

PART THREE: THE RHYTHM OF CHAOS

Henry Adams wrote, “Chaos is the law of nature. Order is the dream of man.” The multi-level negotiations necessary to bring The Right Things and The Right People together, combined with the concurrent execution of a variety of projects, can be pretty chaotic. It is therefore important to have some way to get Above The Trees to view the chaos from a more rational, if not orderly perspective.

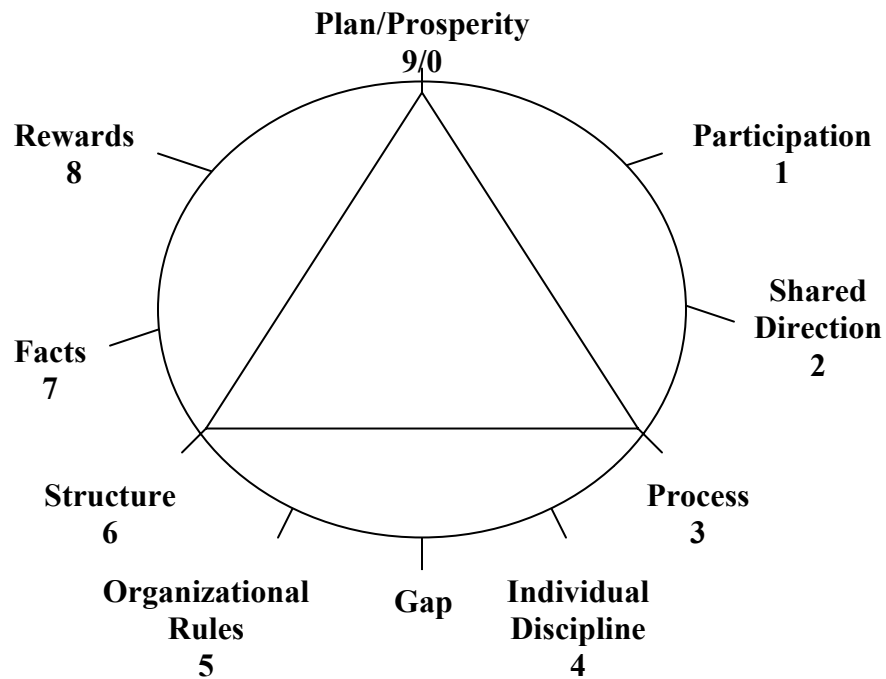
Through organizational change, we create value. In doing so, we become a more compelling resource in the market, contributing order to chaos. We test our broad-based assumptions against the realities of our markets by negotiating and implementing the directives of a plan; initially through changes in process, followed by changes in structure.

That way, structure follows strategy, becoming the operational expression of a successful implementation effort. In the process, our strategic initiatives evolve into a new operational standard. At each point in the planning and implementation cycle, we first feed forward into the unknown, and then back to review our results against specific objectives.

In this way, we test our assumptions against current reality, and make any necessary changes to the plan before we feed forward to the next point. Through this process, we gain proof of concept, one step at a time, while inculcating flexibility into our execution.

The following model illustrates nine key points in the planning and implementation cycle. Please refer to this information as you review the text.

THE PLANNING AND IMPLEMENTATION CYCLE



How Managers Plan and Implement

In most companies, those in charge dictate versus negotiate, so people are managed as opposed to led. I define **leadership** as the identification and communication of opportunity in the interest of prosperity. **Management** is defined as controlling an organization in the interest of survival.

Managers feed back into the past, and then forward; operating on intuition, past experience and historical data instead of current information or future trends. Managers trust their assumptions and test people against them. Consequently, the intuitive solution, more often than not, represents more of the same. While negotiators may learn from history, dictators repeat it.

Managers approach the planning and implementation cycle in direct opposition to the approach taken by leaders. The manager begins by dictating **direction** (point 9 in the model on page 86) and developing a **profit target** (rewards 8). Operational **objectives** are established that should deliver the desired profit (facts 7); and a **restructuring** (6) effort is undertaken to more easily drive prescribed levels of performance.

Rules (5) and policies are then rewritten to support structure and enhance control in the interest of survival. Those rules define the individual **discipline** (4) that will be enforced by **middle management**, and used as a basis for redesigning **processes** in order to leverage behavioral change (3).

Finally, **teams** (2) are assembled, based on those prescribed changes, and individuals are asked to **participate** (1) in return for a discretionary reward, if any, for delivering the objectives of the **plan** (0). Financial metrics are closely guarded, and typically unavailable to the average worker, due to a lack of trust.

How Leaders Plan and Implement

Leaders proceed the opposite way around the model, feeding forward first, and then back. Leaders begin with a negotiation based on a broad-based set of assumptions; gaining consensus as to where the organization is, where it has to be in the next three to five years, and how the members of the team want to get it there (**plan 0**). In the end, people do what they want, whether we like it or not.

Leaders communicate the plan to enlist the **participation** (1) of individuals, and they negotiate a **shared direction** (2) that will help guide key employees in making necessary changes to operational processes. Participants are free to resolve opportunity in their own **best interests** (3), so that they may develop the **individual discipline** characteristic of those engaged in work that is inherently satisfying (4).

The Jesuits suggest that we gain *freedom through discipline* (*libertas obediens*). I believe the opposite. True discipline is the natural expression of hopeful energy from a faith in the future that is built on a more compelling idea. So by acting in our own best interests, as well as the best interests of the organization, we develop *discipline through freedom*.

Due to the inherent predictability of motivated individuals with a clear and meaningful purpose, we can trust people to **rewrite the rules** (5) of the organization in their own images. There is a **natural restructuring** (6) that follows from changes in process, delivering the **desired results** (7) and supporting the basis for **rewards** (8). As a function of satisfying the explicit objectives of the plan, individuals realize greater **prosperity** (9).

Leaders fill the gap between **individual discipline** and **organizational rules** with the natural motivation to satisfy instinctual needs, as opposed to middle management coercion. We can trust people to do what they want to do when they are aligned toward a common set of objectives.

Unfortunately, a simple, linear explanation like the one we have just finished does not do total justice to the chaos that exists in planning and

implementation. But it is a useful place to start as a basis for a more complete model that allows us to view the planning and implementation cycle from the constructive perspective of a leader.

To see the power in the leadership model, we have to reduce the process to its most basic level. That is, the negotiations that happen one unique person at a time.

Putting It All Together

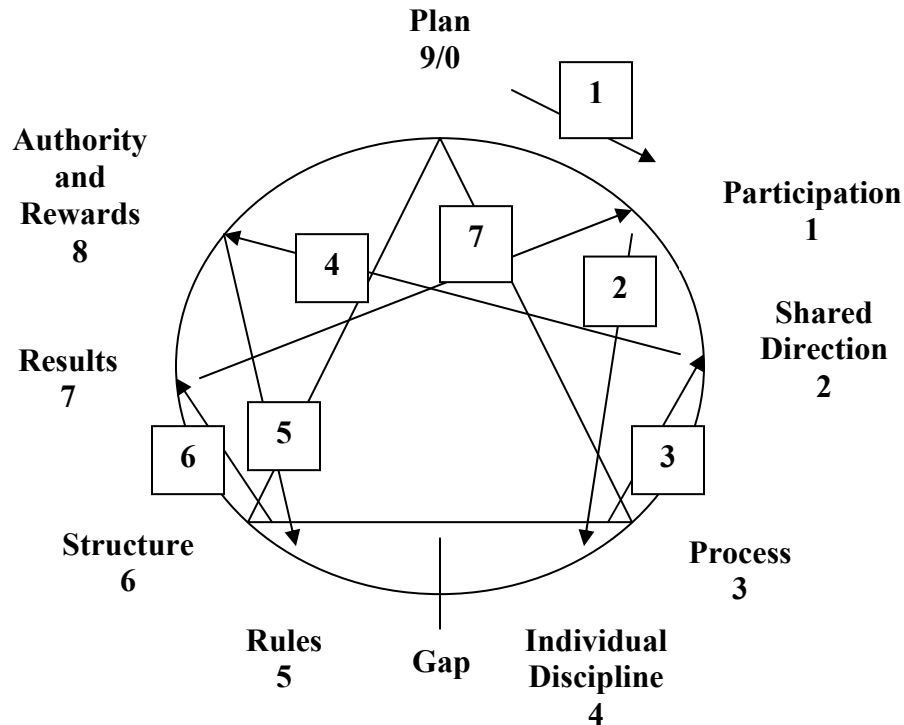
I have just described two different linear approaches to implementation. First, I described the planning and implementation process for those who prefer to manage instead of lead. These individuals trust their assumptions and test people against them. They dictate versus negotiate, filling the gap between organizational rules and individual discipline with middle management oversight.

Then I described leaders who prefer to negotiate, trusting individuals to test their assumptions. Leaders free their associates to fill the gap between individual discipline and organizational rules by redefining their responsibilities in ways that suit their instinctual behaviors.

I believe in the second approach, but with one proviso. We must, as Ronald Regan suggested, “Trust but verify.” When we negotiate our way around the planning and implementation cycle, we need feedback at each step in order to accurately assess the impact of changes to process and structure. Our plan must evolve to reflect the realities of the external environment, as well as the behavioral competencies and capacities of key individuals.

The model below illustrates a planning and implementation cycle at an individual level, where we negotiate our way to prosperity in seven discrete steps. Please refer to it as you review the information below.

SEVEN STEPS TO PROSPERITY



A Natural Model for Change (The Enneagram)

In the early 20th century, a Russian physicist, named G.I. Gurdjieff, rediscovered an obscure thinking model known as the Enneagram. He used it to illustrate the natural evolution of a species. Through observation and study, Gurdjieff reasoned that an evolutionary model contained nine points, three of which were inflection points (environmental, behavioral and structural); where change is expressed in an explicit process that promotes adaptation and survival of the fittest. The model is illustrated above, adapted to show the Seven Steps to Prosperity in an implementation effort.

Gurdjieff saw the evolutionary changes in successful species as a continual process of feeding forward and feeding back ahead of unsuccessful competitors (the non-survivors). This movement minimizes the wasteful allocation of resources, while bolstering the most worthy changes to behavior, instinctual response and physical characteristics.

He believed that there was a natural, mathematical logic governing the seven step process, represented by the formula $1/7$. The result of dividing one by seven is 0.1428571, which repeats (1428571) to infinity. The arrows in the model above illustrate the seven steps of implementation in a successfully evolving organization.

Seven Steps to Prosperity

The process begins with the identification of opportunities that will be resolved through the initiatives of the plan. It is up to leaders to communicate these initiatives to all of the constituents of the organization, internal and external, in order to enlist their **participation** in the implementation process (Step 1). The first step establishes organizational clarity and tests our assumptions about the relevance of The Right Things.

The communication in Step 1 provides the context for The Right People to step up and express their willingness to take ownership of a particular aspect of the plan. In doing so, they rise to a higher level of accountability, committing themselves to fill the gap between today's expectations and a higher outcome with a new set of responsibilities (Step 2). This provides the foundation for meaningful work. **Individual discipline** is the currency of clear and meaningful direction (#4 on the enneagram).

When individuals take on new responsibility, a leader is accountable for the coaching necessary to help them along in their development. In this process, we must *trust but verify*, utilizing the knowledge gained to test our assumptions about The Right People and their ability to develop both the teams and the action plans necessary to support a **shared direction** (Step 3).

Once our action plans are finalized, we may establish the quantitative value of specific projects to the organization. Balancing the quantitative and qualitative aspects of an initiative promotes a true understanding of its importance. With that understanding, The Right People can have their heads in the game, rising to the level of reason in the interest of a higher outcome.

We may then negotiate the delegation of **authority**, as well as **rewards** for our new leaders and their teams (Step 4). Within the parameters defined by those negotiations, individuals are free to rewrite the rules of the organization through changes in their **roles and responsibilities** (Step 5). The collective result is an evolving organizational structure that supports changes in process, and delivers the tangible **results** (Step 6) defined by individual accountability.

By successfully executing the initiatives, the members of the organization earn rewards commensurate with results (Step 7), as measured collectively against the profit objectives of the **plan**. This process allows a grass roots understanding of economic freedom, due to the ability of every individual to affect his or her own standard of living while doing what is inherently satisfying. With or without success, Step 7 serves as a critical decision point

that keeps us asking if we are still engaged in meaningful work, or if it is time to begin the process again.

A Note on Physics and Formulas

In quantum physics, it is suggested that the weight of an atomic particle is equivalent to the level of vibration in its core. What we see above is the representation of that vibration from the seven movements in the planning and implementation cycle.

I am suggesting that the faster we can change, through regular planning, negotiation and implementation, the better we become at feeding forward and feeding back; to build individuals, and therefore the company, ahead of competitors. The more adaptable we are, the greater our ability to evolve and create superior value. The higher the value of the company, the freer our employees will be to express their God-given talents in the pursuit of greater prosperity.

Our ability to evolve, relative to others, is a function of the knowledge we amass from the effectiveness of ongoing internal and external negotiations, as measured by profit. Applying Einstein's theory: Our Relative Evolution (E) = The Knowledge we amass (M) through the effectiveness of ongoing Internal and External Negotiations ((C²) = (Communication²)).

As we evolve, M becomes smaller relative to E. That is because the results of the meaningful work we do (E), relative to the knowledge we accumulate (M), will increase as we improve our ability to negotiate (C²). In other words, productivity and operational efficiency are not ends in themselves, as

much of the world seems to think. They are the natural result of negotiating and resolving opportunities in the interest of prosperity, one self-interested individual at a time.

Physical concepts, like those proposed by G.I. Gurdjieff, Albert Einstein and John Nash, seem to celebrate the inexorable *rhythm of chaos*. Natural evolution is the product of feeding forward, ahead of competitors, and feeding back to insure that changes in assumptions, processes and structure are the right changes in light of current reality. In essence, the commitment to negotiate versus dictate, to *trust but verify*, is the most critical precept in the realization of *discipline through freedom*.

A Seven Step Review (with suggested Models to foster Understanding)

- 1) The Negotiation and Communication of the Plan - Testing Assumptions about The Right Things (Competitive Context, Page 5).
- 2) The Right People Step up to a higher level of Accountability (The Counterintuitive Nature of Trust, Page 73).
- 3) Testing Assumptions about The Right People and their Ability to Lead Teams and Execute the Plan (Innovative Balance, Page 26).
- 4) The Negotiation of Rewards (Individual Momentum – The Right People, Page 57).
- 5) Participants Restructure the Organization by Rewriting their Roles and Responsibilities (The Counterintuitive Nature of Trust, Page 73).
- 6) Review progress against Objectives (The Knowledge Hierarchy, Page 61).
- 7) Eliminate Constraints or Start Over (The Success Hierarchy, Page 77).

THE FIFTH DIMENSION: THE EVOLUTION OF TRUTH

I have often been accused of being too abstract and theoretical. The boss says, “Skip the bull, Wehder, and let’s get to work!” Although I see the point, and agree that this stuff is just a bunch of abstract ideas, guess what? **A BUSINESS IS ONLY AN IDEA!!!** So what could be more valuable than creating a context for improving the idea that is the business? Nothing!

I once wrote that my value as an advisor is not in the answers I give, but in the questions I ask. If there’s one thing I have realized over the years, any improvement to the idea we call a business has to be developed by the people who run it. By asking better questions, they may discover the path to greater outcomes on their own. Some call this methodology Socratic, while I simply refer to it as “about them.” As Emerson said, “My goal is not to bring followers to myself, but to bring people closer to themselves.”

In the first part of the book, I included a Case Study comparing two different business models; one with a Q2 Competitive Context, and one employing a Q4 approach. What we see, once we get down to profitability per person, are two competing Competitive Contexts with the same propensity for organizational value and individual prosperity.

As well, we see two businesses that sell for huge multiples of profit. I know that they are both public companies, and that profit multiples are higher once an irrationally exuberant public becomes the de facto owner of a business. But I have seen the same phenomenon, or lack of it, in private businesses.

The only difference between a business that sells for a standard industry multiple of profit or cash flow, and one that sells for something in excess of that, even a *multiple of revenue*, is the perceived value of the idea it represents. The discovery of a more valuable idea is a function of failure, not luck. As mentioned earlier, Edison believed that the measure of success was the number of experiments (little failures) one could conduct in a 24 hour period.

The purpose of an experiment is to empirically prove a concept. The success of a business should be a function of the speed with which we can test concepts through experimentation. Implementation is the experimentation we do as a function of the ongoing internal and external negotiations prescribed by a plan.

The value of implementation is in the hard decisions about what to do going forward, as well as what NOT to do any longer. Implementation is not some onerous, linear drudgery that exists outside of real work. It is the most meaningful work we do, allowing us to work smarter, not harder. That way, we may do increasingly more with the limited resources available to us.

The key to building superior value, relative to our competitors, is in the ongoing negotiations that allow us to create a more valuable idea in the eyes of our customers. Limiting experimentation to the ideas of an owner or a few managers, based on a myopic set of assumptions, limits the value of a company to something between a standard industry multiple of profit and the depreciated value of its assets.

The Five Dimensions of Value Evolution

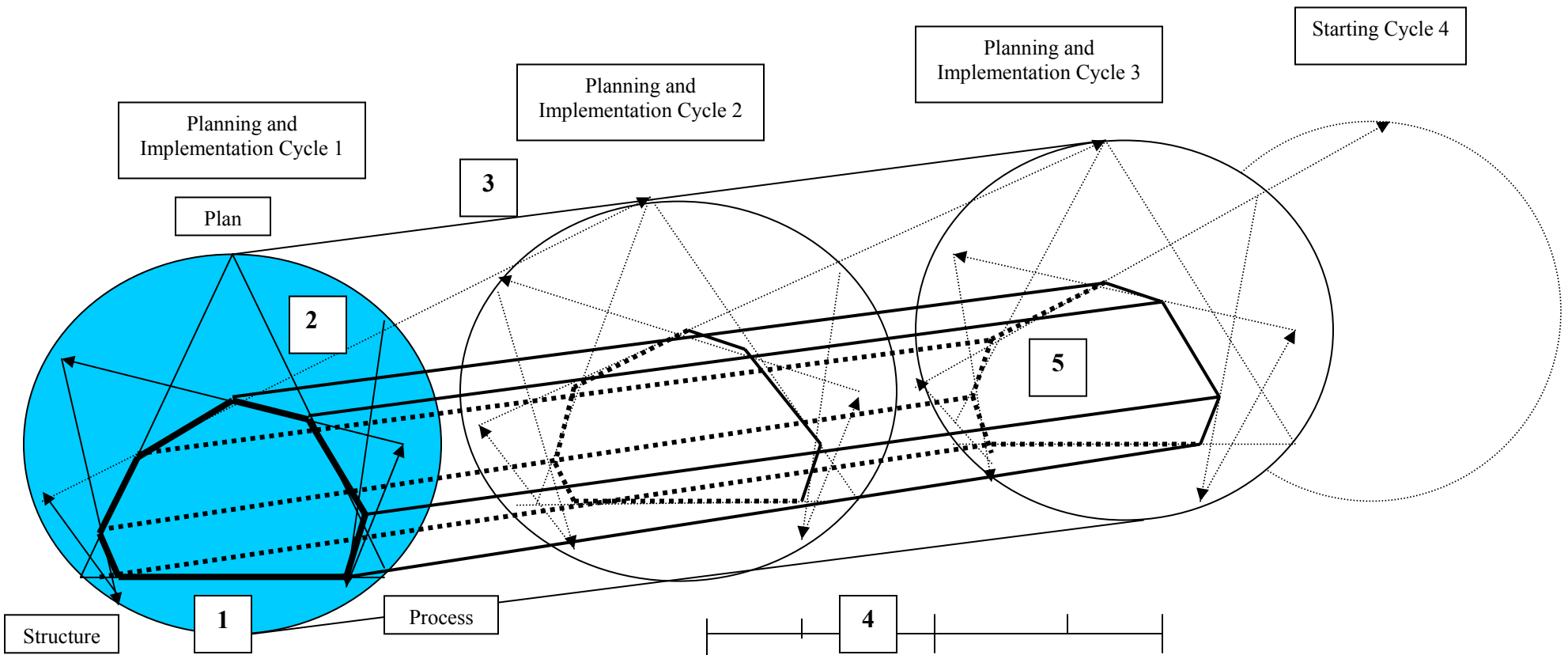
So far, I have presented Above The Trees thinking in four dimensions. To complete the evolutionary picture ahead of competitors, and therefore create a more valuable company, requires an understanding of a fifth dimension. Refer to the model on page 97, The Evolution Of Truth, as you review this material.

Before introducing the fifth dimension, let's review the other four. The first dimension is represented by the Width of the triangle in the center of the enneagram. As Emerson wrote, "The height of the triangle depends on the breadth of its base." The **width of the base** (1) represents our willingness and ability to negotiate versus dictate. If we decide to dictate, we simply decide to limit the second dimension, the **height** (2) of the triangle.

Height represents the definition of MORE. Unless MORE is defined as MORE than the boss can achieve on his or her own, there is no reason to negotiate. So the first and second dimensions precede our ability to delegate authority and allow others the freedom to fail as we implement the initiatives of our plan.

The third dimension, **depth** (3), is the individual Learning and Development that occurs through the implementation of our plan. The internal and external negotiation necessary to satisfy the definition of MORE, creates the individual knowledge that can only come from the pain of failed experimentation. Prosperity is a function of failure, the most inalienable right in a free and prosperous society.

THE EVOLUTION OF TRUTH



1st Dimension – Width: The base of the triangle determines its height. The base is our willingness to negotiate in order to close the gap between Process (individual discipline) and Structure (organizational rules). Dictators fill this gap with middle management coercion.

2nd Dimension – Height: Our Plan, the definition of MORE, along with The Right Things to connect the Plan with changes in Process.

3rd Dimension – Depth: The Learning and Development that occurs when The Right People are free to fail. The velocity of implementation and negotiation determine the depth of knowledge, and our ability to change and utilize Structure to rise to the next level.

4th Dimension – Time: The velocity of change, relative to our competitors, effectively compresses time and maximizes opportunity.

5th Dimension – Truth: Collective satisfaction. A value that can be neither imitated nor taken away, because it is the reflection of the diverse, evolving self-interests of all of the constituents to the idea we call a business. Truth is a higher reality; it exists in the moment, and is always evolving. The collective ability to reason our way to a higher outcome, Truth, represents the Eye of Providence.

Conclusion: Our ability to create greater value, relative to competitors, is equivalent to the knowledge we amass from the effectiveness of ongoing internal and external negotiations: $\text{profit/person} = E \text{ (Relative Evolution)} = M \text{ (The knowledge we amass)} C^2 \text{ (from ongoing internal and external negotiations (i.e. Communication))}$. Truth is expressed, and prosperity realized, through meaningful work (energy vs. entropy).

The fourth dimension is **time** (4). By completing successive iterations of the planning and implementation cycle at a higher velocity than our competitors, we effectively compress time. As a result of elevating our interactions with customers to a higher level, we are able to uncover needs that represent valuable new opportunities. In effect, we create the future ahead of the market.

The identification and communication of opportunity is the very definition of leadership. As we evolve, we build an organization of leaders, characterized by the value of self-sufficiency. This value, gleaned from ongoing negotiation and experimentation at many levels, is much bigger than any one person.

The fifth dimension is the cumulative expression of greater self-sufficiency. It is the collective ability to reason our way to a higher outcome. As opportunities are resolved through the knowledge and creativity of The Right People implementing The Right Things, we create a higher reality in terms of value, or **Truth** (5).

Truth is the anecdotal, provisional state that reflects the diverse, evolving self-interests of all of the constituents to the idea we call a business. It only exists in the moment, and that is why it is so critical that we continually adapt and evolve along with it. The value of Truth can be neither imitated nor taken away because it is the product of unique individuals doing what they find inherently satisfying.

When Herb Kelleher wrote the book, *Nuts*, you would think his competitors would simply copy his approach. The same goes for Ken Iverson or Sam Walton, based on the unique, personal revelations in their books. But competitors have failed to successfully copy or take away the value of the ideas known as Southwest Airlines, Nucor Steel and Wal-Mart.

These organizations are still outperforming their competitors, even though the exceptional leaders who revealed their secrets are no longer with them! The Truth is that these companies remain the most compelling alternatives in their respective industries, because they always deliver MORE than what any one person can realize alone.

The Truth gains momentum through the knowledge we amass from The Right People doing The Right Things on their own terms. Competitors do not steal freedom, or the realization of freedom that we call satisfaction; we have to destroy it ourselves. We do that when we stop negotiating (communication²), and allow the corrosive qualities of ignorance, indecision, incompetence, fear, stagnation, oppression, aimless empowerment and sameness to take their toll.

The picture on page 97 would be very intimidating without the information in this chapter. After reviewing this material, you should be able to use it as a tool, along with the other models in this book, to help you think and communicate at a higher level. In the model, three successive planning and implementation cycles (enneagrams) reveal the fifth dimension, the evolution of a more compelling idea. The evolution of Truth.

Other Observations about the Fifth Dimension

The fifth dimension in the model is curiously close to a geometric shape plotted by John Nash, called Nash Equilibrium. His model represents the greatest possible outcome from a complex negotiation. Notice that the height of the resulting structure is less than the height of the triangle.

This suggests that the overall objectives of the plan are not satisfied during the first iteration of negotiation and experimentation. We cannot afford to stop the process in frustration, or due to failure. Truth happens, but only with persistence.

The model also suggests that there are inevitable concessions that we must make in constructive negotiations. But that doesn't mean we give up on our goals. The knowledge we accumulate from continuous iterations of negotiation and experimentation allows us to *see* ahead of necessity, to reason our way along the best path to our objectives. The shape within the triangle is the Eye of Providence.

Negotiation, whether it is in selling, hiring or implementing, allows us to test our assumptions against the realities of the world. Today's plan will not get us to the overall goal. We must regularly update it in order to eliminate the meaningless work that ultimately delivers LESS.

For that reason, I suggest that companies plan every year, and update their plans at least every six months. Otherwise, they will lose momentum and fall short of their objectives. So a typical three year plan will take three

iterations of planning with three interim updates in order to reach a three year target.

Along the way, the assumptions that underlie the quantitative and qualitative aspects of the plan will change many times. So it is important to remember that the implementation effort should be limited to worthy experiments that contribute to MORE. The hardest decisions we make are often the ones about what NOT to do anymore. Once initiatives become irrelevant, or part of our operational standard, it is time to look ahead for the next great idea.

THE TAO OF TRUTH

By Rick Wehder

The Truth, Above The Trees, is in the questions, not the answers, and in the decisions of what NOT to do, not in how to do it better.

Truth is a value that can be neither imitated nor taken away. It is anecdotal, provisional, a moment in time. It exists in paradox and irony, in the shadow between the idea and the reality, the motion and the act. With the passion for an idea, we may resolve the shadow, emit and embody the light, and through the reflection come closer to ourselves.

Happiness is the creative process... a head full of disparate thoughts wanting for a shared relevance. Intellectual relativity is expressed as hopeful energy, the only sustenance common to the dying breath but rare in an overreaching consciousness. In the quest for prosperity, the moral effort is to the material resource as three is to one.

All bad art is sincere, built on factious ideology wrapped too severely in honor of one's own suffering. Chimerical dualism is inertia - temperamental ignorance blocking the polemical alchemy of genius, honoring the narcissism of minor differences. Much has been thought but never said, so we await the sublimity of greatness when it is already with us.

The greatness that reconciles is in the conception and the happy expectations of a higher image. **From the collective act of faith, TRUTH HAPPENS.**

Many thanks to the following individuals for their contributions to this thought: Napoleon Bonaparte, T. S. Eliot, Ralph Waldo Emerson, Sigmund Freud, Peter Lloyd, Plato, Jim Rives, Arthur Schopenhauer, Oscar Wilde, Jeff Wyler.

EXECUTION ABOVE THE TREES

Once our strategic initiatives are defined, the organizational planning and implementation cycle kicks in and the seven steps to prosperity begin in earnest. In Step 5 of that process, leaders negotiate the individualized, *ground-level execution* of projects and action plans. Someone once described execution as changing the tires on a plane as it is landing. I think of it as the time when the wheels usually fall off.

In a successful execution effort, the gap between individual discipline and organizational rules is closed. That occurs as a function of the process changes that must be executed to satisfy our initiatives, and the structural changes that will support our new operational standards.

At an individual level, The Right People are those who rise to the occasion, and through learning and development, fill the gap between new levels of accountability and responsibility. In doing so, they rewrite their roles and responsibilities, based on their instinctual competencies and capacities, and redefine the effort that constitutes meaningful work.

Instead of the inanity of asking individuals to change in order to suit new definitions of their jobs, we are asking people to act in their own best interests, within the context of accountability, to make their jobs fit them. Accountants may no longer be accountants in our new organization.

By closing this gap through effective execution, we create a new, higher level organization, as evidenced by our ability to generate greater individual profitability than our competitors. The plan becomes the organization by

virtue of the organization becoming the plan. The execution of initiatives is the meaningful work that we do, going forward, until the next iteration of planning and implementation begins.

To treat this effort as an extra-curricular activity that should not interfere with *real work*, or with other *operational* initiatives, is a mistake. These are the projects and action plans that turn our overall objectives into reality.

Here are the five steps to an effective execution Above The Trees:

Step One:

Arrange strategic initiatives in hierarchical order, with the one at the top representing value at the next level. Use the Innovative Balance model on page 26 as a guide. The defining initiative will likely be the one that takes the longest, and therefore creates the critical path for everything else.

Step Two:

Restructure processes to support the delivery of maximum value, as suggested by the order in which strategic initiatives will be executed. Let's say we are evolving from a Q2 Competitive Context to a Q3, and engineering will now determine what sales can sell. So engineering should now be out in front of the overall process flow.

If engineering needs critical accounting data to take the cost out of its designs, then either put accounting out in front, or turn the most creative engineer into an accountant. Like I said, accountants may no longer be accountants. Since execution is the physical act of fostering substantive changes in process and structure, people will have to move!

Step Three:

Ask whether or not the person leading each initiative should work in the department most affected by the specific execution effort. Otherwise, we may create a constraint to the natural evolution in which initiatives eventually become the basis for a new operating standard.

Step Four:

From the steps above, create a visual, like the one below, and make sure it flows, top to bottom, left to right. Apply a timeline to the chart, as shown.

Strategic Initiatives	<u>Department 1</u> Now Accounting Was Sales	<u>Department 2</u> Now Engineering Was Accounting	<u>Department 3</u> Now Sales Was Engineering
1. Develop an effective Q3 Costing System	Meaningful Work	Less than Meaningful Work	Less than Meaningful Work
2. Engineering plan to take cost out of designs	Less than Meaningful Work	Meaningful Work	Less than Meaningful Work
3. Key customer sales strategy	Less than Meaningful Work	Less than Meaningful Work	Meaningful Work



Step Five:

Execution teams may now create the **meaningful work** that will redefine the company as the most valuable, compelling organization in the market (a higher reality). Through the execution of individual action plans, we inculcate this work into individual roles and responsibilities, subject to time limits, accountability, and any other quantitative and qualitative standards of performance that define success.

We should also combine past operational initiatives that are still worth doing into the projects and action plans being executed. Most importantly, *meaningless work* must be eliminated! We must not be like the majority of companies that, in the absence of clarity and meaning, set out to improve every process in every box; and in so doing, never make the hard decisions about what NOT to do anymore.

Execution should be one unified effort, with individual metrics that add up to one overall objective - PROFIT. The evolution of a more valuable idea is a well coordinated, well defined, single minded pursuit. The result of effective execution is the increased productivity and operational efficiency that create greater relative profitability per person.

The creation of a more valuable idea is a work of art. That is why it can be neither imitated nor taken away.

Through the collective act of faith, Truth happens.

The Most Effective Initiative: A Market Strategy

I was not sure where to put this piece in the book, but I knew it had to go somewhere. My clients have realized such a profound impact from this information that it must be addressed.

As our organizations evolve from one Competitive Context to the next, we often forget to redefine markets, customers and competitors. There is an established logic that guides these critical focusing decisions; and once again we turn to a mathematician to provide it.

During the First World War, Charles Lanchester helped form the Royal Air Force. As a physicist, he developed formulas that provided logical guidance for the allocation of aircraft to chaotic battlefield situations. His work limited losses and allowed airplanes to be used to maximum productivity.

Lanchester's ideas were later adopted by Toyota, and they are still employed today in molding their competitive strategies across the world market for automobiles. His ideas remind us that change is dynamic, and to understand it we must constantly be aware of two things: 1) our position in our chosen definition of market, relative to others, and 2) the next step in the evolution of concept, market, share and competition, from both a quantitative and a qualitative perspective.

There are four main ideas that guide the development of an effective market strategy: 1) The definition of market, 2) Targeted share of market, 3) The right customers, and 4) When to attack.

Definition of Market

Lanchester Strategy, as used by the Japanese, suggests that the definition of market may exist at many different levels. Those levels are as follows:

Customer, Segment, Geography, Distribution, Broad Market and Product.

If we are a small, Q1 competitor in an industry, we may measure market share in terms of penetration into single accounts, or by **customer**. Of course, as a Q3 competitor providing a particular methodology to a target market, we could do the same thing. So in any Competitive Context, we could measure share at any level.

In Q2, we may see the need for **segmentation**, but also the need to grow carefully as we gain substantive share in segments within particular **geographic** dispersions. Once we grow outside of a particular geographic area, we may need to consider a new **distribution** model, utilizing rep organizations or wholesalers to lead localized sales efforts.

Finally, when we reach a national scope in terms of **market**, we may wish to measure share in terms of our dominance within a **product** category. Home Depot began in much the same way as described above, and today they are the largest seller of carpet (a product category) in the United States.

As a growing Q4 entrant, Home Depot worked its way up the list until it gained a substantive share of market, defined at a product level. It evolved from a weak competitor into a formidable force in the market. Conversely, strong competitors, like P&G, may start at the top of the list in specific

product categories, like detergents, and drill down to the customer level in order to dominate their markets.

Targeted Share of Market

Lanchester developed formulas to guide strategists in making the tough decisions about where to allocate scarce resources. According to his logic, unless we can measure our penetration into a market at a 10% share or better, we are under the radar and not a credible choice in most buying decisions.

At 20% share, we are stable, and should be a consideration in every buying decision. As a result, we will win our share of business and maintain our position.

However, if we rise to a 40% share, assuming multiple competitors in a market, we are a dominant force, enjoying the lion's share of growth in the market (70%). So there is a great reward in store for those who can double their share from 20% to 40%.

Finally, once we exceed 70% share, we are effectively competing with ourselves, so it is best to employ our marketing and selling resources to hold and defend our position. Our emphasis shifts to eliminating the competition.

The Right Customers

The right customers are those that best fit our capacity, and the natural propensity of our employees to deliver satisfaction. They are also the ones who contribute the most to our financial success.

In order to foster a common perception, we should begin by analyzing our current customer list and discussing who pays on time, recognizes our value, lives up to promises, and so on. In doing so, we may derive a key set of attributes that best describes the right customer. Then we can develop a ranking system (N/A, Low, Medium or High) that allows us to rationalize our current list.

Once we identify the best, we can feed back to test our assumptions by determining just how much of a financial contribution each customer makes to our success. The 80/20 Rule, or Pareto Principle, suggests that 20% of our customers contribute 80% of our results. The next 60% of them deliver the remaining 20% of our results; while the final 20% of our customer base is simply a drain on our resources.

If this is true, no matter what the ratios, then we have some hard decisions to make. The top 20% who give us 80% of our results should provide some powerful clues about where to focus our efforts. Then, we can revisit the *definition of market* and *targeted share of market* to begin to drill down to develop a dominant position. Once again, we see a circular, self-reinforcing set of concepts that must be resolved through ongoing internal and external negotiations.

When to Attack

The Lanchester Strategy employs a concept called Shooting Range Theory. It suggests that we should not attack competitors that represent more than half of our relative share of market. Otherwise, we will waste resources that

could be used to accumulate critical market share from smaller competitors that are more easily outflanked.

Just as we have a ranking system to evaluate the best customers, we could design something that compares us with competitors, based on key characteristics of value. Competitive Context provides is a good starting point for deciding how focused, or vulnerable, our competitors may be.

In summary, a market strategy has often been the most compelling initiative that my clients have executed, because it required them to inculcate an effective focusing process as an operational standard. This initiative goes as far as any other in melding the qualitative idea that we call a business with the quantitative outcome that defines success.

The better we can connect our everyday activity with the success of our customers, the more successful we will be in terms of market share. But success is not only organizational. Eventually, it must be expressed in terms of a constructive program of individual rewards; and that requires a functional reporting system.

REPORTING AND REWARDING ABOVE THE TREES

Meaningful work, without rewards, just won't be meaningful forever. There has to be a balance between the quantitative and qualitative aspects of work. Traditional reporting systems obfuscate quantitative clarity, because they are built to accommodate accounting rules, tax laws and so on.

Without a simple way for non-accountants to understand the numbers, we undermine our ability to set them free to do great things. I believe that internal financial reporting is different from accounting. Its purpose is threefold; to 1) support decision making, 2) provide a clearer understanding of the business, and 3) create a non-discretionary basis for rewards.

Honoring History Through GAAP Accounting

Generally Accepted Accounting Principles require that we feed back to historical assumptions in order to express and support current results. Because of GAAP, many internal accountants end up effectively working for their bank and the IRS instead of the organizations that pay them.

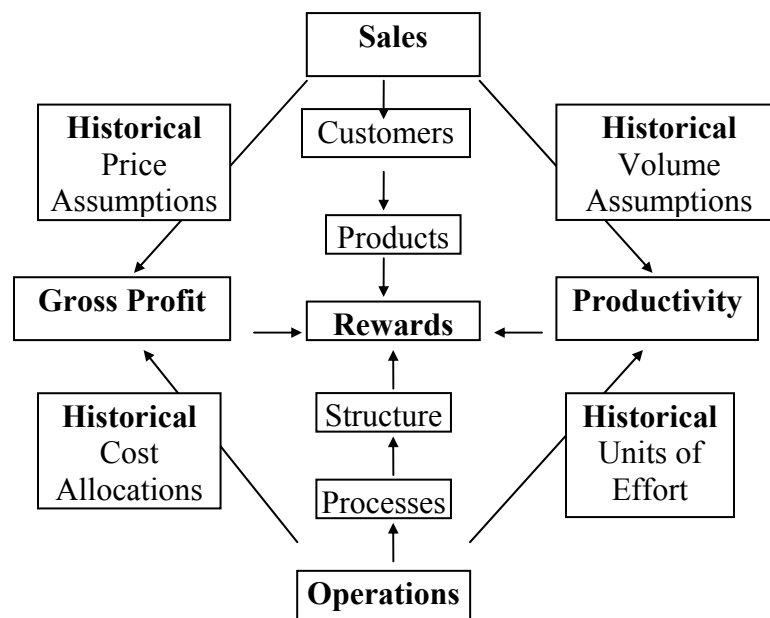
Information, or the lack of it, is another constraint that is so widespread that I have created two models to help people understand it. Please refer to these models (one Traditional and one Functional) while reviewing the text.

The Traditional Information Model

Someone once described the idea (based on GAAP) conveyed by this model as “driving a car by looking in the rearview mirror.” That is, most measurement and rewards systems are driven by **historical information**, and limited to the numbers that define gross profit and productivity.

If we have the wrong customers, we may also have the wrong products and processes. With that, we are probably training people about the wrong things. This logic suggests that the *historical* measurements that underlie many bonus programs actually promote old assumptions, foster an internal focus, and reward people for what they are already supposed to do.

TRADITIONAL INFORMATION MODEL (GAAP)



The traditional model does not consider the qualitative side of the equation, as illustrated by the Innovative Balance Model on page 26. I often ask new clients how they measure learning and development, capacity, or the characteristics of the right customers and suppliers, and they almost never know. What a shame!

When I ask how they determine employee satisfaction, it is almost always limited to statistics about salary, environment, benefits, and each person's relationship with his or her boss. These characteristics are important to maintain the person, but wholly disconnected from that which motivates people to strive for the next level of performance.

Limiting information about operational effectiveness to the measure of **productivity**, based on **historical volume** and **historical units of effort**, provides little other than support for outdated assumptions. As well, measuring the effectiveness of sales through **gross profit**, based on **historical price levels** less **historical, subjective cost allocations**, is equally meaningless. In fact, these measures often cause harm when used as the basis for rewards programs, because they encourage one part of the organization to act against another.

Us Against Them –

The traditional model forces a disconnection between those who get the business and those who deliver the goods. Since it is based on trusting assumptions about what we've done in the past, salespeople are encouraged to question the subjective allocations of fixed costs that affect gross profit. Operational types are encouraged to question the appropriateness or adequacy of the volume generated by salespeople, because it affects the measure of productivity relative to historical units of output.

In the end, it boils down to the people who want to *give stuff away*, versus the people who want to improve results by *driving employees* harder and *cutting capacity*. The losers in this game are not only our customers, but the

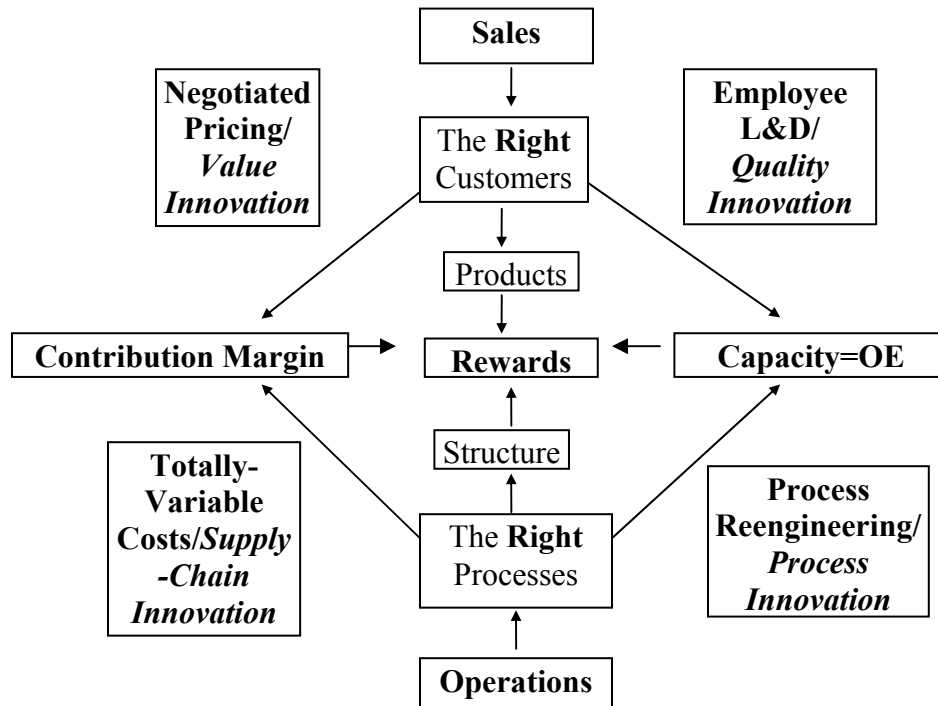
people who have to either support low quality sales, or satisfy critical customer needs without adequate resources.

A more functional information model is pictured below. Notice how it all begins with the **right** customers and products (The Right Things); utilizing external, internal, qualitative and quantitative information, in order to promote and maintain innovative balance at each level.

The Functional Information Model

In this model, all four aspects of innovative balance are present (Quality, Value, Process and Supply Chain). The value from this information is in the questions it begs, not the answers it suggests; and in the decisions of what NOT to do any longer, as opposed to how to do it better.

FUNCTIONAL INFORMATION MODEL



The measurements in this model are based on the elements that contribute to maximizing the **contribution margin** that covers the cost of **capacity** and produces a **profit**. The *right* customers are the ones who contribute the most, while also possessing the *qualitative* attributes that characterize an effective use of capacity. In other words, they can utilize, and are willing to pay for, our uniqueness.

A customer's contribution to the organization is calculated as the revenue it produces, less only those costs that are a function of that revenue (**totally variable costs**, like raw materials, outside services, etc.). If we do not sell anything today, we still have to make payroll and the copier lease; so we do not complicate this formula with the subjective applications of fixed costs that cause so much enmity and dysfunction.

Contribution dollars are maximized through *value innovation* and *supply chain innovation*, bringing sales and operations together around a common objective. Since the numbers are real, there is no need to argue about injustices due to over-allocations of expenses or the relevance of historical productivity measures. Ongoing negotiations ensure relevance.

Capacity is defined by total fixed operating expenses (OE). The question is: How do we do more with the same? The answer is provided by the *quality innovation* fostered by employee learning and development, as well as the *process innovation* pursued in the execution of projects and action plans.

Through implementation, we test changes in process and structure against broad-based assumptions. The knowledge we accumulate promotes changes to the plan, and therefore changes in our objectives as represented in any of the measures in the model.

Utilizing the concept of innovative balance allows us to avoid any unintended consequences that could arise from knee-jerk reactions to an unpredictable environment. It is a rational, balanced approach that provides an informed basis for ongoing negotiations.

In summary, compliance reporting to the government and the bank creates information that proves misleading when used to support measurement and rewards systems. The result of this outdated, misrepresented information is that one department is often pitted against another, effectively rewarding people for engaging in internal squabbles.

The emphasis, in a functional information model, is on maximizing value to the right customers; managing the supply chain for efficiencies and better customer service; the process innovation that maximizes capacity; and increasing employee competence to ensure satisfaction (both internal and external) throughout the supply chain.

In this model, we are concerned with people working smart, not hard, and for profit, not volume. The emphasis is on current realities and future needs, not yesterday's assumptions. With this information, we may develop a more effective rewards program.

Why Have A Rewards Program?

The following model should make it pretty clear why a rewards program makes sense for a company and its employees.

REWARDS VERSUS SATISFACTION

		Rewards	
		Yes	No
Satisfaction	Yes	Proactive (Negotiating for win/win)	Resistant (Things are just fine)
	No	Mercenary (Pay me first)	Stagnant (That's not my job)

Without rewards, the employees who find their work satisfying will be unwilling to participate in execution, and they will **resist** changes to the current model. Those who are not satisfied will become **stagnant** over time, and unable to participate in execution in any meaningful way.

So a lack of rewards is a formula for survival, not prosperity. Only **proactive** effort can create prosperity, and that requires work that is both satisfying and rewarding. It is another way of saying that prosperity is a function of The Right Things and The Right People.

Finally, those individuals who are rewarded for doing what they do not find satisfying can be a destructive, **mercenary** force in an organization. I have

seen many examples of superstars who made big bucks for themselves and life miserable for everyone else. It has always been the happiest day in the existence of a business when such an individual is finally cut loose.

There is typically a mix of the archetypical attitudes pictured above in any organization. The concept is what is important. I have seen companies try to *force rank* their employees without the benefit of this thinking, and it is a cruel, dictatorial endeavor.

Carl Jung wrote, “Neurosis is always a substitute for legitimate suffering.” Resistant, stagnant or mercenary behaviors are simply outcomes. They are the result of individual neurotic tendencies, enabled by an imbalance between satisfaction and rewards. When the pressure builds, the cracks in one’s character begin to show.

When people stay in jobs that are ill suited to their instinctual behavioral competencies and capacities, satisfaction wanes. Over time, a lack of satisfaction will affect rewards, and vice versa. Since most companies lack a constructive rewards program, the best they can achieve is a provisional level of satisfaction, and a resistant workforce that colludes to present the perplexing patina of functional inflexibility.

An inability to appeal to other humans in the interest of a greater cause undermines a manager’s ability to trust. And rightfully so. An important element of trust, integrity, is the opposite of fear. An imbalance between satisfaction and rewards appeals to the monster in each of us, undermining

the rational nature of our behaviors, or that which is *trustworthy*. **Fear honors the past.**

To give ourselves the best possible chance at prosperity, we should have a simple, constructive rewards program. Since price is the great communicator in any free exchange, rewards bolster the understanding necessary to foster proactive change ahead of necessity.

An Above The Trees Rewards Program

I have seen many rewards programs, and there is one thing that separates the wheat from the chafe. Simplicity works and complexity does not.

If I owned a business, I would decide on a desired rate of return, and I would apply that rate to my total assets. Assets represent risk, not value, as the bank would have us believe. I would want to be rewarded for the risk I take, not just my net investment plus accumulated past earnings (equity).

From the desired return, expressed in dollars, I would subtract any bank interest associated with the risk. Since the bank is effectively lending me some of the assets, a portion of my desired return on risk is represented by other people's money.

The net amount represents my minimum profit expectation. One fourth (25%) to one half (50%) of the after-tax profit exceeding that amount would represent rewards, and be distributed as follows:

- The top team, those leading the implementation of strategic initiatives, would get about 20% of the total pool, divided equally among them.

- Those leading the execution of projects under the strategic initiatives would split about 30% (it should be about ½ of what top team members get per person).
- Everyone else would split the remaining 50% or so (or about ½ of what project leaders get per person).
- I would pay it out as often as humanly possible (at least quarterly), and it would be cumulative, with any deficits carried forward to the next period.

Using the managerial accounting model on page 114, I would figure out breakeven volume by day, week or month. I would calculate the affect of a 1% improvement in every metric, and the potential impact of each strategic initiative and every project. I would teach every member of every team to figure out the economic impact of their actions, and how to reduce it to the dollars in their individual pockets at any point in time.

That would at least allow an individual understanding of the business; and put me one giant step closer to having every head in the game, each with the ability to produce a greater outcome. Employees could figure out the volume necessary to take on a new piece of business, add equipment, adopt a new way of doing things, hire another person, add a shift, and so on.

If they needed to buy an asset, they could calculate my take, their take, and weigh the return against the investment. They could also decide whether to employ my capital or request a loan from the bank.

The real power is in the fact that they wouldn't need an accountant in the room to do any of it! At that point, they're working with their own money, and that's the point of rewards. In any free exchange, price is the great communicator. My money doesn't represent price; only their money does!

In summary, a failure to negotiation is a failure to communicate. Leaders need a substantive, simple, profit-oriented rewards program. It must be supported by a clear, accurate financial reporting system. Otherwise, they will have to micro-manage the execution of every initiative.

Once individuals see the potential for greater rewards, they have a personal stake in understanding the business. With that understanding, they can negotiate in their own best interests, as well as the best interests of the company. Negotiated rewards are desideratum to the greatest possible outcome. The lack of them will only guaranty LESS.

NOTE: A complete set of **interactive worksheets** that will help create a greater understanding of **project and action planning**, as well as **strategic budgeting**, are available upon request. They were created in Microsoft Excel, and each of them is presented, with instructions, in the Appendix.

CONCLUSION

Prosperity begins Above The Trees, with The Right Things and The Right People. In business, we have often tried to simplify the people aspect of organizations by confusing the operational aspect. But the most successful businesses are those with the simplest concepts, because they possess the clarity that enables each individual to find the meaning in his or her efforts.

The result of clear understanding is the elimination of meaningless work, wasted effort, and diluted value. I believe clarity begins with a common language and a simple, holistic business model, so people can have their heads in the game. That is the purpose of the four quadrants in Part One of this book. Competitive Context allows us to diagnose the inherent confusion in a business, as well as map out a clear direction and focus.

With a clear message and advantage over competitors, we can begin to negotiate based on demonstrative levels of value, not only externally, but internally as well. A failure to negotiate is a failure to communicate.

Our ability to evolve ahead of competitors, and therefore create sustainable growth in revenues and profits, depends on the knowledge we accumulate from the effectiveness of ongoing internal and external negotiations. In the end, people do what they want to do, whether we like it or not. Only with clarity, and the constant negotiations necessary to test assumptions, can we align the motivations of so many constituents in the interest of Prosperity.

Armed with a higher reality, the Truth, we may add order to the chaos of disparate self-interest, to create superior value and satisfaction over time. It

all begins with the choice to negotiate vs. dictate, and in doing so, realize MORE together than any one individual can achieve alone. In the end, we are **employers of choice**, whether we like it or not.

EMPLOYERS OF CHOICE

Can we **manage** satisfaction,
When it's really a condition
Of the human aspirations
Often buried in submission?

Should we **drive** total quality
Where the adequate would do,
Or **enforce** a perfect balance
Where true excellence is skewed?

Can we really **change** or **leverage**
Thoughtful people who may choose
To ignore the winning rhetoric
That would cause them each to lose?

DEFINITION OF TERMS (In logical order)

Evolution (ahead of competitors) (E) – Is a function of (=) the knowledge we amass (M) from the effectiveness of ongoing internal and external negotiations (C^2).

Negotiation – The process of creating alignment (a win/win) between the Right Things and the Right People. A failure to negotiate is a failure to communicate (C). Price is the great communicator in any free economy. Negotiation is conducted one self-interested person at a time, with a greater collective result than any one person can achieve alone.

Assumptions – Individual positions and conclusions that are Tested through ongoing negotiations, and when proven relevant, provide the foundation for a balance between MORE and Focus.

MORE – The quantitative element necessary for Growth. MORE is more than one can achieve on his or her own.

Focus – The qualitative element necessary for Growth, as defined by the initiatives necessary to fill the gap between where we are and where we have to be in order to achieve Prosperity.

Leadership – The identification and communication of opportunity in the interest of Prosperity.

Prosperity – A higher standard of living achieved by doing what we find Satisfying. The realization of Truth.

Management – Controlling an organization in the interest of survival. Managers trust assumptions and test people against them.

Living (Legitimate Suffering) - Operating somewhere between Failure and Prosperity.

Suffering - Operating somewhere between Survival and Defeat.

Reason – The ability to foresee a higher outcome relative to one's actions, and the basis for evolving from Suffering to Living. **Discipline** is the currency of clear and meaningful direction; the product of reason.

Freedom – The self-interested choice to Own something.

Ownership – A balance between Accountability (the right to fail) and Authority (the right to succeed). It is the foundation for truth and trust, for without ownership, all things are created equal and we have mediocrity.

Satisfaction – The realization of freedom from rewriting ones' roles and responsibilities as a natural expression of self.

The Right Things – A balance between Growth and Value, since one without the other is unsustainable.

Competitive Context – Four business models that provide the broad parameters for a more meaningful negotiation about the Right Things. The models rise above the ideological, interpersonal or operational issues that often constrain a strategic conversation.

Innovative Balance – Four levels of Innovation, each with a quantitative and qualitative characteristic that must be in balance. In total, the four types of innovation represent a balance between Profit (quantitative) and Satisfaction (qualitative).

The Right People - Those Willing to negotiate within the context of a clearly defined Focus; and Able to deliver on the promise of value, to the Satisfaction of all of the constituents to a business, as indicated by Profit.

Knowledge – The result of both Thinking (Reason) and Doing (a higher outcome) by the Right People.

Truth – Value that can be neither imitated nor taken away, because it satisfies the evolving self-interests of all of the constituents to a business. By seeking truth, a higher reality, we come closer to ourselves.

Trust – The authority bestowed upon the Right People that increases with the realization of Truth.

Fear – The erosion of Truth that undermines Trust. Fear exists in the absence of negotiation, where individuals are ignorant, indecisive, incompetent and stagnant; and therefore either oppressed or aimlessly empowered, with a mediocre outcome at best.

APPENDIX

On the following pages are two tools that we can use to aid in planning and implementation:

Part A consists of Project Planning Worksheets, complete with instructions and an example.

Part B consists of Strategic Budgeting Worksheets, also with instructions and an example.

The Excel Worksheets for each of these useful implementation tools are available upon request. If you have received this book in electronic form, you will find that the files that contain the examples, labeled “ATT5 Appendix Part A - Project Planning” and “ATT6 Appendix Part B - Strategic Budgeting,” are also completely functional.