EXECUTION

White Paper: Adding Zeros Through The Discipline Of Execution

adding ZEROS

A White Paper adapted from

Pulling Profits Out of a Hat

By Brad Sugars & Monte Wyatt

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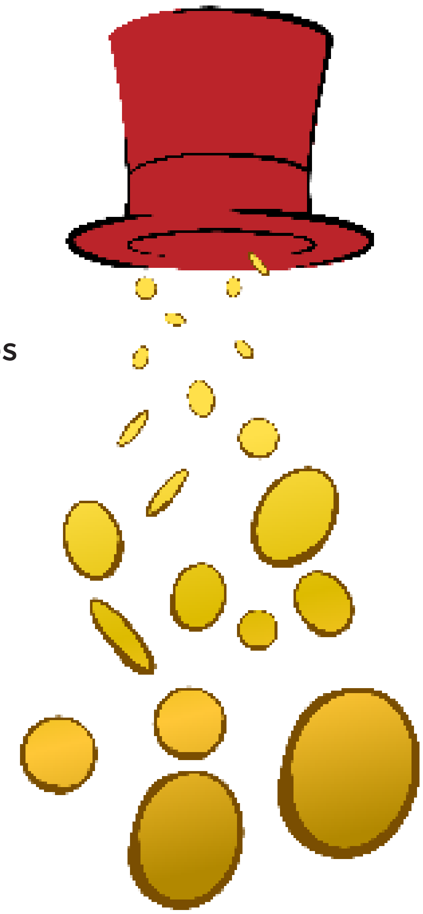
CONSISTENCNY: THE INCANTATION

Adding Zeros Through the *Discipline Of Execution*



> Abracadabra!
>
> Open Sesame!
>
> Shazam!

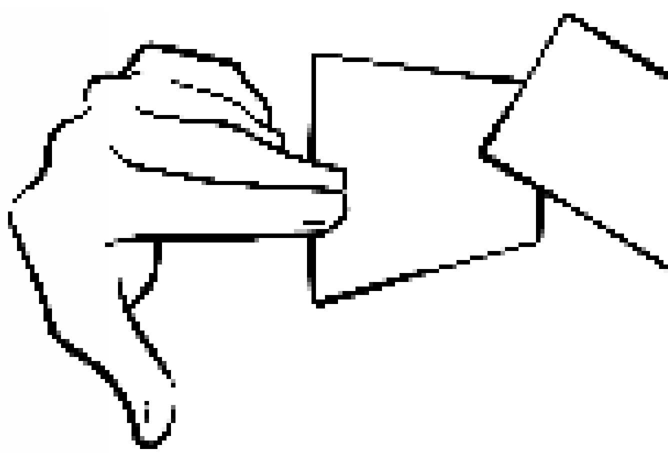
The performance of magic almost always involves the use of language, whether spoken aloud or unspoken, to access or guide magical power. An incantation or spell is a specific set of words in a specific order. Say them out of order and nothing happens. Forget to wave your wand at the right time or in the right direction and instead of a dove flying out of a hat, a pigeon poops in your eye. But when the words and accompanying actions are right, the audience is wowed.

It's like a recipe: certain ingredients in specified proportions, mixed and handled in a particular order, will result in a chocolate cake. Change any of that information and you might end up with a cake... or a mess. Good cooks and good magicians know that performing the same actions in the same order always obtains the same result. They've labored over every detailed step to perfect the outcome and then learned those steps by heart until they are habit. And if for some reason they're unable to perform those steps, they can hand the entire documented process to someone else who can then deliver consistent results.

HABITS → PROCESSES → CONSISTENCY

When we find consistency in an organization, we'll discover that the company has habits that guide their processes, financials, and management. This white paper, adapted from our book, Pulling Profits from a Hat, is one of a series exploring what we have identified as the 5 Disciplines that help drive exponential growth in a company. We've previously looked at the disciplines of sustainability, predictability and stability. Here we look at consistency. Habits are the basis of processes that give freedom to workers because the focus shifts from the individual to the entire business, protecting the company's financial controls. Good organizational habits can eliminate poor communication, one of the most significant challenges in the corporate world.

When a company habitually meets with team members in daily huddles, report-outs, and feedback sessions, that means it's helping employees contribute to the long-term well-being of the organization without even thinking about it: good communication is automatic and expected. Habits like these ensure that a team can execute its strategy with absolute consistency.

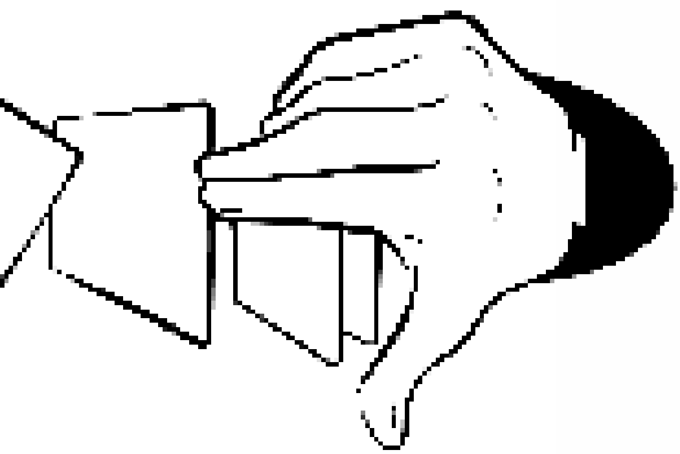


How to add zeros *to Execution*

You can increase consistency by implementing these three components of the Discipline of Execution:

- Processes
- Management
- Financial Controls

Let's look at each of these now in detail to see how they enable efficiency and effectiveness.



Processes

Without documented processes in place, a business relies entirely on the skills of the workers who produce the best work. If workers have varying degrees of ability, the company delivers a varying quality of product. This does not lead to longevity: the loss of the most skilled workers will lead to the loss of whatever customers the company has managed to satisfy.

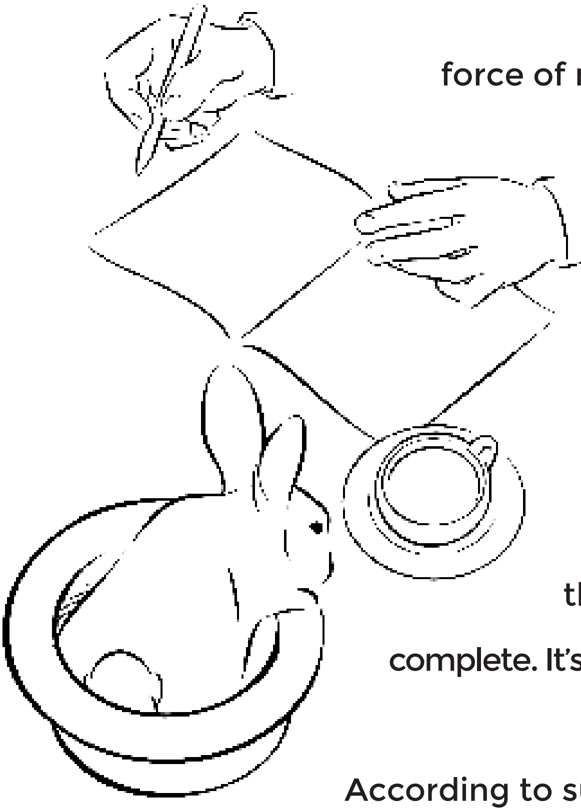
Instead of relying on workers alone, businesses need to rely on skilled workers who maximize outcomes by following proven processes.

A process is a sequence of interdependent, linked procedures which, at every stage, consume one or more resources (employee time, energy, machines, money) to convert inputs (data, material, parts, etc.) into outputs. These outputs then serve as inputs for the next stage until a known goal or result is reached.[1]

SOLVE EVERY PROBLEM WITH A PROCESS.

Many companies believe they have processes in place because they work through a series of steps through

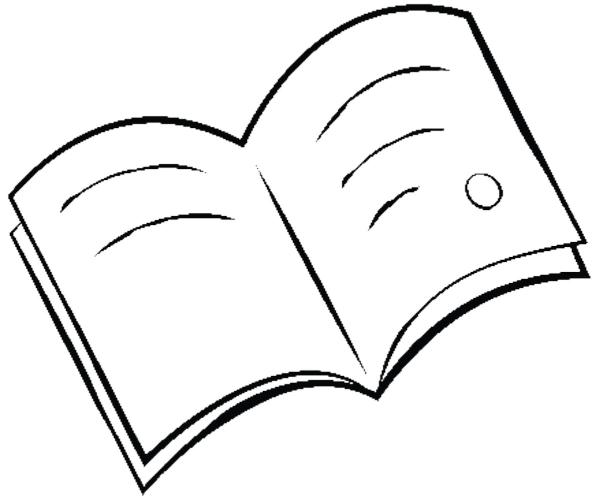
PROCESSES



force of mental habit: This happens, then this happens, then we get those results. But this is a schedule, not a process. A process has clear document steps and it has clear expectations of what the results of each step should look like so everyone knows when it's time to move on to the next step, and what the entire process looks like when it's complete. It's not enough to say, Yeah, that looks good.

According to surgeon and bestselling author Atul Gawande, failure in the modern world results from errors of ineptitude (mistakes we make because we don't make proper use of what we know) rather than errors of ignorance (mistakes we make because we don't know enough). In his powerful and thought-provoking book, The Checklist Manifesto, he shows how the routine tasks of surgeons have now become so incredibly complicated that it's

PROCESSES



just too easy for an otherwise competent doctor to miss a step, or forget to ask a key question or, in the stress and pressure of the moment, to fail to plan properly for every eventuality, making mistakes all but inevitable.
After researching other professionswhere errors have grave consequences, he came up with a solution: experts need checklists–literally–written guides that walk them through the key steps in any complex procedure. His safe surgery checklist is now in place around the world and has achieved staggering success.[2]

If highly trained surgeons – surgeons! – need checklists to make certain they've remembered to wash their hands, think about what happens when the company brings someone new into their process. For as long as it takes for the new hire to develop correct habits, their work product will be different from everyone else's. How does the company ensure that those newly learned habits are the correct ones and the same as everyone else's?

PROCESSES

Realistically speaking, if the company hasn't documented its process, everyone's work product is different. No matter how routine, without definitive checkpoints to ensure conformity, different people will do different things on different days if it's not written down.

IF THE PROCESS ISN'T WRITTEN DOWN,
IT DOESN'T EXIST.

In any given business there are likely between six and twelve primary processes. Typical financial processes take care of payroll, accounts receivable and accounts payable. There should be processes for sales, marketing, fulfillment, talent management, and manufacturing.
Each step of each process requires a responsible person who ensures the procedure is followed, is on schedule, and is completed to the correct standard.

In your company, do these vital processes have a documented flow-chart or checklist that ensures consistency and responsibility or do they depend on the habits of the employees who carry them out?

PROCESSES

Your company may have its ways of doing things that developed on the spur of the moment in the early days when routines grew out of necessity. That may hav e worked then, but it's time to look for better ways.

Sometimes this works, but why leave things to chance?

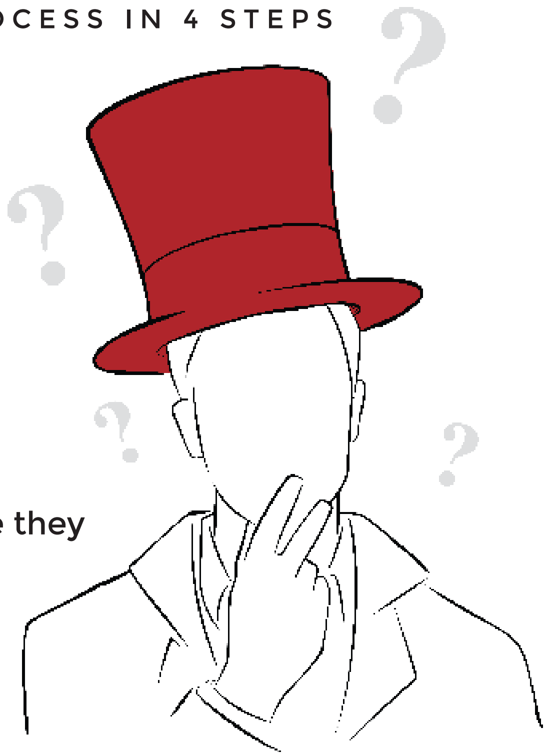
HOW TO DOCUMENT A process in *4 steps*

To create a process in any department or part of the company, document how workers do things now. It's first crucial to get a thorough understanding of how things are being done now, from corporate routines to individual habits, departmental timelines to implementation procedures.

First: write down what you do right now. If multiple people do the same thing, pay attention to the person who does it the most. To document the current steps, you can:

- Have someone write steps down as they watch the person doing them;

HOW TO DOCUMENT A PROCESS IN 4 STEPS



- Have the person performing the steps write them as they do them;
- Have a trainee write them down as their trainer does them.

Second: evaluate the steps to make sure they cover everything that needs to be accomplished. Edit as needed, adding, adjusting, or subtracting as needed.

Third: challenge the newly developed steps and expected outcomes. Bring together the team members who are responsible for performing the process you are working on. Discuss your testing and the steps that need to change in your process, and the outcomes that they need to achieve. Have them use the process exactly as written. Then test the new process with a few people for 2-4 weeks, noting any adjustments that may be necessary at the end of that period.

HOW TO DOCUMENT A PROCESS IN 4 STEPS

Fourth: implement your notes, one item at a time, after the test period.

Observe the impact, if any, that this has on the process and its outcomes. Once you've made the necessary adjustments, train the rest of the responsible team in the new process.

As the new process now has a set list of steps and expectations, consistency depends on workers following that list to the letter. Checking off each step as it's completed means there is accountability: did the process fail for some unknown reason, or because someone didn't do what they were supposed to do? In a process where different people perform each step, a checklist enables you to determine where the problem occurred.

Types of checklists include the following:

HOW TO DOCUMENT A PROCESS IN 4 STEPS

- **Task lists** are step-by-step inventories of standard operating procedures that people have to follow in a specified order to achieve a pre-determined result.
- **Troubleshooting lists** outline the steps to take when things go wrong.
- **Coordination lists** are used to manage complex projects involving many people performing different tasks.
- **Discipline lists** catalogue procedures that prevent faulty decision-making.
- **To-do lists** are used to manage time and priorities.

Checklists are helpful in ensuring that people do things correctly, and identifying who was responsible for things going off the rails. For this reason, lists and the processes they document may cause people to reject the process for a variety of reasons. But before you jump to conclusions and blame the individual involved, ask yourself four questions:

HOW TO DOCUMENT A PROCESS IN 4 STEPS

- Did we train them on our process?
- Is our process correct?
- Is the employee willing to follow our process?
- What exactly is the process?

The employee can only control one part of this: their willingness to follow the process. The other three are the responsibility of the organization and its managers.

An employee can't be held responsible for following a process that doesn't exist. And we find that when managers have no processes to manage, they try to manage people instead, leading them to complain that their team is unpredictable and wants to do things their way.

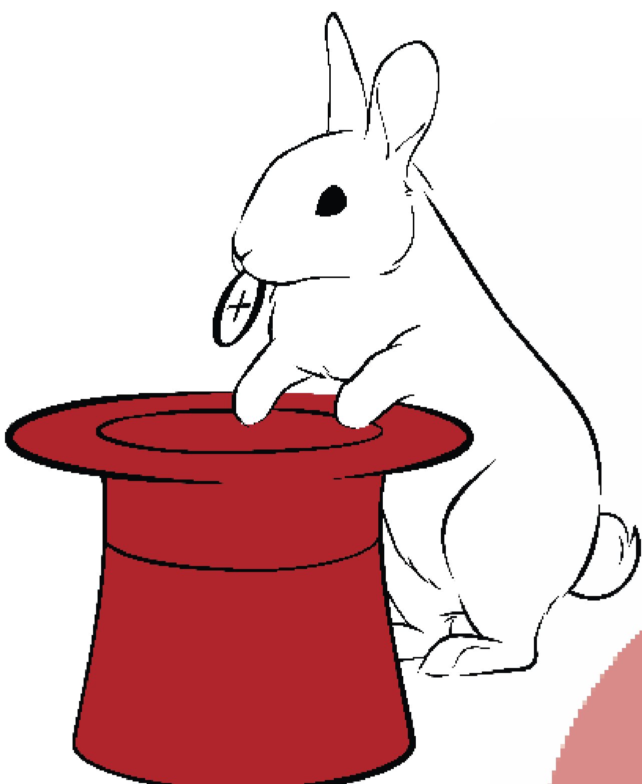
Of course they do. Without a process, what other way is there?

Around 80% of what most employees do every day is the same, day in

HOW TO DOCUMENT A PROCESS IN 4 STEPS

and day out. It becomes routine, which is good because routines free us from devoting too much mental energy to them. When we're on autopilot, we can quickly do the things that crop up on a regular basis. This saves our brains for the other 20% of tasks that need some creativity to perform.

A good routine frees you from the endless series of small decisions that consume time and energy and brings order and predictability to the day. And the things that don't happen regularly can still be made routine through processes that we consult when needed. That way, brain power is reserved for meaningful challenges.



Management

We can't say it often enough: management and leadership are two different things. Leadership creates passionate and focused people, management oversees processes so the team is competent and productive.

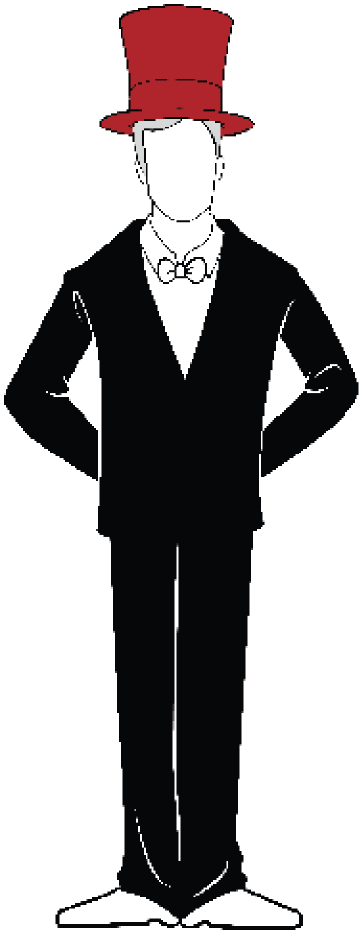
WE DON'T MANAGE PEOPLE;
WE MANAGE PROCESSES.

When processes are in place, there's something to manage. And while we don't manage people, we can and should manage their accountability.

Every organization needs good management and good leadership (See Leadership in Chapter 9). Managers, then, need to be the best suited for the job and an excellent fit for the organization, fitting in culturally and professionally. They need to understand and be excited by the organization's purpose, direction, and culture.

Proper management balances processes and people, efficiency

MANAGEMENT



and humanity, without jeopardizing either one. When making a process decision, we should ask, how does this affect our people? And when making a people decision, we should ask, how does this affect our process? This is good management practice.

Good management practices aren't intuitive. Organizations need to use proven methods to teach managers fundamental and useful managerial techniques that include:

- selecting the right people for the team;
- delegating;
- fexibility;
- excellent verbal and non-verbal communication skills;
- managing communication processes such as daily

MANAGEMENT

huddles, one-to-one's, weekly team meetings, training and providing feedback;

- recognizing the abilities of team members and allowing them to take ownership of and responsibility for their respective jobs.

As you can see from this list, good management is about being proactively helpful to the people they oversee. Nearly 75% of employees report they don't feel engaged in their jobs, while the remaining quarter says they have a good relationship with an immediate supervisor who's proactive in getting them involved and invested in their work.[3]

Proactive managers:

- provide feedback to team members;
- make time for team members;
- identify goals;
- act as role models;
- delegate;

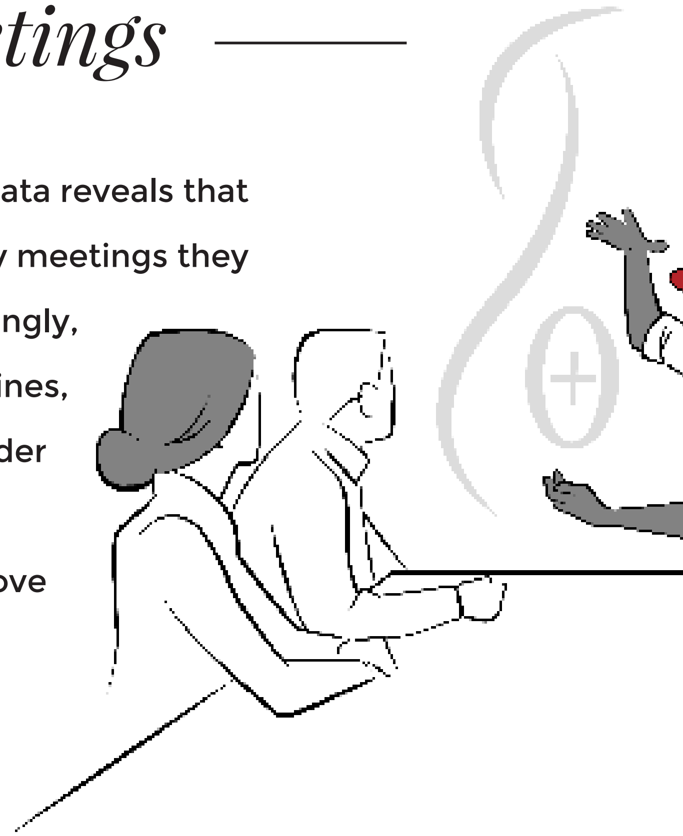
MANAGEMENT

- communicate;
- listen;
- motivate;
- set clear expectations;
- learn and adjust;
- recognize team members.

Forbes Magazine says great managers do five things every day:

1. They're straightforward.
2. They exhibit mature leadership.
3. They put the right people in the right positions.
4. They hold regular and meaningful one-to-one meetings.
5. They actively manage conflict.[4]

Meetings

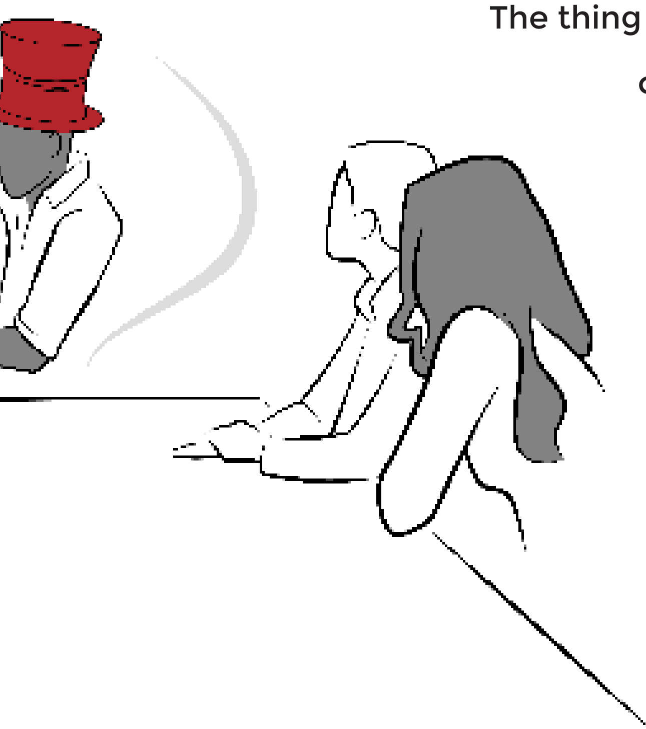


Meetings have a bad reputation. Data reveals that 76% of participants are annoyed by meetings they consider a waste of time. Interestingly, though, there is a split along age-lines, with those under 34 likely to consider face-to-face meetings useful and productive, while those 35 and above mostly find them unnecessary.[5]

Regardless of individual preference, though, excellent managers review goals and actions by incorporating a process, a habit, and a rhythm for doing so. This takes the form of regular meetings to dig deep into issues, solve challenges, make decisions, update the status of action plans, and set priorities for specific periods of time.

There are three kinds of meetings that Management should hold on a regular basis with their team or department: weekly, monthly, and quarterly.

Weekly Meetings



The thing to remember is that the goals don't change, the actions do, so weekly meetings are to review and assess whether everything is on track to meet quarterly goals or whether actions need to change.

Weekly Team Meetings

Effective managers hold weekly 60-120 minute team meetings.

A useful technique to facilitate this is to color-code updates to make them easy to read as follows:

WEEKLY TEAM MEETINGS

- **Green:** I'm on track with timelines and expected results
- **Yellow:** I am a little behind or my expected results are a bit behind but here is my plan to correct this
- **Red:** There is no way I will hit my deadlines or expected benchmarks; we need to adjust timing, reprioritize, or obtain additional resources to make it happen.

Weekly Individual Meetings

Effective managers have weekly or bi-weekly face-to-face or one-to-one phone meetings with individual team members to talk about progress on their 90-day action plan.

Effective managers facilitate the process of team members creating their individual 90-day action plans that outline their actions and important time-frames. The plans are built in reverse, starting with the goal to be achieved in 90 days, and detailing who is responsible for

WEEKLY INDIVIDUAL MEETINGS

specific outcomes and the metrics or measures that will be used to evaluate progress. This provides clarity about when specific actions will be complete.

The benefits of 90-day action plans include the following:

- providing clarity about the steps needed to achieve the results we have set;
- team members have clear objectives and clear processes to reach them;
- team members know when they need to start a task and when they need to complete it;
- it encourages the team member to anticipate and prepare;
- it enables planning to accommodate changes in schedules, such as vacations, conferences, trade shows, etc.

Monthly Team Meetings

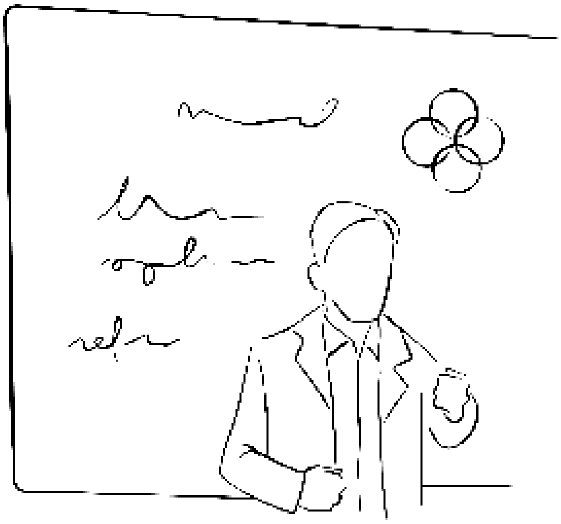
Another powerful process is a monthly 2-3 hour review session to assess progress: Are we on track for the current 90-day period? This session reviews financials, continually making appropriate adjustments to ensure they achieve the quarterly priorities and committed actions or 90-day action plans.

Quarterly Meetings

A quarterly meeting is a day-long session that typically has these objectives:

- Review the previous quarter's results and action plans concerning the one-year and three-year goals;
- Review the status of the Five Disciplines and how constituents are currently being satisfied;
- Discuss the current priorities (company, department, individual);
- Review the most critical numbers with relevant KPIs;

QUARTERLY MEETINGS



- Identify the new goals and priorities for the upcoming quarter, including who's doing what by when so everyone can develop their new 90-day action plans.

There is also time for learning (leadership, management, skill development, industry, etc.) and setting the next quarter's goals, priorities, and critical numbers.

Following the quarterly meeting, managers share priorities with their teams and facilitate the creation of their team members' plans that support achieving goals and priorities.

The funnel for execution starts with the 10-year, 3-year, and 1-year goals that senior management set during their annual Strategic Thinking and Execution Planning meeting, and leads to weekly meetings that review the progress toward those goals, as shown here:

QUARTERLY MEETINGS

Big Hairy Audacious Goal (BHAG) [6]
(10 years or more)

↓

3-Year Goal
toward achieving BHAG

↓

1-Year Goals
toward achieving 3-Year Goal

↓

Hold Quarterly Meetings
Determine Goals for the Upcoming Quarter
Identify 3-5 priorities to Achieve Those Goals
Create 90-Day Action Plans

↓

Create Individual 90-Day Plans for achieving 1-Year Goals
Actions to accomplish those priorities
Target metrics for success

↓

Hold Weekly Team Meetings
Assess progress toward Quarterly Goals

↓

Hold Weekly Team Meetings
Assess progress on Action Plans

At the end of each period (weeks and quarters), rinse and repeat, just as you do for the annual meetings.

Financial *Controls*

A company's financials are its story, its numbers. They include Income Statements, Balance Sheets, Statements of Cash Flow and Financial Ratios, on a monthly, quarterly and an annual basis. Comprehend those figures, and you'll know where the company has come from and where it's headed.

The sad reality is that so many businesses just don't know their financials, even though every business executive, leader, and manager should be looking at them at least every week, if not daily.
To get an accurate picture of a company's progress toward its financial goals or to make required adjustments, we need real-time information (or as current as we can get).

According to research conducted by Aberdeen Group in 2014:

- 35% of respondents indicated that demand for expedited financial information delivery is their top pressure.
- Best-in-Class organizations are 62% more likely than All

FINANCIAL CONTROLS

Others to have real-time updates to financial metrics.

- Organizations with real-time access to financial performance can deliver information in time for decision-making 86% of the time.

Let’s take a closer look at what these financial reports are:

Income Statement. Often referred to as a Statement of Profit and Loss, or P&L, this shows a company’s generated revenues and incurred expenses over a specified period.

It also shows the net gain or loss for the company during the stated accounting period.

Balance Sheet. This presents a snapshot of the company as of a single date, most often the last day of a quarter or year. It also shows the accounting value of all of the company's assets, liabilities and shareholder's equity as of that date.

Cash Flow Statement. This presents an analysis of all activities during the accounting period that affected cash, impacted primarily by operations, financing, and investments.

Financial Ratios. You calculate these from the reported figures in the financial statements. They're used to analyze the relative financial health of the company to gauge its improvement on its ratios. You can compare them over time within the same organization to spot trends and evaluate risks, especially when deviating from businesses in the same or similar risk categories.

FIVE CRITICAL FINANCIAL RATIOS

ratios for *any* business

Financial ratios are relationships determined from a company's financial information and used for comparison purposes. You can use many different ratios depending on the nature of your business as well as what management's needs are at any particular time. But generally speaking, the following are the most widely used across a range of companies.

1. Gross Profit Margin. Derived by dividing gross profit by sales, this is the average gross profit on each dollar of sales before operating expenses. It helps work out the profitability of each particular product that you sell.

2. Net profit margin. Derived by dividing net income by sales, this is the percentage profit after operating expenses the business makes for every dollar of revenue. It's used to show whether you're making a profit after covering all your costs.

3. Current ratio. Derived by dividing your current assets by your current liabilities, this helps measure the solvency of your business.

FIVE CRITICAL FINANCIAL RATIOS FOR ANY BUSINESS

4. Inventory turnover. Derived by dividing the cost of goods sold by your inventory, this shows how often your stock is sold and replaced in a particular period.

5. Return on owner's equity. Derived by dividing net income by owner's equity compares the net business income to the equity invested in the business.

6. Job Costing. Derived by tracking the revenue, expenses, and profit of a unique product, project, or job, including direct labor, direct materials and overhead.

KNOW WHICH PREDICTORS affect *your* business

If you're using the assets listed on your balance sheet to tell you the actual value of your company, you could be in for a shock when you conduct a valuation. Net worth (subtracting liabilities from assets) can tell you your value right now, but it won't tell you what you'll be worth tomorrow, next week, or next year.

Some companies use their budgets to gauge success. A well-devised and controlled budget can tell the story of a company, including the schedule for adding new customers and how many, the number of employees on payroll, the plan for updating equipment, office space size, and more. Unfortunately, the world never entirely goes according to budget, and it seldom goes to plan.

Financials, formulas, and budgets are all important to predict and track results, but it's the actions people take that create results, so on a regular basis, it's essential to measure the actions that lead to the results. This is the surest way we know to predict the future of a business.

KNOW WHICH PREDICTORS AFFECT YOUR BUSINESS

Good management is about measuring outcomes to ensure that the company meets its goals. Effective managers develop Key Performance Indicators (KPIs) to measure whether team members are completing their scheduled actions every day, week, and month.

Good management measures to get numbers and to track the effects change has on them. Good managers set about improving one number at a time, and once they've improved that, they set about improving the next one. Management boils down to testing, measuring and knowing the numbers; managers should be able to predict the future with their numbers.

If we're not hitting our numbers, we don't change our goals;

KNOW WHICH PREDICTORS AFFECT YOUR BUSINESS

we change actions. And it's the Key Performance Indicators that help us identify which actions should improve, and how. Key Performance Indicators measure a team member's results and their actions in the form of leading and lagging indicators.

Lagging indicators are typically output oriented, measured after the fact which makes them easy to measure but hard to improve or influence. Leading indicators are input oriented and measure specific activity. They can be hard to measure and easily show bias. Effective business development requires understanding both of these.

Managers are not the only ones who should know their numbers. Everyone should. Every team member should know their numbers and be able to report on them at any time. This gives clarity regarding the impact they're having on their department and, by extension, the entire company.

KNOW WHICH PREDICTORS AFFECT YOUR BUSINESS

Here are some typical KPIs for various areas:

Example KPIs for Marketing

- Ad click-through ratio (CTR)
- Average response rates of campaigns
- Brand awareness percentage
- Brand consideration
- Brand credibility
- Brand strength
- Column inches of media coverage
- Consumer awareness
- Contact rate (number of contacts effectively contacted / number of names in the target list)
- Cost per converted lead
- Cost per lead

KNOW WHICH PREDICTORS AFFECT YOUR BUSINESS

Example KPIs for Finance

- Accounts payable amount
- Accounts receivable collection period
- Accounts receivable amount
- Actual expenses
- Amount due (per customer)
- Average customer receivable
- Average monetary value of invoices outstanding
- Average monetary value of overdue invoices
- Budget vs. Actual
- Invoices sent promptly

Example KPIs for Manufacturing

- Asset utilization
- Availability

KNOW WHICH PREDICTORS AFFECT YOUR BUSINESS

- Avoided cost
- Capacity utilization
- Comparative analytics for products, plants, divisions, companies
- Compliance rates (for government regulations, etc.)
- Quality
- Customer satisfaction / Net Promoter Score
- Cycle time

Example KPIs for Retail

- Average inventory
- Cost of goods sold
- Gross profit budget percentage
- Sales budget percentage
- Discounts
- Gross profit

KNOW WHICH PREDICTORS AFFECT YOUR BUSINESS

- Leads / Customers per day
- Conversion rate
- Average dollar sale
- Number of transactions

Example KPIs for Accommodation and Food Services

- Average income per guest
- Average revenue per table
- Quality
- Labor cost per guest
- Minutes per table turn
- Profit per table

THE MAGIC OF ADDING ZEROS
Through *Execution*

A magic spell is based on the idea that a series of otherwise ordinary words, put into the right order, can make things happen. You just have to know which words and which order, which means that anyone without that information will fail to achieve the same effect. That's why secret societies guarded their magic words and incantations: to make sure their power didn't fall into the wrong hands... or mouths.

As you've seen in this white paper, processes use language to describe the correct order of actions that produce a consistent result. If they're kept secret from those who need them, or they don't even exist, the result is a loss of business due to inconsistent outcomes.
Performing finely-tuned processes every day in every transaction results in consistency that satisfies your constituents.

EXECUTION	
STAKEHOLDERS	TEAM MEMBERS
financial stability	*known expectations*

Stakeholders benefit from the resulting financial stability, and Team Members benefit because everyone always knows what the company expects of them.

As you saw in this white paper, the Discipline of Execution adds zeros through

- processes that maximize outcomes;
- management that guides the team to be competent and productive; and
- financial controls that measure outcomes to ensure that the company meets its goals.

A company's processes can be one of its most valuable assets: they determine how and what it creates. If those assets don't physically exist, it's as if the business is truly creating something out of nothing, a real feat of magical thinking.

FOOTNOTES

1. http://www.businessdictionary.com/definition/process.html

2. "The Checklist Manifesto: How to Get Things Right," by Atul Gawande; http://atulgawande.com/book/the-checklist-manifesto/

3. "Enhancing Employee Engagement: The Role of the Immediate Supervisor," Dale Carnegie Institute; https://www.dalecarnegie.com/en/resources/enhancing-employee-engagement-the-role-of-the-immediate-supervisor

4. Kristi Hedges, "Five Things Great Managers Do Every Day," May 1, 2014, Forbes. https://www.forbes.com/sites/work-in-progress/2014/05/01/five-things-great-managers-do-every-day/#209db26e4109

5. "Why We Hate Meetings So Much," by Andrea Lehr HubSpot; https://blog.hubspot.com/sales/why-we-hate-meetings-so-much

6. "Big Hairy Audacious Goal" is a term proposed by James Collins and Jerry Porras in Built to Last: Successful Habits of Visionary Companies, 1994, HarperBusiness. It encourages companies to define visionary goals that are more strategic and emotionally compelling.