments on the validity of ideas. Just capture the idea, regardless of how wild it may seem.
- Set a time limit and capture as many ideas as possible in the given time. You'll be surprised at how many ideas can be generated in just a few minutes.
- Use a facilitator to record the ideas, and make sure the rules are followed.
- Keep the group small (under seven in recommended).
- Example of Brainstorming Exercise (see page 190).

- Process for Brainstorming (see page 189).

Step V-B: 100 Point Exercise – The essence of decision-making and strategy formulation is making difficult trade-off decisions – saying "yes" to a few things and "no" to most things. The purpose of the 100-Point Exercise is to help a group of people use their individual judgment to prioritize choices, and then aggregate those individual judgment to prioritize choices, and then aggregate those individual judgments into a group perspective.

This technique can bring order to chaotic process and save time. This process works because it's a stimulation of the judgments we must all make in decision-making – the choice between what we'd like to do and what we can do with limited resources. Hints and Tips:

- This exercise is particularly useful when you have a lot of ideas to evaluate and want to get down to a shorter list quickly, without a big investment of time.
- A key assumption of this process is that the "experts" in a particular business are the people who work in that business. They have the most contact with their customers, and they know the capabilities of their organization better than "outsiders" do.
- Allow time for people to explain why they allocated points the way they did. Sometimes, the reasoning changes someone else's mind, thereby setting up a beneficial, synergistic effect.
- In a 100-Point Exercise, each person is allotted 100 "points," which they can then allocate among the list of ideas, awarding the most points to the most important ideas. Each group member, theoretically, could put all 100 points on one idea, one point on 100 ideas, or any combination in between. This exercise simulates the real world of strategy formulation: you have limited resources (100 points), and you have to decide how to deploy those resources. When everyone is finished, record the number of points beside each idea by person. At this point, the group should discuss the resulting priorities and see who disagrees and why.
- Example of 100-Point Exercise (see pages 193-194).
- Process for Prioritizing with 100-Point Exercise (see page 192).

Step V-C: Quick-ROI Analysis – Often, the best business ideas are ones that produce the most revenue or earnings increases, in the shortest amount of time, with the smallest investment. The Quick-ROI Analysis is based on this assumption. This exercise is useful when you'd like to develop priorities explicitly considering three factors:

1. Impact of the idea in terms of revenue (or earnings).
2. Time to market.
3. Cost of implementation.

With the 100-Point Exercise, these factors may be considered implicitly in the points an individual awards to an idea, but such assumptions aren't visible in the process. The Quick-ROI approach makes assumptions more visible and helps people communicate more effectively. A significant part of the value is improved understanding that results among the members. Hints and Tips:

- For this exercise, estimates of revenue, cost and time to market are just rough approximations based on the experience of the people involved. They're not based on bottom-up plans.
- You should have people in this evaluation process who represent all functions of the business, so that all business perspectives are reflected in the analysis.
- Start with a list of items that's fairly short – 10 to 15 items. If the list is too long, use the 100-Point Exercise to narrow the list.
- Ask each person to rate each item according to the following criteria. "1" is considered *less* desirable and "3" is *most* desirable. For example, a 3 in sales means high sales, and a 3 in cost means low cost. The point is to find projects that are all ranked 3s or a mixture of 3s and 2s.

    i. Sales (cost savings):
        1. low impact ($\varnothing$\$100,00 sales or $\varnothing$\$20,000 cost savings)
        2. medium impact (\$100-\$500k sales or \$20-\$100k cost savings)
        3. high impact ($\cap$\$500k sales or $\cap$\$100k cost savings)

    ii. Cost to Implement:
        1. high cost ($\cap$\$100k)
        2. medium cost (\$25-\$100k)
        3. low cost ($\varnothing$\$25k)

    iii. Elapsed time:
        1. long time ($\cap$4 quarters)
        2. medium time (1-4 quarters)
        3. short time ($\varnothing$1 quarter)

- Have the individual add up his/her ratings for each project. For example, +2 medium sales impact; +2 low cost to implement; +3 short elapsed time = rating of 7.
- Example of Quick-ROA Analysis (see page 197).
- Process for Quick-ROI Analysis (see page 196).

Step V-D: 5-Step Problem Solving – Whereas earlier exercises are designed to help groups sort through a collection of ideas and come to agreement on priorities, 5-Step Problem Solving is an approach for thinking through a situation to a particular problem or opportunity in more detail. The output of this process is typically a 2-3 page document that describes what the problem is, its root causes, possible solutions and implementation considerations.

This tool can be used by an individual or a team working together. The advantage of this approach is that it provides a checklist of issues to address and questions to ask so that creativity is channeled in their right direction. This is an easy template to place in a word processor document and make available to you whole organization. Hints and Tips:

5-Step Problem Solving Template

1. **Define the Problem.**
   a. Problem statement.
   b. Impact – who will be impacted, when and how much, if not resolved?
   c. History – specify any relevant history leading up to this problem.
   d. How will you know if the problem is resolved? How will it be measured?
   e. Who should be involved in solving the problem?

2. **Identify root causes. (Ask "Why?" seven times)**

3. **Develop the Solution.**
   a. Key deliverables (outputs) required for the solution.
   b. Constraints the solution must fit: time, dollars, manpower, etc.
   c. Final decision-maker for proceeding to implementation.
   d. Alternatives considered.
   e. Recommended solution.

4. **Implementation Plan.**
   a. Who is responsible?
   b. Scope clarification – What will and will not be addressed?
   c. Resources required: people, funds, etc.
   d. Key steps and schedule.
   e. How will results be measured?

5. **Post-Implementation Findings.**
   a. Summary of stakeholder feedback (customers, employees, etc.)
   b. How well were the goals met? (planned vs. actual)
   c. List what worked on this project.
   d. List what didn't work or could have been done better.

- This tool can be used as a way to kick off projects that have been chosen as a priority, based on the 100-Point Exercise or Quick-ROI Analysis.
- This document should be short: 2-3 pages is typical. It provides a great training tool to help people be thorough when analyzing a problem or opportunity.
- Don't hesitate to modify this template to better fit your organization's needs. This approach should serve as a practical checklist for making better decisions more quickly.
- 5-Step Problem Solving can employ brainstorming to gather ideas and the 100-Point and Quick-ROI Analysis to identify root causes, possible solutions, etc. The 5-Step Problem Solving Template provides a great formula t document the outcome of such group exercises when teams of people are involved in defining and solving the problem.

- Process for 5-Step Problem Solving (see page 199).

Step V-E: Champion Your Ideas – One small idea well implemented is worth more than a "big" idea that never gets acted upon. The purpose of this step is to encourage people to generate ideas, and take responsibility for championing the idea through evaluation and implementation. Hints and Tips:

- Don't solicit suggestions if they're not going to be evaluated seriously. Doing nothing is better than setting up a formal system that isn't really supported or fully implemented.
- Help people understand that many small, easy-to-implement ideas are often better than trying to "hit home runs."
- Formal suggestion processes don't replace simply listening and respecting people's ideas.
- In most cases, leaders should avoid letting the person generating the idea 'delegate up' responsibility for the idea. Instead, encourage the person to talk to someone in the organization to better understand its feasibility. The key is to be encouraging and supportive, without taking ownership of the idea.
- Those submitting the ideas should ask themselves if they believe enough in the ideas to fight for them. If they don't, then don't waste people's time.
- Example of Idea Form (see page 204)
- Process for Assuming Responsibility for Ideas (see page 203).

Step V-F: Recognize Contributions – The purpose of this step is to help people give a good word to each other – to recognize the contributions individuals and teams make to the mission of the organization. Honest praise and acknowledgement are among the most satisfying gifts we can give to each other. It's not only good for the individual involved, but it reinforces, to everyone in the company, behavior and character traits that align company values and mission.

If you want to sustain excellence, it's important to build a culture that recognizes and affirms examples of excellence. Hints and Tips:

- Keep the award process simple, so that a nomination can be completed in less than five minutes.
- Make it everyone's job to nominate award winners. This builds a culture of trying to catch people doing something "right."
- Remember to recognize the people who nominate others for awards, perhaps quarterly or annually.
- Don't start this process until you can focus on making it a habit in your company. It's better to have no process than to set expectations of a process and not follow it.
- Make sure people are recognized publicly for the award – for example, read them at company meetings, email copies, post them on bulletin boards, etc.
- Example of Way-to-Go Recognition Form (see page 208).

- Process for Using the Way-to-Go Award (see page 207).

Recap of Discipline V – Innovate Purposefully – Building an organization that excels over the long term requires a team of people who know how to apply their innate ability to innovate toward the goals of the company.

       V-A   Brainstorm
       V-B   100-Point Exercise
       V-C   Quick-ROI Analysis
       V-D   5-Step Problem Solving
       V-E   Champion Your Ideas
       V-F   Recognize Contribution

We're now ready to move into the last discipline. It shows organizations and their personnel some practical , annual steps for stepping back from all the urgent issues of work like and gaining some perspective on exactly where they are.

Discipline VI – Step Back:

Discipline VI – Step Back is an annual, step-by-step process designed to help organizational leadership and individuals withdraw from the press of everyday business, thereby gaining a clear picture of factors inside and outside the business that should be examined before updating strategy. Most of Discipline VI takes place in a 4-6 hour retreat with leadership.

The end result of this once-a-year "mega-review" is an updated list of Strengths, Weaknesses, Opportunities, and Threats (SWOT). During this discipline, external trends (competitors, industry, etc.), goal achievement, key measures, and stakeholder feedback (customers, team members, etc.) are explored.

All of this feedback is consolidated into a SWOT statement which can be easily referenced by everyone in the company. Last of all, individual team members are encouraged to step back by completing a 360° survey as part of the annual performance appraisal.

Step VI-A: Review Externals – A key part of gaining perspective for any business is periodically identifying and prioritizing the external factors that have the potential to influence company performance and strategy the most over the next few years. External factors are forces that are not controlled by the company. Hints and Tips:

- The people who know the most about your business are already working for you. Your staff and customer support staff are a veritable fountain of information about competitive issues and trends.
- If there are areas that need more research, have someone on your own staff spend some time gathering information relevant to your business.
- As a last resort, you can engage outsiders or buy industry analysis reports from market research firms.

- All key departments in the company should be present in these exercises, so that all functional perspectives are considered.
- Keep in mind that the purpose is only to identify top issues, not to develop strategies for responding. That will come later in Disciplines I and II.
- Examples of External Trends Summary (see page 216).
- Process for Reviewing Externals (see page 215).

Step VI-B: Review Internals – This step is focused on the things that we do have control over – our own internal operations. A thorough internal review should examine:

- Achievement of current-year goals.
- Key performance measure trends.
- Stakeholder satisfaction: customers, employees, vendors, etc.
- Financial condition and controls (outside expert).
- Information Technology (outside expert).
- Risk/insurance (outside expert).
- Legal issues (outside expert).
- Six Disciplines Methodology (outside expert).

Any organization that doesn't have a systematic way of gathering and periodically analyzing vital information, like stakeholder satisfaction and other key measures, is "flying blind." Hints and Tips:

- Assess performance openly, without assigning blame. Ask "how can we, as a team, plan and execute better next year?"
- Keep surveys to outside stakeholders short (under 10 questions). The purpose is to identify problems, not diagnose them.
- Surveys should be changed infrequently, so the results can be trended from year-to-year. Changing a question breaks the trend.
- For valid results, design surveys so you get a minimum of 30 responses for each category you want to break down: sales region, product type, etc.
- Leverage the Internet. Surveys are much less expensive to send and respond to if done electronically.
- Don't be frustrated by the lack of measures you have in place. Add a few measures each year.
- Be willing to live with approximations or rough estimates until you get better data. For example, a sampling of product quality is better than no data at all.
- Top-performing businesses learn how to develop and effectively use the advice of outside experts.
- Select outside advisors/reviewers who have the ability to understand your long-term goals, and who can help you take short-term steps that fit into a long-term plan. This is particularly true when it comes to information technology.
- Process for Reviewing Internal Performance (see page 219).
    i. Example of Key Measures (see pages 220-221).
    ii. Example of Stakeholder Surveys (see pages 222-225).

iii.   Example of Financial Review Checklist (see page 226).
iv.   Example of Technology Review Checklist (see pages 227-228).
v.   Example of Risk/Insurance Checklist (see page 229).
vi.   Example of Legal Review Checklist (see page 230).
vii.   Example of Six Disciplines Methodology Review Checklist (see pages 231-234).

Step VI-C: Recap SWOT – Because all organizations have limited time and resources, one of the primary roles of the leadership team is to help narrow the focus upon which those limited resources are applied.

The purpose of the SWOT step is to get the leadership team to use their experience and judgment to begin narrowing the focus of planning toward the most important strengths, weaknesses, opportunities, and threats. The year's strategy should be based upon these. The SWOT statement is one of the primary inputs into Discipline I. Hints and Tips:

- Trust your judgment. There's no team in the world that knows more about your business than you do.
- Be concise. The recap should fit on a page or two, and should focus on the most important three to five items in each category.
- Be candid. The success of the company depends on the ability of the leadership team to trust each other and be open. Hidden agendas or "sacred cows" should be brought into the light.
- Example of SWOT Redcap (see page 237)
- Process for Preparing a SWOT Recap (see page 236).

Step VI-D: Review Individuals – The purpose of this step is to lay out an approach that allows team leaders and team members to approach appraisal openly, with confidence, integrity and with no significant surprises. Following the Six Disciplines approach, you'll go into an appraisal with:

- The prior year's appraisal.
- Four completed and rated IPs that show clearly what has been accomplished, along with coaching tips.
- A profile that helps explain the person's natural preferences and aptitudes.
- A current 360° survey that shows feedback from the five to ten coworkers who rely on this person the most.
- A list of personal development goals and attainment over the past year.

Using this process, the Individual Performance Appraisal doesn't take much time to prepare. More importantly, it helps each individual gain the broader, more far-reaching perspective that can only be achieved by stepping back from the day-to-day activities that occupy our thoughts. Hints and Tips:

- We recommend that the performance appraisal occur as part of the annual planning cycle.
- Compensation decisions should be based on multiple factors, including appraisal ratings, economic trends, company performance, etc.
- Conducting quality performance appraisals in the responsibility of the team leader. All of this input is just that – input. This is not review by committee.
- Participants in a 360° survey should be no fewer than six, and no more than 10, including your boss and yourself. They should represent a god sampling of people: those who report to you, your peers, and those who use your work product.
- Pick people who will be candid wit you about strengths and weaknesses. A bunch of inflated ratings won't help you grow.
- The individual being surveyed should recommend the list of people to include in the survey, but the team leader should review and approve.
- Participation in the survey should be anonymous, except for your boss. This helps remove barriers to candor.
- Don't assume or try to figure out who said what on your surveys. Time and time again, people have jumped to wrong conclusions, so don't go there.
- Survey contents should be standardized for all participants. Job-specific goals are addressed by quarterly IP results.
- Process for Reviewing Individuals (see page 241).
    i. Examples of Individual 360° Feedback (see pages 242-243).
    ii. Examples of Performance Appraisal (see pages 244-245).

Recap of Discipline V – Innovate Purposefully – Each year, the leadership team needs to step back and take a close look at what's taking place, both internally and externally, and to make whatever mid-course corrections are needed to keep the business headed in the desired direction. The key steps in this process are:

VI-A   Review Externals – competitive, industry, technology, etc.
VI-B   Review Internals – goals, measures, stakeholders, etc.
VI-C   Recap SWOT – Strengths, Weaknesses, Opportunities, Threats.
VI-D   Review Individuals

This Discipline ends the Six Disciplines cycle and, at the same time, paves the way for starting the cycle all over again.

Putting It All Together:

The identity of your business does not lie in current results, it lies in what you do in the future. The Six Disciplines Methodology is all about what you want your business to become. There are many who talk about excellence, there are some who achieve it for a moment, but there are few who are willing to learn how to deliver excellence that lasts.

The Six Disciplines Methodology incorporates elements of strategic planning, quality management, business process automation, measurements, and people management. But more than anything else, Six Disciplines Methodology is an integrated learning system. It is a systematic way for the whole organization to learn how to set, and more importantly, execute strategy. By following its repeatable annual, quarterly, weekly, and daily cycles, people continue to learn and grow at their own pace. It's a way for every team member to continue to increase in understanding about how to work on the business, not just in it.

If you follow the Six Disciplines Methodology faithfully, you'll transform your organization into a place where the leadership team becomes expert at setting the vision for the company and engaging people in the pursuit of that vision – where you will move your organization beyond survival to excellence and then beyond excellence to lasting excellence.

Six Disciplines Methodology

Discipline I: Decide What's Important
- Renew Mission
- Renew Values
- Renew Strategic Position
- Renew Vision
- Define VFOs
- Agree What to Stop

Discipline II: Set Goals That Lead
- Define Measure
- Define Targets
- Define Initiatives
- Engage the Team

Discipline III: Align Systems
- Identify Misalignments
- Align Processes
- Align Policies
- Align Measures
- Align Technologies
- Align People

Discipline IV: Work the Plan
- Define IPs Quarterly
- Review IP Status Report Weekly
- Rate IPs Quarterly
- Prioritize Daily
- Monitor Measures Regularly

Discipline V: Innovate Purposefully
- Brainstorm
- 100-Point Exercise
- Quick-ROI Analysis
- 5-Step Problem Solving
- Champion Your Ideas
- Recognize Contribution

Discipline VI: Step Back
- Review Externals – competitive, industry, technology, etc.
- Review Internals – goals, measures, stakeholders, etc.
- Recap SWOT – Strengths, Weaknesses, Opportunities, Threats.
- Review Individuals

Message from Gary Tomlinson:

I hope you enjoyed this book report. However, this document should not take the place of you reading *Six Disciplines for Execution.* The book is filled with numerous examples, stories and illustrations that I've not included in this book report. This is a must read for any business executive who wants to obtain excellence for his or her organization. And should be immediately followed up with reading Gary Harpst's *Six Disciplines Execution Revolution.*