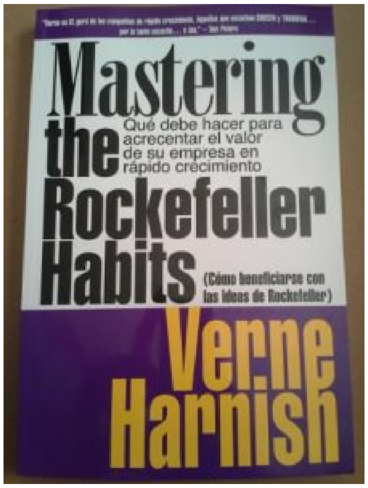

Book Mastering the Rockefeller Habits

What You Must Do to Increase the Value of Your Growing Firm

Verne Harnish
SelectBooks, 2002

Recommendation

Entrepreneurship expert Verne Harnish, a student of business management, interprets a set of managerial best practices he calls the "Rockefeller habits." He refers throughout to Standard Oil co-founder John D. Rockefeller (1839–1937), who had three bedrock management precepts: "priorities, data and rhythm." Harnish's short, effective manual illuminate all three, detailing why companies need firm plans, established priorities, big goals, effective delegation and strong values that it integrates into its performance. In this useful best-selling guide, now translated into nine languages, Harnish clarifies how CEOs and senior managers can apply these ideas to nourish their companies' growth. *BooksInShort* recommends his useful management primer to entrepreneurs, executives, and business students and professors.

Take-Aways

- Standard Oil co-founder John D. Rockefeller (1839–1937) had three bedrock management precepts: "priorities, data and rhythm."
- Firms need established priorities; timely data; and regularly scheduled daily, weekly, monthly, quarterly and annual meetings.
- Leaders should create just a few rules, carefully explain them and always follow them.
- A leader must predict market dynamics, business trends, revenue growth, and more.
- Every firm needs five important goals, one main priority and one audacious goal.
- Most start-ups stay small because their leaders can't or won't delegate.
- Chief executives must ask, "Do we have the right people?" "Are we doing the right things?" and "Are we doing those things right?"
- Every firm needs a "one-page strategic plan" showing its main goals and financial facts.
- A firm's "core values" correlate with strong performance.

Summary

The Fundamentals of Business Management

Managing a business is like parenting a child. Certain fundamentals apply. The three basic guidelines are:

1. Establish a limited number of rules.
2. Repeatedly stress your real priorities to your colleagues and employees – or kids.
3. Always behave according to the rules you set.

> "Growing a business is a dynamic process that requires a shifting set of priorities as the leadership team navigates the predictable evolutions and revolutions of growth."

Ron Chernow's book *Titan*, a biography of Standard Oil co-founder John D. Rockefeller (1839–1937), sets forth the famous industrialist's three bedrock management precepts: "priorities, data and rhythm." Your firm should adopt all three:

1. Priorities

Every business needs five primary annual and quarterly objectives (plus monthly goals if your firm is expanding at a 100% growth rate every year). Include one primary target for the periods you measure. These objectives will become your "Top 5 and Top 1-of-5 priority list." Don't exceed this number of priorities because an "organization with too many priorities has no priorities." Every employee should have his or her own work objectives, which must align with your firm's goals. Establish short- and long-term priorities for your company. Make one long-range priority a "big, hairy, audacious goal" (or BHAG). Communicate your priorities to your employees. To engage your workforce, create a compelling theme to go with your objectives.

2. Data

Your company must keep daily and weekly records of all operations, including sales, costs and market activity. Each employee should track at least one significant metric daily or weekly. Pay attention to your firm's "smart numbers," the primary metrics measuring your degree of success over the long-term. Adapting a method from another industry, retailer Joe McKinney of McKinney Lumber in Muscle Shoals, Alabama, "established and popularized an internally understood Critical Number – a proprietary measurement of plant productivity." At McKinney, the critical number indicates day-to-day profitability trends. Aim for this level of timeliness in your operational and financial reporting.

3. Rhythm

The more internal meetings companies conduct, the more successful they will be. Plan to run daily, weekly, monthly, quarterly and annual meetings. Keep your "daily huddles" short – five to fifteen minutes each, tops, but realize that "your execs need regular, face-to-face huddles to discuss new opportunities, strategic concerns and bottlenecks as they arise."

> "Whatever strengths or weaknesses exist within the organization can be traced…back to the cohesion of the executive team and their levels of trust, competence, discipline, alignment and respect."

Run your meetings efficiently. Set an organized agenda for every meeting. These meetings fulfill the crucial objective of setting a rhythm and keeping everyone in your organization "informed, aligned and accountable." Don't be concerned that this schedule might seem to feature too many meetings with too much emphasis on your primary messages to your employees. "Until your people are 'mocking' you," you haven't gone over the message sufficiently.

> "You don't have a real strategy [unless] what you're planning to do really matters to your existing and potential customers, and…it differentiates you from your competition."

Every company must discover and develop its "X factor" – the one special strategy that delivers sustainable value and, over time, positive valuations. Rockefeller applied this concept to his oil business. During his era, oil firms found gushers everywhere. Their concern was transporting the oil. Rockefeller involved his company heavily in railroads, and produced his own barrels to hold his oil, thus cutting his transport expenses in half.

Midsized Firms

Steve Kerr, who was in charge of GE's well-regarded Crotonville leadership training facility, offers three pieces of advice to the CEOs of midsized firms:

1. Plan your tasks for the next 90 days and also plan 10 to 25 years ahead. Focus on what counts to your customers and the factors that differentiate you from your competitors.
2. "Keep everything stupidly simple." If a strategy or procedure seems complicated, it's "probably wrong."
3. Operate as much as possible with "firsthand data." This is the Crotonville way. GE's senior executives visit Crotonville each month to teach the company's managers and to learn from its most important customers." GE benefits from hearing directly from its customer about what they want.

Efficiency

Besides setting clear priorities, securing necessary analytical data and utilizing regular meetings, CEOs and senior executives must make sure their companies and people operate as efficiently as possible. Conflict among employees or disagreements with customers cost employees 40% of their work time. To reduce this productivity loss, develop a system for employees to quickly communicate to managers about disputes that require solutions. Managers must secure the proper data to quickly, correctly resolve these disputes.

> "Some firms do things that differentiate themselves, but it doesn't really matter to a customer (high quality when the customer just wants speed), while other firms do things that the customer desires, but so does all the competition."

Corporate CEOs must secure the necessary funding to expand their operations in a way that fuels growth. Their ability to raise money depends on how bankers and other financial lenders regard their company's stability and its future prospects. The more positively a CEO and a company's representatives shape bankers' perceptions, the more likely the firm is to secure good financing with "better terms, less-restrictive covenants, lower interest rates" and "waived fees."

Building Your Business

Only 4% of small US firms make a successful transition to becoming large firms. You want to make your company a "gazelle," the name Cognetics founder David Birch applies to enterprises that "grow at least 20% a year for four years in a row."

> "The One-Page Strategic Plan helps you get your long-term and short-term vision, metrics and priorities on a single page to aid communication and alignment."

For example, consider Seattle-based Mostly Muffins. The company started in 1987 as a caterer serving downtown businesses. It's now on schedule to earn $10 million in revenues. Co-founder Molly Bolanos says that an organization's "stages of growth and the issues you face in a company and as a CEO are very predictable…It's positively textbook."

> "Systems and structure are logical responses to complexity."

Companies must meet three requirements to grow from small to large:

1. Leaders must learn to "delegate and predict"; both skills build executive judgment and competence.
2. The firm must develop "systems and structures" to manage quick growth.
3. The company must be able to operate in a bigger "sandbox" – that is, an expanded future marketplace.

Delegation, Anticipation and Alignment

Most business leaders don't like to delegate. This explains why 96% of all firms have 10 employees or less, and why most have fewer than three employees. CEOs can't expand their companies without adding people. Adding people means learning to delegate. Successful delegation depends upon hiring the "right people." Remember, "one great person can replace three good people."

> "Everyone in the organization [must] determine his or her own top five priorities, aligning them with the company's, and creating the clarity that's crucial for top performance."

Leaders must foresee what is going to happen in their marketplace. Sound leaders accurately forecast revenues and earnings, as Wall Street expects and demands. Generally, though, CEOs don't predict weeks or months ahead. Even being a few minutes ahead of your competitors and colleagues gives you an edge. And, for long-term growth, your firm must be an engine of predictable profitability.

> "What makes people hate their jobs? What makes them nonproductive, complaint-happy deadwood? The answer – recurring problems and hassles."

As your company grows, you need a solid organizational framework. Align your systems with your management structure. Organizational charts can help. Every company needs three types of schematics: "the standard hierarchical organizational chart"; a set of charts that map your "work progress or work flow"; and the "almost matrix," which tracks the relationships between and among "organizational functions" and "various business units."

> "Systematically gather data on what's hassling your employees – and then do something about it."

Once you have more people, you will need to introduce appropriate systems to enable efficient teamwork. For example, when you reach 50 employees or between $10 million and $50 million in revenue, you should upgrade your information technology systems. At the $50 million mark, upgrade them again.

> "Determining a brand promise is a fateful moment…Choose the right one – the one your customers respond to, the one you can track and execute day after day – and you win."

As more people come on board, and as you secure and implement the systems to support them, predictability becomes increasingly essential. Leaders must be able to chart a proper growth path. Without it, long-term corporate survival can become uncertain.

Three Questions for Business Leaders

Executives should ask:

1. **"Do we have the right people?"** – In 2000 and 2001, *Fortune* magazine put The Container Store atop its list of Best Companies to Work For. The Container Store hires the right people, pays 50% to 100% more than its competitors and provides more than 200 hours of training during a new employee's first year.
2. **"Are we doing the right things?"** – The right things include leading your people, managing all of your firm's activities, keeping accurate records and staying accountable.
3. **"Are we doing those things right?"** – When your revenue and/or market share grow at "twice the market," you're doing things right.

The "One-Page Strategic Plan"

Keep things simple by creating a one-page strategic plan that outlines how and where you plan to lead your company. Include the name of your organization, your name, the date, your firm's "core values" and "beliefs," its purpose, the actions it must take to achieve its goals, and who will be accountable for each action. And don't forget your brave BHAG.

> "Your measurable brand promise…defines your company in the minds of the public. It…is a single-minded measure around which all…decisions are made."

Your one-page plan should cite your three-to-five year targets for revenues, profits and market cap; your sandbox – where your firm plans to operate as first or second in its field in the future; the initiatives and capabilities that will enable you to achieve your goals; your "brand promise" that keeps your customers coming back; your primary goals; "five or six initiatives for the year"; "one or two critical numbers" – for example, a balance-sheet tally and an income-statement; your "quarterly actions steps"; a "quarterly or annual theme"; a scorecard tracking your progress; the rewards that will accrue when you achieve your goals; and your "quarterly priorities."

Core Values

Establish only a few rules. Focus on them, and repeat them often. Base all of your actions on these rules. Create a strong "cultural foundation," because a solid corporate culture translates to robust performance. That's why core values are so important.

> "If you can't afford the people to run the business for you, then all you have is a job, not a business." (The Scooter Store CEO Doug Harrison)

Implement these strategies to strengthen your core values:

- **"Create legends"** – Tell stories to communicate and promote your core values to your employees. Tie relevant stories about your company to specific core values.
- **"Recruitment and selection"** – Refer to your core values throughout your hiring process. Include them in recruitment materials and mention them during job interviews.
- **"Orientation"** – Repeatedly cite your core values when you train new employees.
- **"Appraisal process"** – Connect your core values to your employee performance ratings.
- **"Recognition and reward"** – When you publicly honor employees' outstanding work at quarterly or annual meetings, always refer to your core values.
- **"Internal newsletter"** – Run stories in your in-house publications that describe employees who exemplify your core values.
- **"Themes"** – Build your corporate motifs and patterns around your core values.
- **"Everyday management"** – Link all "decisions, reprimands, praise, customer issues and employee concerns back to the core values."

About the Author

Verne Harnish, also known as the syndicated columnist who writes "The Growth Guy," founded the Entrepreneurs' Organization and chairs its CEO program, the Birthing of Giants. He also wrote the best-selling *Scaling Up: Rockefeller Habits 2.0*.