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Execution:
The Discipline of Getting Things Done

By

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Introduction

Too many leaders fool themselves into thinking their companies are well run. They're like the parents in Garrison Keillor's fictional Lake Wobegon, all of whom think their children are above average. Then the top performers at Lake Wobegon High School arrive at the University of Minnesota or Colgate or Princeton and find out they're average or even below average. Similarly, when corporate leaders start understanding how the GE's and Emerson Electrics of this world are run—how superbly they get things done—they discover how far they have to go before they become world class in execution.

Here is the fundamental problem: People think of execution as the tactical side of business, something leaders delegate while thy focus on the perceived "bigger" issues. This idea is completely wrong. Execution is not just tactics—it is a discipline and a system. It has to be built into a company's strategy, its goals, and its culture. And the leader of the organization must be deeply engaged in it. He can delegate its substance.

We talk to many leaders who fall victim to the gap between promises they've made and results their organizations delivered. They frequently tell us they have a problem with accountability—people aren't doing the things they're supposed to do to implement a plan. They desperately want to make changes of some kind, but what do they need to change? They don't know.

Execution is a specific set of behaviors and techniques that companies need to master in order to have competitive advantage.

The Gap Nobody Knows

When companies fail to deliver on their promises, the most frequent explanation is that the CEO's strategy was wrong. But the strategy by itself is not often the cause. Strategies most often fail because they aren't executed well. Things that are supposed to happen don't happen. Either the organizations aren't capable of making them happen, or the leaders of the business misjudge the challenges their companies face in the business environment, or both.

Build-to-order improves inventory turnover, which increases asset velocity, one of the most under-appreciated components of making money. Velocity is the ratio of sales dollars to net assets deployed in the business, which in the most common definition includes plant and equipment, inventories, and accounts receivable minus accounts payable. Higher velocity improves productivity and reduces working capital. It also improves cash flow, the life blood of any business, and can help improve margins as well as revenue and market share.

Dell turns its inventory over eighty times a year, compared with about ten to twenty times for its rivals, and its working capital is negative. As a result, it generates an enormous amount of cash. In the fourth quarter of fiscal 1001, with revenues of $8.1 billion and an operating margin of 7.4 percent, Dell had cash flow of $1 billion from operations. Its return on invested capital for fiscal 2001 was 355 percent—an incredible rate for a company with its sales volume. Its high velocity also allows it to give customers the latest technological improvements ahead of other makers, and to take advantage of falling component costs—either to improve margins or to cut prices.

The gap between promises and results is widespread and clear. The gap nobody knows is the gap between what a company's leaders want to achieve and the ability of their organization to achieve it.

Everybody talks about change. In recent years, a small industry of change-meisters has preached revolution, reinvention, quantum change, breakthrough thinking, audacious goals, learning organizations, and the like. We're not necessarily debunking this stuff. But unless you translate big thoughts into concrete steps for action, they're pointless. Without execution, the breakthrough thinking breaks down, learning adds no value, people don't meet their stretch goals, and the revolution stops dead in its tracks. What you get is change for the worse, because failure drains the energy from your organization. Repeated failure destroys it.

No company can deliver on its commitments or adapt well to change unless all leaders practice the discipline of execution at all levels. Execution has to be a part of a company's strategy and its goals.

If you don't know how to execute, the whole of your effort as a leader will always be less than the sum of its parts.

Execution Comes of Age

After Compaq's board fired Pfeiffer, chairman and founder Ben Rosen took pains to say that the company's strategy was fine. The change, he said, would be "in execution…Our plans are to speed up decision-making and make the company more efficient."

To understand execution, you have to keep three key points in mind:

1. Execution is a discipline, and integral to strategy.
2. Execution is the major job of the business leader.
3. Execution must be a core element of an organization's culture.

Execution is a Discipline

No worthwhile strategy can be planned without taking into account the organization's ability to execute it.

…execution is a systematic way of exposing reality and acting on it.

Much has been written about Jack Welch's style of management—especially his toughness and bluntness, which we would argue that the core of his management legacy processes, making it a model of an execution culture.

The heart of execution lies in the three core processes: the people process, the strategy process, and the operations process.

Execution is the Job of the Business Leader

Lots of business leaders like to think that the top dog is exempt from the details of actually running things. It's a pleasant way to view leadership: you stand on the mountaintop, thinking strategically and attempting to inspire your people with visions, while managers do the grunt work.

An organization can execute only if the leader's heart and soul are immersed in the company.

The leader must be in charge of getting things done by running the three core processes—picking other leaders, setting the strategic direction, and conducting operations.

How good would a sports team be if the coach spent all his time in his office making deals for new players, while delegating actual coaching to an assistant?

Only a leader can ask the touch questions that everyone needs to answer, then manage the process of debating the information and making the right trade-offs. And only the leader who's intimately engaged in the business can know enough to have the comprehensive view and ask the touch incisive questions.

Dialogue is the core of culture and the basic unit of work. How people talk to each other absolutely determines how well the organization will function.

…everyone likes to say that people are the most important ingredient in their success. But they often hand off the job of assessing people and rewarding them to the HR staff, then rubber-stamp the recommendations at their reviews.

Only line leaders who know the people can make the right judgments. Good judgments come from practice and experience.
But there's an enormous difference between leading an organization and presiding over it. The leader who boasts of her hands-off style or puts her faith in empowerment is not dealing with the issues of the day. She is not confronting the people responsible for poor performance, or searching for problems to solve and then making sure they get solved. She is presiding, and she's only doing half her job.

Leading for execution is not about micromanaging or being "hands-on," or dis-empowering people. Rater, it's about active involvement—doing the things leaders should be doing in the first place.

The leader who executes assembles an architecture of execution. He puts in place a culture and processes for executing, promoting people who get things done more quickly and giving them greater rewards.

Jack Welch, Sam Walton, and Herb Kelleher …Leaders of this ilk are powerful and influential presences because they are their businesses. They are intimately and intensely involved with their people and operations. They connect because they know the realities and talk about them. They're knowledgeable about the details. They're excited about what they're doing. They're passionate about getting results. This is not "inspiration" through exhortation or speechmaking. These leaders energize everyone by the example they set.

Execution Has to Be in the Culture
Leaders who execute look for deviations from desired managerial tolerances—the gap between the desired and actual outcome in everything from profit margins to the selection of people for promotion. Then they move to close the gap and raise the bar still higher across the whole organization.

Why People Don't Get It
The intellectual challenge of execution is in getting to the heart of an issue through persistent and constructive probing. Let's say a manager in the X division plans an 8 percent sales increase in the coming year, even though the market is flat. In their budget reviews, most leaders would accept the number without debate or discussion. But in an execution company's operating review, the leader will want to know if the goal is realistic. "fine," she'll ask the manager, "but where will the increase come from? What products will generate the growth? Who will buy them and what pitch are we going to develop for those customers? What will our competitor's reaction be? What will our milestones be?" If a milestone hasn't been reached at the end of the first quarter, it's a yellow light: something's not going as planned, and something will need to be changed.

"are the right people in charge of getting it done," "and is their accountability clear? Whose collaboration will be required, and how will they be motivated to collaborate? Will the reward system motivate them to a common objective?" In other words, the leader doesn't just sign off on a plan. She wants an explanation, and she will drill down until the answers are clear.

Organizations don't execute unless the right people, individually and collectively, focus on the right details as the right time.

The Trouble with Joe

Joe, the CEO whose downfall we described in chapter 1, is a typical leader who didn't know how to execute.

How would Joe have behaved differently if he had had the know-how of execution? Firs, he would have involved all the people responsible for the strategic plan's outcome.

They would have set goals based on the organization's capability for delivering results. Organizational capability includes having the right people in the right jobs.

Second, Joe would also have asked his people about the how's of execution: how, specifically, were they going to achieve their projected demand on a timely basis, their inventory turns, and cost and quality goals? Anybody who didn't have the answers would have to get them before the plan was launched.

Third, Joe would have set milestones for the progress of the plan, with strict accountability for the people in charge.

The Building Blocks of Execution

What exactly does a leader who's in charge of execution do? How does he keep from being a micromanager, caught up in the details of running the business?

- Know your people and your business.
- Insist of realism.
- Set clear goals and priorities.
- Follow through.
- Reward the doers.
- Expand people's capabilities.
- Know yourself.

Know Your People and Your Business

Leaders have to live their businesses.

RAM:

Leaders who are connected have distilled the challenges facing the business unit they are visiting into a half dozen or fewer fundamental issues. These challenges do not change much over short periods of time, and the way leaders like Larry master the total company is through a short list that cut across multiple business units.

Being present allows you, as a leader, to connect personally with your people, and personal connections help you build your intuitive feel for the business as well as for the people running the business. They also help to personalize the mission you're asking people to perform
Larry: As a leader, you have to show up. You've got to conduct business reviews. You can't be detached and removed and absent. When you go to an operation and you run a review of the business, the people may not like what you tell them, but they will say, "at least he cares enough about my business to come and review it with us today. He stayed there for four hours. He quizzed the hell out of us." Good people want that. It's a way of raising their dignity.

It's also a way to foster honest dialogue, the kind that can sometimes leave people feeling bruised if they take it personally.

At Honeywell, after I do a business review, I write the leader a formal letter summarizing the things he agreed to do. But then I also write a personal note the leader and say, "Gary, nice job yesterday. Productivity is not up to standards, and you need to work on it. Otherwise things are going great." It's just a note, takes five minutes.

If a manager is having trouble, you don't want to threaten to fire him—you want to help him with his problem.

<u>Insist on Realism</u>
Sometimes the leaders are simply in denial. When we ask leaders to describe their organization's strengths and weaknesses, they generally state the strengths fairly well, but they're not so good on identifying the weaknesses. And when we ask what they're going to do about the weaknesses, the answer is rarely clear or cohesive.

Was it realistic for AT7T to acquire a bunch of cable businesses it didn't know how to run? The record shows it wasn't.

How do you make realism a priority? You start by being realistic yourself.

<u>Set Clear Goals and Priorities</u>
Leaders who execute focus on a very few clear priorities that everyone can grasp. Why just a few? First, anybody who thinks through the logic of a business will see that focusing on three or four priorities will produce the best results from the resources at hand. Second, people in contemporary organizations need a small number of clear priorities to execute well.

A leader who says "I've got ten priorities" doesn't know what he's talking about—he doesn't know himself what the most important things are. You've got to have these few, clearly realistic goals and priorities, which will influence the overall performance of the company.

One thing you'll notice about leaders who execute is that they speak simply and directly. They talk plainly and forthrightly about what's on their minds. They know how to simplify things so that others can understand them, evaluate them, and act on them, so that what they say becomes common sense.

Reward the Doers

If you want people to produce specific results, you reward them accordingly. This fact seems so obvious that it shouldn't need saying. Yet many corporations do such a poor job of linking rewards to performance that there's little correlation at all. They don't distinguish between those who achieve results and those who don't either in base pay or in bonuses and stock options.

Expand People's Capabilities through Coaching

Education is an important part of expanding people's capabilities—if it's handled right.

You need to make judgments about which people have the potential to get something useful out of a course and what specific things you're trying to sue education to accomplish, in order to expand the capabilities of the organization.

We ask people look to at three or four issues facing the company, and we form them into teams to work on those issues.
Keep in mind that 80 percent of learning takes place outside the classroom.

Leaders in contemporary organizations may be able to get away with emotional weakness for a brief time, but they can't hide it for long. They face challenges to their emotional strength all the time.

How can your organization face reality if people don't speak honestly, and if its leaders don't have the confidence to surface and resolve conflicts or give and take honest criticism? How can a group correct mistakes or get better if its members don't have the emotional fortitude to admit they don't have all the answers?

Putting the right people in the right jobs requires emotional fortitude. Failure to deal with underperformers is an extremely common problem in corporations, and it's usually the result of the leader's emotional blockages. Moreover, without emotional fortitude, you will have a hard time hiring the best people to work for you.

A manager who is emotionally weak will avoid such people out of fear that they will undercut his power. His tendency will be to protect his fragile authority.

Eventually, such emotional weakness will destroy both the leader and the organization.

…four core qualities that make up emotional fortitude:

Authenticity: …you're real, not a fake. Your outer person is the same as your inner person…

Self-Awareness: Know thyself…it's the core of authenticity.

Self-awareness gives you the capacity to learn from your mistakes as well as your successes. It enables you to keep growing.
Self-Mastery: When you know yourself, you can master yourself. You can keep your ego in check, take responsibility for your behavior, adapt to change, embrace new ideas, and adhere to your standards of integrity and honesty under all conditions.

Self-mastery is the key to true self-confidence.

Self-confident people contribute the most to dialogues.

They know they don't know everything; they are actively curious, and encourage debate to bring up opposite views and set up the social ambience of learning from others. They can take risks, and relish hiring people who are smarter than themselves.

Humility: the more you can contain your ego, the more realistic you are about your problems.

…you can learn from anyone at any time.

<u>Creating the Framework for Cultural Change</u>
Most efforts at cultural change fail because they are not linked to improving the business's outcomes.

…cultural change gets real when your aim is execution.

"If we want to change the culture, what should be our next question?"

One member of the team asked in response, "How should the culture be changed?" A second member said, "make it better." Then someone asked "From what to what?" and the light bulb went on.

The CEO divided the team into groups of six and asked each to find ten pairs of "from what to what."

…the leader team
The teams agreed that improving accountability would be the most important change. "where does that begin?" …the answer was: "With this team." Then the leader asked, "Are you willing to hold each of us accountable?"

The final question was: "After we change our group's behavior, what do we do next?" The head of HR said, "communicate it to twenty thousand people."

After we hold ourselves accountable, the next phase is for this team to hold the three hundred managers in this division accountable for their performance, without which three thousand supervisors and seventeen thousand employees will not experience the culture and discipline of execution."

<u>Operationalizing Culture</u>

We don't think ourselves into a new way of acting, we act ourselves into a new way of thinking.

New EDB Beliefs

- We are committed to our clients' success.
- Collaboration is the key to our success.
- We are going to be accountable and committed.
- We will be better listeners to our clients.

<u>Linking Rewards to Performance</u>

The foundation of changing behavior is linking rewards to performance and making the linkages transparent. A business's culture defines what gets appreciated and respected and, ultimately, rewarded. It tells the people in the organization what's valued and recognized, and in the interest of trying to make their own careers more successful, that's where they will concentrate.

At EDS, Dick Brown moved quickly to make sure the performers got rewarded more than the non performers.

"There were no negative consequences for poor performance," recalled one executive. "Not only no consequences, but if you were part of the good old boy network, there really wasn't accountability for negative behavior toward the company." Added another, "It was always somebody else's problem."

…if you're staying the same, you're falling behind.

<u>The Social Software of Execution</u>

The inability to act decisively—which translates into an inability to execute—is rooted in the corporate culture and seems to employees to be impervious to change.

The key word here is "seems," because, in fact, leaders create a culture of indecisiveness, and leaders can break it.

Structure divides an organization into units designed to perform certain jobs.

A key component of software is what we call Social Operating mechanisms.

GE's highly developed Social Operating System is central to the company's success. Its main social Operating Mechanisms include the Corporate Executive Council (CEC), which meets quarterly; Session C, the annual leadership and organizational reviews; S-1 and S-2, the strategy and operating reviews; and Boca, an annual meeting in Boca Raton, Florida, where operating managers meet to plan the coming year's initiatives and re-launch current initiatives.

At CEC meetings, which run two and a half days, GE's roughly thirty-five top leaders review all aspects of their businesses and the external environment, identify the company's greatest opportunities and problems, and share best practices. The CEO also uses the forum to observe how his leaders think and how they work together, and to coach them.

A Session C meeting is an intense eight-to-ten-hour gathering where the CEO and head of HR meet with the business leaders top HR executives of each business unit. They review the unit's prospective talent pool and its organizational priorities. Does GE have the right people in the right jobs to execute its strategies? Who needs to be promoted or rewarded, who needs help with development, who can't handle the job?

…picking and evaluating people has become a core competence at GE.

The S-1 strategy meeting takes place toward the end of the second quarter. Here the CEO, CFO, and members of the office of the CEO meet with each unit head and his or her team to discuss the strategy for the next three years, including the initiatives agreed upon by the CEC and the fit between the strategy and the people in charge of executing it.

The sj-2 meeting, held in November, is the operating plan meeting that focuses more on the coming twelve to fifteen months, linking strategy to operational priorities and resource allocation.

We don't expect people to know everything, but we do expect people to get the best answers they can get, and they get them by working with other people.

<u>The Importance of Robust Dialogue</u>

You cannot have an execution culture without robust dialogue.

Robust dialogue starts when people go in with open minds. They're not trapped by preconceptions or armed with a private agenda. They want to hear new information and choose the best alternatives, so they listen to all sides of the debate and make their own contributions.

When people speak candidly, they express their real opinions, not those that will please the power players or maintain harmony.

Formality suppresses dialogue; informality encourages it. Formal conversations and presentations leave little room for debate. They suggest that everything is scripted and predetermined. Informal dialogue is open. It invites questions, encouraging spontaneity and critical thinking.

Informality gets the truth out.

Finally, robust dialogue ends with closure. At the end of the meeting, people agree about what each person has to do and when. They've committed to it in an open forum; they are accountable for the outcomes.

Think about the meetings you've attended—those that were a hopeless waste of time and those that produced energy and great results. What was the difference?

…the difference was in the quality of the dialogue.

Dialogue alters the psychology of a group. It can either expand a group's capacity or shrink it. It can be energizing or energy-draining. It can create self-confidence and optimism, or it can produce pessimism. It can create unity, or it can create bitter factions.

Robust dialogue brings out reality, even when that reality makes people uncomfortable, because it has purpose and meaning.

Leaders Get the Behavior They Exhibit and Tolerate
"the culture of a company is the behavior of its leaders. Leaders get the behavior they exhibit and tolerate. You change the culture of a company by changing the behavior of its leaders. You measure the change in culture by measuring the change in the personal behavior of its leaders and the performance of the business."

…when I started, my first thought was always to see how good a person was in a job. After all, that's what made the business run. As tie went on, I still talked about that, but I also kept thinking, What is the growth potential of this person? I began to ask a lot more questions and get dialogue going on long-range potential.

I also got more people involved in the discussion, because when you expand the audience, you know more.

We acknowledged that the person being discussed was going to hear everything that was said in that room anyway, and we'd agree that we would be candid but professional.

We took care not to say anything about the person that you wouldn't say to his or her face.

The Job No Leader Should Delegate—Having the Right People in the Right Place
Given the many things that businesses can't control, from the uncertain state of the economy to the unpredictable actions of competitors, you'd think companies would pay careful attention to the one thing they can control—the quality of their people, especially those in the leadership pool. An organization's human beings are its most reliable

resource for generating excellent results year after year. Their judgments, experiences, and capabilities make the difference between success and failure.

…we notice, the4se leaders don't pay enough attention to people because they're too busy thinking about how to make their companies bigger or more global than those of their competitors. What they're overlooking is that the quality of their people is the best competitive differentiator.

…over time, choosing the right people is what creates that elusive status sustainable competitive advantage.

If you look at any business that's consistently successful, you'll find that its leaders focus intensely and relentlessly on people selection.

When I retired from Allied Signal in 1999, I considered the greatest sign of our strength to be the extraordinary quality of our leadership pipeline. One measure of their quality was that several of our outstanding people had been recruited to lead other organizations, among them Paul Norris (who became CEO of W.R. Grace); Dan Burnham, hired as Raytheon's CEO; Gregory L. Summe (CEO of Perkin Elmer); and Frederic M. Poses (CEO of American Standard).

One of the first things I did was to visit the company's plants, meet the managers, and get a feel for their individual capabilities. I didn't just talk to them; I talked to their people as well, to see how they perceived their work environment and how they behaved—both of which reflect the kind of job a leader does. It was during those visits that I came to see that the company's inattention to leadership development was a major problem.

While I was impressed with my half-dozen direct reports, I was less impressed with the heads of our operating units and the teams they had built.

At GE 85 percent of the executives are promoted from within—that's how good the company is at developing leaders. And it got so good because Jack Welch—and now his successor, Jeff Immelt—made leadership development a top priority and demanded that all of his executives do the same.

Why the Right People Aren't in the Right Jobs

Common sense tells us the right people have to be in the right jobs. Yet so often they aren't. What accounts for the mismatches you see every day? The leaders may not know enough about the people they're appointing. They may pick people with whom they're comfortable, rather than others who have better skills for the job. They may not have the courage to discriminate between strong and week performers and take the necessary actions. All of these reflect one absolutely fundamental shortcoming: The leaders aren't personally committed to the people process and deeply engaged in it.

Lack of Knowledge
Leaders often rely on staff appraisals that focus on the wrong criteria. Or they'll take a fuzzy and meaningless recommendations for someone a direct report likes. "bob's a great leader," the candidate's advocate exclaims. "He's a great motivator, a great speaker. He gets along with people, and he's smart as hell." The leader doesn't ask about the specific qualities that make bob right for the job. Often, in fact, he doesn't have a good grasp of the job requirements themselves. He hasn't defined the job in terms of its three or four nonnegotiable criteria—things the person must be able to do in order to succeed.

Lack of Courage
Most people know someone in their organization who doesn't perform well, yet manages to keep his job year after year. The usual reason, we find, that the person's leader doesn't have the emotional fortitude to confront him and take decisive action.

The Psychological Comfort Factor
Many jobs are filled with the wrong people because the leaders who promote them are comfortable with them. It's natural for executives to develop a sense of loyalty to those they've worked with over time, particularly if they've come to trust their judgments.

Bottom Line: Lack of Personal Commitment
When the right people are not in the right jobs, the problem is visible and transparent. Leaders know intuitively that they have a problem and will often readily acknowledge it. But an alarming number don't don anything to fix the problem. You can't will this process to happen by issuing directives to find the best talent possible. As noted earlier, leaders need to commit as much as 40 percent of their time and emotional energy, in one form or another, to selecting, appraising, and developing people.

But the foundation of a great company is the way it develops people—providing the right experiences, such as learning in different jobs, learning from other people, giving candid feedback, and providing coaching, education, and training. If you spend the same amount of time and energy developing people as you do on budgeting, strategic planning, and financial monitoring, the payoff will come in sustainable competitive advantage.

What Kind of People Are You Looking For?
As we've noted earlier, in most companies people regard a good leader as one with vision, strategy, and the ability to inspire others. They assume that the if the leader can get the vision and strategy right, and get his message across, the organization's people will follow. So boards of directors, CEOs, and senior executives are too often seduced by the educational and intellectual qualities of the candidates they interview: Is he conceptual and visionary? Is she articulate, a change agent, and a good communicator, especially with external constituencies such as Wall Street?

They don't ask the most important question: how good is this person at getting things done? In our experience, there's very little correlation between those who talk a good game and those who get things done come hell or high water. Too often the second kind

are given short shrift. But if you want to build a company that has excellent discipline of execution, you have to select the doer.
I'm not knocking education or looking for dumb people. But if you have a choose between someone with a staggering IQ and an elite education who's gliding along, and someone with a lower IQ but who is absolutely determined to succeed, you'll always do better with the second person.

You're searching for people with an enormous drive for winning. These people get their satisfaction from getting things done. The more they succeed in getting things done, the more they increase their capacity.

The Energize People
Some leaders drain energy from people and others create it.

We're not talking about inspiring people through rhetoric,. Too many leaders think they can create energy by giving pep talks, or painting an uplifting picture of where the business can be in a few years if everybody just does their best. The leaders whose visions come true build and sustain their people's momentum. They bring it down to earth, focusing on short-term accomplishments—the adrenaline-pumping goals that get scored on the way to winning the game.

Bob Nardelli, the current chairman and CEO of the Home Depot, is an example of such an energizer.

Nardelli had a vision for growing by enlarging the business's pond—expanding its offering s to include smaller generating equipment, moving into new industry segments, and providing not only equipment but services to its customers.

Deeply involved in all aspects of his business, he is curious and tireless—the personification of engagement. He never finishes a conversation without summarizing the actions to be taken.

He also made his vision credible by breaking it down into bite-size successes. He got previously aloof managers to get together with the decision-makers at the utilities and other customers to learn firsthand how they could enlarge Power Systems' share of the customer's wallet. He guided them into developing new value propositions, customer by customer and account by account, and they came to see possibilities they'd never previously imagined. Managers who used to dread meetings found themselves looking forward to them, because meetings at Power Systems had become forums for action and personal growth.

They're Decisive on Tough Issues
Decisiveness is the ability to make difficult decisions swiftly and well, and act on them. Organizations are filled with people who dance around decisions without ever making them. Some leaders simply do not have the emotional fortitude to

confront the tough ones. When they don't, everybody in the business knows they are wavering, procrastinating, and avoiding reality.

<u>They Get Things Done Through Others</u>
Getting things done through others is a fundamental leadership skill. Indeed, if you can't do it, you're not leading. Yet how many leaders do you see who cannot? Some smother their people, blocking their initiative and creativity. They're the micromanagers, insecure leaders who can't trust others to get it right because they don't know how to calibrate them and monitor their performance. They wind up making all of the key decisions about details themselves, so they don't have time to deal with the larger issues they should be focusing on, or respond to the surprises that inevitably come along. Others abandon their people. They believe wholeheartedly in delegating: let people grow on their own, sink or swim, empower themselves.

They don't set milestones, and they don't follow through. Then, when things don't get done as expected, they're frustrated. Both types reduce the capabilities of their organizations.

Leaders who can't work through others often end up putting in untold hours, and pushing everyone else to do the same.

People who can't work with others reduce the capacities of their organizations. They don't get the full benefit of their people's talents, and they waste everybody's time, including their own.

<u>They Follow Through</u>
Follow-through is the cornerstone of execution, and every leader who's good at executing follows through religiously.

Never finish a meeting without clarifying what the follow-through will be, who will do it, when and how they will do it, what resources they will use, and how and when the next review will take place and with whom. And never launch an initiative unless you're personally committed to it and prepared to see it through until it's embedded in the DNA of an organization.

<u>How to Get the Right People in the Right Jobs</u>
Traditional interviews aren't useful for spotting the qualities of leaders who execute. Too often they focus on the chronology of an individual's career development and the outline of specific assignments she's had. Interviewers don't usually dig into the person's record to see how she actually performed in her previous jobs. How, for example, did she set priorities? Did she include people in decision making? Can she justifiably take credit for those good financial results, or was she just moving from position to position one step ahead of calamity? There are far too many examples of people who have chalked up an admirable record by the numbers at the expense of people and then left behind a weakened organization.

…find out about their past and present accomplishments, how they think, and what drives their ambitions.

Larry: Some people interview well, and some nonetheless be the best choice for the job. That's why it's so important to probe deeply, know what to listen for, and get supplemental data. It takes time and effort to drill down further, but it's always worth the trouble.

The first things I look for are energy and enthusiasm for execution. Does the candidate get excited by doing things, as opposed to talking about them?

What does this person want to talk about? Does she talk about the thrill of getting things done, or does she keep wandering back to strategy or philosophy? Does she detail the obstacles that she had to overcome? Does she explain the roles played by the people assigned to her? Does she seem to have the ability to persuade the enlist others in a mission?

"How does he set priorities? What qualities is he know for? Does he include people in decision making? What is his work ethic and his energy level?"

<u>The Unvarnished Truth</u>

How leaders meet their commitments is at least as important as whether they meet them and is often more important. Meeting them the wrong way can do enormous damage to an organization.

In a mechanical evaluation, it's simple to determine whether a candidate met his commitments: here are the targets he was assigned to meet, and here are the numbers that show whether he did or didn't. but what other circumstances affected his ability to meet them? Did he do a superb job in the face of adversity, or put the future of his business at risk in order to succeed in the short run? In meeting them, did he also strengthen his organization, giving people assignments that developed their leadership potential and gave them room for personal growth? Or did he leave behind a burnt-out and dysfunctional team? You won't find the answers to such questions on a checklist.

Let's say Dave and Mike made their numbers last year but Sue missed hers. A mechanical—some would say objective—evaluation would indicate a bonus for Dave and Mike and none for Sue. But if you look more closely at the circumstances, you get a different outcome.

Dave coasted to success on a stronger-than-expected market. If he'd been doing his job well, he would have beaten the projections by 20 percent. At Sue's unit, however, profit plunged because a raw material shortage unexpectedly increased costs by 20 percent. The results would have been considerably worse if Sue hadn't quickly accelerated some planned productivity improvements. Her competitors in the industry missed their targets by even more.

As for Mike, he brought in the earnings he'd promised even through his business got hit as hard as Sue's. But he did it by halting the development of two new products and forcing a lot of product into the distribution pipeline—a situation that would harm the business by causing excess inventory in the next quarter. In other words, he borrowed from the future to make his numbers today.

If anybody should get a bonus, it's actually Sue.

When the wrong people get rewarded, the whole organization loses.

In a good evaluation, the leader looks closely at how the people under review met their commitments. Which people delivered consistently? Which ones were resourceful, enterprising, and creative in the face of adversity? Who had easy wins and didn't push for better results? And who met their commitments at the expense of the organization's morale and long-term performance?

Most people we see, however, have never received an honest appraisal. It takes courage and emotional fortitude for those doing the appraisals to be forthright. More often a manager thinks, if I sit down and tell this person she has a behavioral problem, that's a confrontational discussion, and I don't want to have that with her.

Many managers don't have enough confidence in their objective judgments to be critical.

"Performance appraisals were generally delightful experiences. I would sit down with somebody who worked for me and said, 'Gee, y'know Harry, you're just wonderful in these six things.' And then evasively, I'd say, 'Just think about how you communicate with people,' and 'Wouldn't it be nice if you could even improve this wonderful capability.' Everything was vague and positive, syrup but not citrus.

"What the evaluator should have been thinking is, I can make this person a lot better if I tell her she's got a problem, and she fixes it. If you sit with your boss and your boss hasn't said something to you about your weaknesses, go back! Because otherwise you're not going to learn anything.

A good, candid assessment talks about the things a candidate does well and the things he or she must do better. It's that simple. It doesn't use words that don't say anything . It's very straightforward. It's specific. It's to the point. It's useful

Assessments also have to be done in the context of the person's job.

If a man in operations is weak on strategy, say, that gets noted down as one of the things he has to work on.

The leader doing the assessment has to also indicate how she may remedy the person's shortcomings, if talking to him isn't enough: "We're going to get this person a coach," or "He needs another assignment to work on this deficiency."

There's nothing sophisticated about the process of getting the right people in the right jobs. It's a matter of being systematic and consistent in interviewing and appraising people and developing them through useful feedback.

If you have leaders with the right behavior, a culture that rewards execution, and a consistent system for getting the right people in the right jobs, the foundation is in place for operating and managing each of the core processes effectively.

<u>The People Process: Making the Link with Strategy and Operations</u>

It's the people of an organization who make judgments about how markets are changing, create strategies based on those judgments, and translate the strategies into operational realities.

A robust people process does three things. It evaluates individuals accurately and in depth. It provides a framework for identifying and developing the leadership talent—at all levels and of all kinds—the organization will need to execute its strategies down the road. And it fills the leadership pipeline that's the basis of a strong succession plan.

Very few companies accomplish all of these objectives well. One of the biggest shortcomings of the traditional people process is that it's backward-looking, focused on evaluating the jobs people are doing today. Far more important is whether the individuals can handle the jobs of tomorrow.

Too often companies wait until the financial results are in before making corrections in key leadership positions. By then, the damage is done.

Yes, the man had run the Brazilian plant very well, but he was a technical professional, not a general manager. He did not understand the ins and outs of relationships with customers, markets, pricing, and the relationships you have to develop and maintain with various government authorities in a country like Indonesia. He had no ability to move in political circles—a prerequisite for doing business there. He did not see the total picture and did not have the full measure of how a business makes money, which is the heart of the skill known as business acumen. He was naïve as a businessman and didn't know how to pick the right local people. And there was no real contact between him and headquarters—where nobody knew anything about Indonesia either. None of the top twenty executives had been there, even on vacation. They got their location advice from a U.S. consulting firm, which didn't do anything to prepare them for the realities of doing business there.

How could the company have poured a quarter of a billion dollars into Indonesia without ensuring that its people knew how to run a business there? The CEO had picked this manager on the theory that they needed someone with strong technical strengths, and that somebody from one developing country would be able to handle another developing country. He didn't have a people process yielded information about the man's leadership qualities or business acumen.

These kinds of decisions—putting the wrong people in place to execute a key part of a business's strategy—are common. Whether they're expanding abroad or launching a new domestic plan, far too many leaders don't ask the most basic questions: Who are the people who are going to execute that strategy, and can they do it?

The Leadership Assessment Summary:

A useful tool in developing the total picture of the pipeline is the Leadership Assessment summary (Figure1). The summary compares both performance and behavior for a group of individuals.

The Leader ship Assessment Summary gives an overview of those in the group who have high potential and those who are promotable; those who have both qualities are placed in the upper-right-hand quadrant. Similarly, it shows who exceed standards in terms of performance but need improvement in behavior, as well as those who are below standard in both areas.

FIGURE 1: LEADERSHIP ASSESSMENT SUMMARY

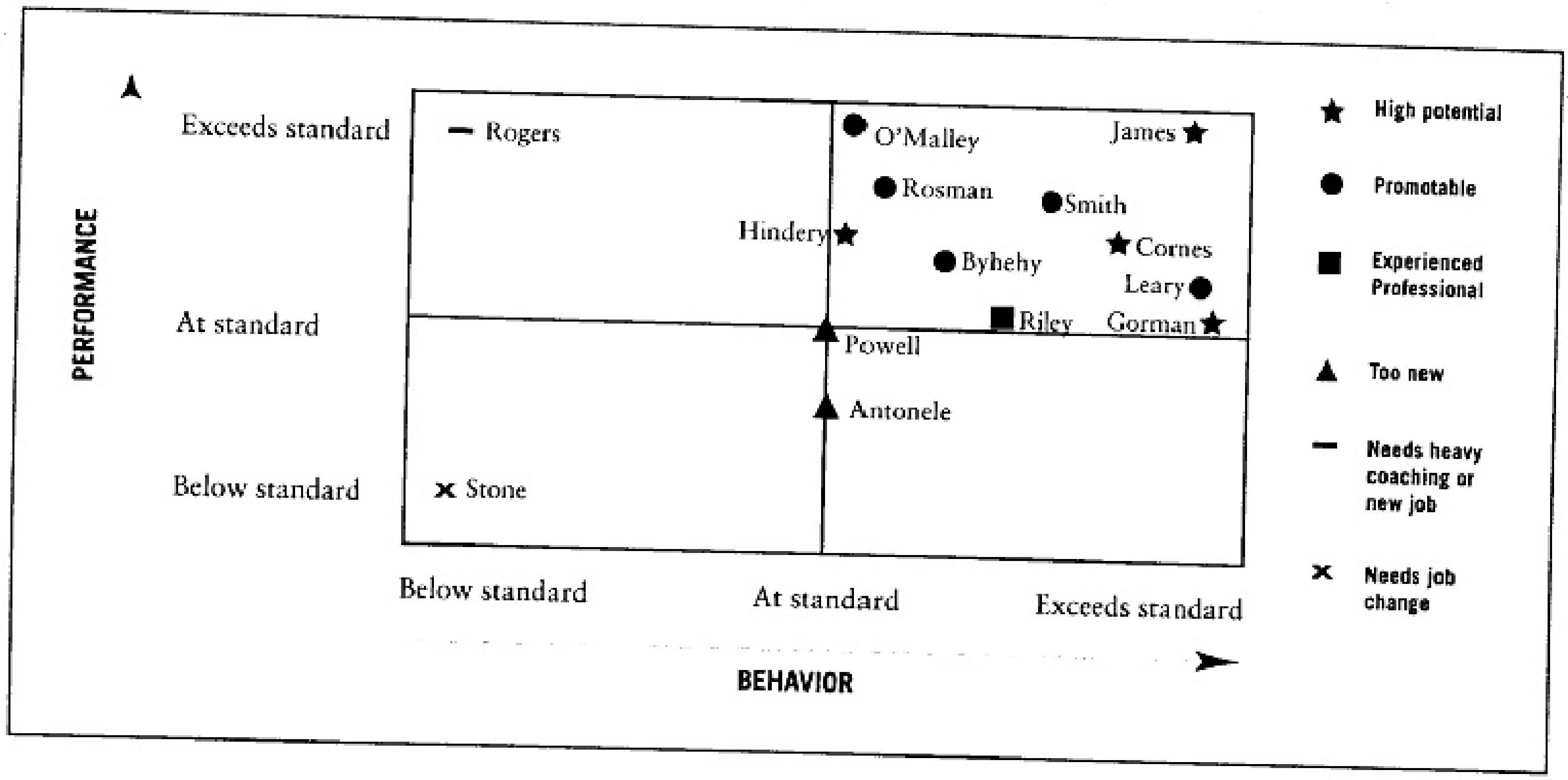

FIGURE 2. CONTINUOUS IMPROVEMENT SUMMARY

Employee Name: Susan James, Marketing, VP

SUCCESS, ATTRIBUTES, AND BEHAVIORS

SKILLS	EXCELLENT	AT STANDARD	BELOW STANDARD
Bus. Acumen	•		
Cust. Focus		•	
Strategic Insight	•		
Vision and Purpose	•		
Values and Ethics	•		
Action	•		
Commitment	•		
Teamwork		•	
Innovation		•	
Staffing		•	
Developing People		•	
Performance	•		

RESULTS OVERVIEW

2001 PERFORMANCE HIGHLIGHTS

- Developed aftermarket strategy for solution-selling environment
- Developed marketing and profit improvement strategy for European market

2002 TARGETS MISSED

- Missed 2 major global accounts coverage in Hong Kong and France
- Did not recruit a Chinese marketing executive for greater China market

2001 CHALLENGES

- Continued execution of aftermarket strategy

SUMMARY STRENGHTS

- Extraordinary business insights
- Upholds the highest standards and sets right example

DEVELOPMENT NEEDS

- Needs to excel in recruiting staff
- Must devote energy to developing her people
- Move faster to upscale weak people

DEVELOPMENT PLAN

- Must work with a coach or mentor in the area of people skills

POTENTIAL NEXT MOVES (SHORT TERM 0–2 YRS)

- Stay in current role

POTENTIAL NEXT MOVES (LONG TERM 0–2 YRS)

- With significant improvement, she will be able to run a business unit.

<u>Questions for a Strategic Plan</u>
A strong plan must address the following questions:

- What is the assessment of the external environment?
- How well do you understand the existing customers and markets?
- What is the best way to grow the business profitably, and what are the obstacles to growth?
- Who is the competition?
- Can the business execute the strategy?
- Are the short term balanced?
- What are the important milestones for executing the plan?
- What are the critical issues facing the business?
- How will the business make money on a sustainable basis?

<u>How Well Do You Understand the Existing Customers and Markets?</u>
The division manager of a large industrial company recently proposed a growth strategy requiring a $300 million capital investment. The strategy would adapt an existing technology to a new product that would be sold to a new set of customers.

The CEO listened, he couldn't wait any longer to ask the following questions. First, who buys this product? …the purchasing managers of customer companies. …Let me rephrase the question. Who specifies that this product should be purchased?" The division manager answered that it was obviously the engineers. The CEO's final question, delivered in a stern tone, was, "How many engineers did you talk to?" The dead silence meant that the project was rejected.

People tend to look at their businesses from the inside out—that is, they get so focused on making and selling their products that they lose awareness of the needs and buying behaviors of their customers.

<u>Can the Business Execute the Strategy?</u>
An astonishing number of strategies fail because leaders don't make a realistic assessment of whether the organization can execute the plan.

Larry: you measure your organizational capability by asking the right questions. If your strategy requires a worldwide manufacturing capacity, for example, you need to ask: "Do we have people with global experience? Do we have people who know how to source? Do we have people who can run a supply chain that extends worldwide?" On a scale of one to ten, if your answers come up a six, you don't have enough capability.

You can certainly increase your capability—you're looking at it not just today but two years out. But what you distill and gain from the process is an understanding of what needs to be done.

<u>What Are the Important Milestones for Executing the Plan?</u>

Milestones bring reality to a strategic plan. If the business doesn't meet milestones as it executes the plan, leaders have to reconsider whether they've got the right strategy after all.

This is another reason your business leaders have been in on the plan from the beginning. Because they helped build it and they own it, they carry it around in their heads all the time—unlike a staff-driven planning book, which will spend a year on shelves before being discarded. So they can regularly test it against reality.

How Will the Business Make Money on a Sustainable Basis?

Every strategy must lay out clearly the specifics of the anatomy of the business, how it will make money now and in the future. That means understanding the following foundations, the mix of which is unique for every business: the drivers of cash, margin, velocity, revenue growth, market share, and competitive advantage.

How to Conduct a Strategy Review

The review should be a creative exercise, not a drill where people regurgitate data. If creativity is absent from the conversation, the participants might as well stay in their offices. People have to leave with closure to the discussion and clear accountability for their parts in the plan, and the leader must follow through to be sure that everyone is clear about the outcome of the review.

The strategy review is also a good place for a leader to learn about and develop people. You'll find out about their strategic-thinking capabilities, both as individuals and as a group.

Questions to Raise at a Strategy Review

…the discussion must answer the key questions: Is the plan plausible and realistic? Is it internally consistent? Does it match the critical issues and the assumptions? Are people committed to it?

You'll also be raising new questions and sharpening old ones to new levels of specificity. For example:

- How well versed is each business unit team about the competition?
- How strong is the organizational capability to execute the strategy?
- Is the plan scattered or sharply focused?
- Are we choosing the right ideas?
- Are the linkages with people and operations clear?

How Well Versed Is Each Business Unit Team About the Competition?

- What are our competitors planning to do to serve their customer segments and prevent us from serving them?
- How good are their sales forces?
- What are our competitors doing to increase market share?
- How will they respond to our product offerings?

- What do we know about the background of our competition's leadership? (If they are from the marketing, they may be most likely to respond with new marketing programs; if they are from production, they may try to enhance quality."
- What do we know about the leader of a fierce competitor and his motivations, and what does that mean for us? (If a competitor has heavy incentives to gain market share, his motivation could well be to prevent us from moving into that segment even if his profitability goes down. He may not sustain falling profitability for long, but will it block our entry.)
- What acquisitions will our key competitors make that will affect us?
- Could a competitor form an alliance and attack our segment? (for example, Sun Microsystems has to carefully evaluate Dell's recent alliance with EMC to accelerate its penetration in the server and storage markets."
- What new people have competitors added that could alter the competitive landscape? Ford and Chrysler, for example, should be taking a very careful look at what the appointment of bob Lutz as vice chairman of General Motors signifies.

<u>How Strong is the Organization Capability to Execute the Strategy?</u>

Questions that need to be asked about organization capability in situations like this include:

- Do we have the sales force and sales engineers to win in the new market segments, or are they yesterday's people? The answer requires good input from the people process, where the new organizational structure, the leaders' capabilities, and criteria for judging them in the entry phase o this strategy should be discussed in depth.
- Do we know the technology and have a roadmap of how it will change over time?
- Do we have a cost structure that will allow us to compete profitably?

<u>Is the Plan Scattered or Sharply Focused?</u>

Questions to ask:

- Is the plan too ambitious? What are our priorities to avoid fragmentation of effort?
- Is our leadership team taking on too many market segments simultaneously? Will it dilute our focus on our original market segment, to the extent that we could lose the golden goose that is to fund the new segments?

<u>Are We Choosing the Right Ideas?</u>

How do you make the right choices? You can get a good idea from how specific, clear, and robust the ideas are. Then you need a lot of dialogue to make sure that even the ideas that sound good make sense. You start by asking four basic questions about each one:

- Is this idea consistent with the realities of the marketplace?
- Does it mesh with our organization's capabilities?
- Are we pursuing more ideas than we can handle?
- Will the idea make money?

Are the Linkages with People and Operations Clear?
Achieving everything we've talked about so far depends on linking the strategy process to the people and operations processes well. The more you and your people know about all three, the better judgments and trade-offs you can make about how well your strategy meshes with your capabilities, and whether it has a reasonable chance of being profitable.

In the strategy review the kind of questions about linkage to people and operations should include:

The strategy of a business unit clearly lays out how it will reach a new set of customers and ways to get the product qualified in the new segment.

- If a new organizational structure is required, what new sales management skills will be needed?
- Are financial resources assigned in the next year's budget to build whatever is required to launch entry into the new segment?
- What are the programs for each quarter? How will the programs be funded quarter by quarter? Will the need for quarterly profits squeeze out these programs? (Superior leaders make the right trade-offs between the short and long terms."

Or suppose you want to go to the next level by moving into an adjacent segment? How do you get into the potential customers' doors? And how do you get their people to qualify the new product—that is, make sure it meets their specifications and needs? Each of these is both a people and an operations issue, raising such questions as:

- Do you have the right kinds and numbers of people to do these things?
- Have you allotted enough lead time for the required actions?

Larry: A good strategic plan has to be translatable into the operating plan.

For an operating review, I like to quickly review the strategic plan to see that link has been established. I want the first three pages of the document to be a summary of the strategic plan.

The Operations Process: Making the Link with Strategy and People
Your boss has asked you to drive from Chicago to Okaloosa, Iowa, a journey of 317 miles. He's prepared a budget for you with clear metrics. You can spend no more than $16 on gas, you must arrive in 5 hours and 37 minutes, and you can't drive over 60miles per hour. But no one has map with a route to Oskaloosa, and you don't know whether you'll run into a snowstorm on the way.

Ludicrous? No more so than the way many companies translate their strategic plans into operations. They do it through a budgeting process that spells out the results you're supposed to achieve, such as revenues, cash flow, and earnings, and the resources you're allotted to achieve them. But the process doesn't deal with how—or even whether—you can get the results, so it is disconnected from reality. What you need is what you find in companies that execute: a robust operating process, centered on an operating plan that links strategy and people to results.

The strategy process defines where a business wants to go, and the people process defines who's going to get it there. The operating plan provides the path for those people. It breaks long-term output into short-term targets.

An operating plan includes the programs your business is going to complete within one year to reach the desired levels of such objectives as earnings, sales margins, and cash flow. Among these programs are product launches; the marketing plan; a sales plan that takes advantage of market opportunities; and manufacturing plan that stipulates production outputs; and a productivity plan that improves efficiency.

The operating plan specifies how the various moving parts of the business will be synchronized to achieve the targets, deals with trade-offs that need to be made, and looks at contingencies for the things that can go wrong or offer unexpected opportunities.

In the operating plan, the leader is primarily responsible for overseeing the seamless transition from strategy to operations. She has to set the goals, link the details of the operations process to the people and strategy processes, and lead the operating reviews that bring people together around the operating plan. She has to make timely, incisive judgments and trade-offs in the face of myriad possibilities and uncertainties. She has to conduct robust dialogue that surfaces truth. And she must, all the while, be teaching her people how to do these things as well. At the same time, the leader is learning—about her people, and how they behave when the rubber meets the road, and about the pitfalls that beset elegant strategies.

It's not just he leader alone who has to be present and involved. All of the people accountable for executing the plan need to help construct it.

You really want the operating plan to be owned by everybody. The more people you get involved in the plan, either through contingency plans or projects that have to be undertaken in the coming year—the more people who are aware of the expectations for them—the more you achieve.

These operating plans are typically based on a budget that has been previously prepared. This is backward: the budget should be the financial expression of the operating plan and the underlying plans generated by the business's components, rather than the other way around.

Budgets often have little to do with the reality of execution because they're numbers and gaming exercises, where people spend months figuring out how to protect their interests instead of focusing on the business's critical issues.
RAM: Most companies build their budgets or operating plans with a system designed by accounting people. The leaders set the goals using hortatory slogans like "fifteen-five":

15 percent growth per annum over the next five years. The leaders say that half the growth will come "organically," meaning from business that the organization already has, and half will come from acquisition. These aspirations show the leaders to be visionary. The CFO calculates that margins will improve, debt will be lowered, and the stock price will quadruple. But ask these leaders how they're going to achieve these goals, and what assumptions the goals are based on, and they'll have no idea. "We're going to work on that," they explain. Then each business unit does its planning compared with last year and unconnected to the overall picture, with no common understanding or connection and no simultaneous dialogue.

This kind of budget process defeats the very purpose of planning. In the months between the time the budget preparations begin and final approval (some take as long as four months), the environment has probably changed. But the assumptions behind the budget remain. A static document in an active world, it reduces the organization's flexibility to respond to change. And it does nothing to help people synchronize the many moving parts of the organization.

How to Build a Budget in Three Days

The starting point is a robust dialogue among all the relevant business leaders, who sit down together to understand the whole corporate picture, including all of the relationships among its parts. We call this the principle of simultaneity.

The dialogue takes place in a three-day session that includes all of the business unit leader's direct reports.

The meeting focuses on the roughly twenty lines that, in just about any budget, account for 80 percent of the impact on the business outcomes. Among these, for example, are revenues by product mix, operating margins, marketing expenses, manufacturing costs, engineering and development expenses, and so forth. The leader starts by having each function present its action plans for meeting the proposed budget. He questions the assumptions to test their validity and asks how each action plan will affect the other businesses. For example, if a manager wants to cut her price to generate more volume, that will raise a yellow flag for manufacturing: What will the added costs be? Will it entail overtime? Other functions raise further questions.

After everyone's had his or her say, the group breaks up for an hour, and each manager discusses the information with his sub-team. The manufacturing people, for example, will figure out how much they can cut costs given the higher volume and therefore how much room there is to reduce prices. They'll talk about alternatives: Should they add a third shift, or outsource? Where will they secure more components?

Don't bother to try this if you can't handle dialogue that reveals conflict or negotiate trade-offs persuasively—or if you're the kind of insecure individual who gets his power from hoarding information.
You'll also find it's a powerful team-building exercise.

The Importance of Synchronization

Synchronization means that all the moving parts of the organization have common assumptions about the external environment over the operating year and a common understanding—the left hand knows what the right hand is doing.

When conditions change, synchronization realigns the multiple priorities and reallocates resources.

Building the Operating Plan

It's a three-part process that begins with setting the targets. In the second part, you develop the action plans, including making the necessary trade-offs between short-term objectives and long-term goals.

Finally, you get agreement and closure from all the participants, establishing follow-through measures to make sure people are meeting their commitments or to work up corrective steps if they aren't.

The operating plan starts by identifying the key targets; revenues, operating margin, cash flow, productivity, market share, and so forth (see Figure 3). What's important is that they give a one-page overview focused on the things that will drive the improvement in results.

Figure 3. Summary Financials

	2002	**2003**	**2004**
Revenues			
SG&A (% of Sales)			
RD&E (% of Sales			
Operating Margin (income)			
Cash flow			
Productivity			
Capital Expenditure			

ROI			
Census **Salary** **Hourly**			

This one-page financial overview includes pieces of information not usually included in the operations review: productivity, a census of employees, the investments this year that will show up in future years.

The initiative centered on the following key issues:

- Fixing delivery and improving product availability.
- Implementing weekly performance reviews to drive tactical action planning.
- Implementing lead times with customers' and distributors' stocking strategies.

<u>After the Meeting: Follow-Through and Contingencies</u>
Any good review ends with closure and follow-through. Without them, you're apt to get one of those meetings where people nod their heads in agreement, only to start wriggling out of the deals a few days later. The leader has to be sure that each person has carried away the right information and taken accountability for what he or she agreed to do.

One powerful technique is to send each person a memo outlining the details of the agreements. Here are excerpts from one such letter, sent by Larry to an AlliedSignal component after the review of the 1999 operating plan. Sales for the business in question had been good and were getting better, so the main focus was on driving for higher margins.

November 25, 1999
To: leaders of Group X
From: Larry Bossidy

Thank you for a solid review of your 1998 AOP (annual operating plan). Here are some observations that you should share with your business leaders.

- for 1999, build a plan that allows you to react to different scenarios, given the high level of economic uncertainty.
- Given this uncertainty, we need an ambitious plan for productivity that overachieves the target.

- Develop a proposal for reducing your cost structure. I want to know what you would do, how much it would cost, and the impact to census and 1999 AOP financials.
- Our quality problems are disturbing. Continue to work to improve quality. I am especially concerned with our problems with customer X. Develop a program for X that will convince them that we are addressing the issues. A key component of the solution is a further reduction in our supply base.
- Good work on reducing past-due shipments. However, past-dues are still among the highest in the company, so opportunity remains.
- Supply chain is our number-one process priority. Do not fix the problems individually; fix the process. Please make sure we have a defined path to achieve the reduction in the fourth quarter.
- The 436 million price reduction is an area that needs continuous review to find creative ways to reduce the impact.
- Cost reduction is a big opportunity for you. One point of cost will take you from an uncomfortable position to a comfortable one.

Business A

- You need to do something about quality. Thirty percent customer returns is way too high. Devote more resources in engineering to get at the quality issues.
- It does not appear that we are realizing the upside associated with price increases in the aftermarket. Let's understand why we are not seeing it and, if there are cost issues, develop plans to mitigate it.
- Make sure we have a plan to improve repair and overhaul margins, particularly on commercial propulsion products.
- We need to drive better results out of the product line Z.
- Given that the risks you identified are likely, we need a well-thought-out contingency plan that focuses on costs.

Manufacturing Operations

- Under normal economic conditions, your material plans would be fine, but in this disinflationary environment we need more. Work with executive A to crisp up your plans. You have a lot of opportunity here. I would like your targets to be more aggressive.
- Your inventory target is not aggressive enough. Work with executives A and B to determine your inventory entitlement and develop a more credible plan with aggressive targets. Keep in mind that you can't reduce inventories without reducing lead times. A significant reduction is needed in Q4 to achieve the cash flow target.
- I would like you to put more focus on Six Sigma projects. Let's be sure we are realizing the value of the black-belt/green-belt resources.
- We have had success driving productivity at product line B, but it has been at the expense of working capital. Figure out how we can drive productivity using less working capital.

Contingency Plans

Larry: The operating plan is done. Now the leadership looks at the assumptions that might be most vulnerable and plans for contingencies in case results start to come up short.

Quarterly Reviews

Quarterly reviews help keep plans up to date and reinforce synchronization. They also give a leader a good idea about which people are on top of their businesses, which ones aren't, and what the latter need to do.

The review itself is a basis to compare how the general manager has done against the first quarter plan.

"…I'll be on plan by the end of the second or third quarter." I then have to ask, "let's assume you're not. That means I don't do anything about it until the fourth quarter after you don't make it in the third quarter. Well, let's not do that. Let's start doing something now as though you're not going to make the sales budget. If you do, all the better and you're ahead of your plan and that's great, but if you don't you're protected." Same thing with productivity. If someone says, "I didn't have a good first quarter, but I will have in the second," again I have to say, "Well, let's assume you don't. What are you going to do now about that?"

What I say is, "People, we're talking about operating plans. This not about hopes and dreams. This is about realities. Don't tell me you hope it's going to get better. Don't tell me that you dream about doing it better. The reality is that in the first quarter it wasn't better. That's the database that we're going to go from, and that's the database we're going to act upon."

Goals to Live By

I tell them, "We as a company think this is the realistic target. This is what we've led people to believe. We've asked you to come up from what we agreed upon earlier, but there's still a gap between what you think you can make in the ten operating businesses and what we think we have to make."

I can't just give them numbers they can't make, because that isn't going to be helpful. We've got to talk about how we fill the gap. I say, "what ideas do we have that begin to close this gap? We're going to keep health care costs flat across the organization, so that's going to give you two cents a share. I've got some ideas to help you, but I'm still short."

So you have a good debate about how to close whatever gaps exists.

I've talked to many operating people who said, "You know, I knew at the beginning we had no chance at his plan." My reply is, "Why didn't you speak up and say so? I'm not going to run out of the room. I am going to challenge your plan. I'm going to try to get as much stretch as I can, but if it's not achievable, nothing's been accomplished here that's good."

Sometimes, on the other hand, you have to put the pressure on. Say somebody clearly isn't going to make his targets and doesn't have a good excuse. I might say, "So what are what are we going to do? I've got to report to Wall Street at the end of the quarter, and I can't just walk away from my commitments. Maybe, I should bring you along with I go to the press and say, 'Here's the guy who's responsible.' No? Well, how about this: You've got fifteen thousand stock options (I always know how many they have), and you're a member of the 401(k). your team members also have options and 401(k)s. If we miss our estimate and our stock drops ten or fifteen percent, doesn't that have any impact on you and the others?"

So I make it a personal challenge: if you don't accomplish your objective, if you don't do what you said you were going to do, you are hurting yourself and your teammates. Usually the man will break his chops to make the numbers.

Larry: You want some stretch in your plans. But really your should know how much of a stretch that is. You can't go in and say, "Look, I'm just going to give you a number." My approach is that I want to know how you're going to make your number. First and foremost, I need to see that you have a handle on it. Two, you'll know that I know you have a chance to get it done, so you'll get more resources if you need them. Three, I learn a lot, because the chances are I don't have an answer about the method of accomplishment.

Conclusion: Letter to a New Leader

Dear Jane,

Congratulations on your promotion! We couldn't be happier for you. We know you are excited about exercising your leadership at a higher level. And we'd like to share with you some information we think will help you with your new challenge.

Start by considering what skills this job requires and how they compare with the one you have. We're sure you've got the self-confidence to make this kind of candid self-assessment. If you're short on experience in one area most leaders are at some point in their careers, as you know), be sure you've got someone who's strong in it. Overall, you'll want to put together a team balanced with the different types of talent you need to improve your changes of success.

How well do you know your organization? Make sure you get down where the action is, talking with people at all levels, asking them questions, and listening to the answers. You'll learn much of value about the realities of the business, and you'll establish the personal connection that is a hallmark of a great leader.

Get a good handle early on about the beliefs and behaviors of the people under your direction. Your own behaviors have a great deal to do with your success so far, Jane. You've insisted on boundary-less thinking, you're open to opinions that differ from yours, and you've practiced and led the honest, inclusive dialogues that bring reality into the open. You have also placed a high premium on getting things done, winning, and attracting the very best and most diverse talent.

Are you among like-minded people in your new job? Does this business have an execution culture, one where people get things done because performance is recognized and rewarded? Do people embrace reality and engage in constructive debates? Or is the place full of political gamesmanship, butt-covering, and denial? If so, start creating the social software you'll need to change the culture. It's how you get the whole organization to follow your lead, and it'll be crucial to maintaining your record of high achievement.

Nothing is more important to achieving results than your personal leadership of the three core processes. These are the guts of the business, they're your levers for changing or reinforcing the culture. The biggest single difference between businesses that execute and those that don't is the rigor and intensity with which the leader prosecutes these processes. You will be pulled in every direction as people want you to meet community leaders, government officials, and suppliers and put you on display in every conceivable venue. But running the processes must be at the top of your priority list.

We know you believe that people are your organization's most important assets, but your stewardship of the people process is what will convert that belief to reality. Make your people process second to none. Your success will be determined by the number of "A" players you have and the extent to which you can harmonize their efforts. You need to know at least the top third of the people in your unit in terms of their performance and their growth potential. You need to be certain that appraisals are honest and direct, and that your people get the feedback, coaching, and training they need to grow. And because compensation is the ultimate driver of performance, you must ensure that our compensation system rewards the doers.

We encourage you to compare your people with those of the competition, to ask whether the performance bar is high enough, and whether people have the necessary discipline to win consistently.

Getting the strategy process right is crucial to your longer-term success and that of your organization. Are business leaders driving the process, or has it been delegated to nerdy and isolated planning types? Does the plan have the right information to allow an accurate assessment of your position versus your competition? Is it sufficiently detailed so that your people can see how they will achieve both growth and productivity improvements? You can't settle for vague declaration in these crucial underpinnings of the plan—you need specific programs. Are the issues confronting the business identified? Does your new team have a track record of overcoming obstacles? As you know, if you don't identify, debate, and resolve the critical issues, the business stalls.

Also, are resources allocated in proportion to opportunities, or does every opportunity get some resources and non get enough? Is the plan straightforward, concise, and easily understood? Remember, you want everyone in your business to have a good grasp of it.

You have a budget, but do you have the action plan the budget should represent? We see countless cases where the numbers are assembled painstakingly and presented expertly but have little to do with the reality of running the business. A one-year operating plan sets forth a template for achievement. It synchronizes all of the organization's parts and links them with the strategy and the people processes. It nails down your team's commitments by typing performance explicitly to incentives, so that leaders exercise all the discipline and imagination they can muster to deal with the ever-present unanticipated events.

Jane, we can't stress strongly enough the importance of your personal involvement in these three core processes. You must be in charge from the start of each cycle, to the reviews, and to the follow-up steps you take to make sure the things that are supposed to happen do, in fact, happen. This is how you acquire both the knowledge and the authority to run the business as an integrated, reality-based whole. It is how you ultimately assure that all three processes are linked.

What else do you need to sty on top of? The list can get endless, but three items stand out. First, make sure you and your people really understand your customers: their needs, their buying behaviors, and the changes in those behaviors. Know why they would prefer your products to others. Understanding customers is the base of business success. Second, always look for ways to improve your results by introducing initiatives such as Six sigma or digitization. They not only can be productive, they can also bind your people together in a common cause. Third, maintain and sharpen your intellectual honesty so that you're always realistic. See things as they are, not the way you want them to be.

It will be hard at times to know how you're doing. We hope your organization gives you the feedback and coaching you will be giving your own reports. But even when that's the case, we have found that a leader needs a confidant, someone outside the business to help her keep her head straight. This person should be someone wise, an individual who will be candid with you and help you to keep asking yourself whether you're growing, learning, and making the tough choices. And take care of yourself. The new job can be stressful, and you need to live a balanced life. Don't let yourself get too low or too high. Consistent behavior is a sign of a contained ego, and inspires confidence in you from those around you.

Above all, Jane, remember that you've earned your leadership by your commitment to the work you've done. Keep that intensity of involvement and deepen it. Some people grow in their jobs, and others swell. The ones who grow are passionate about their businesses. They're never too busy being big honchos to pay attention to the important details and stay close to their people. They're never too high and mighty to listen and learn, to be as curious and inquisitive and open to new ideas as they were they first day of their careers.

This is probably more than you wanted to hear from two old friends. But we take great delight in your progress, and we know you have the talent to do a lot more.

Sincerely,

Larry and Ram

ALTFELD, INC.
Strategic Planning, Marketing
and Sales Consultants

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