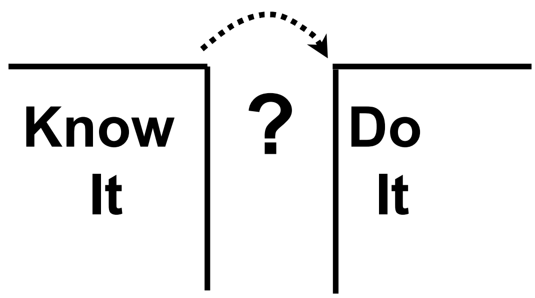
Closing The Knowing - Doing Gap



- ♦ Easier. . .
- ♦ Devil
- ♦ Cat ?

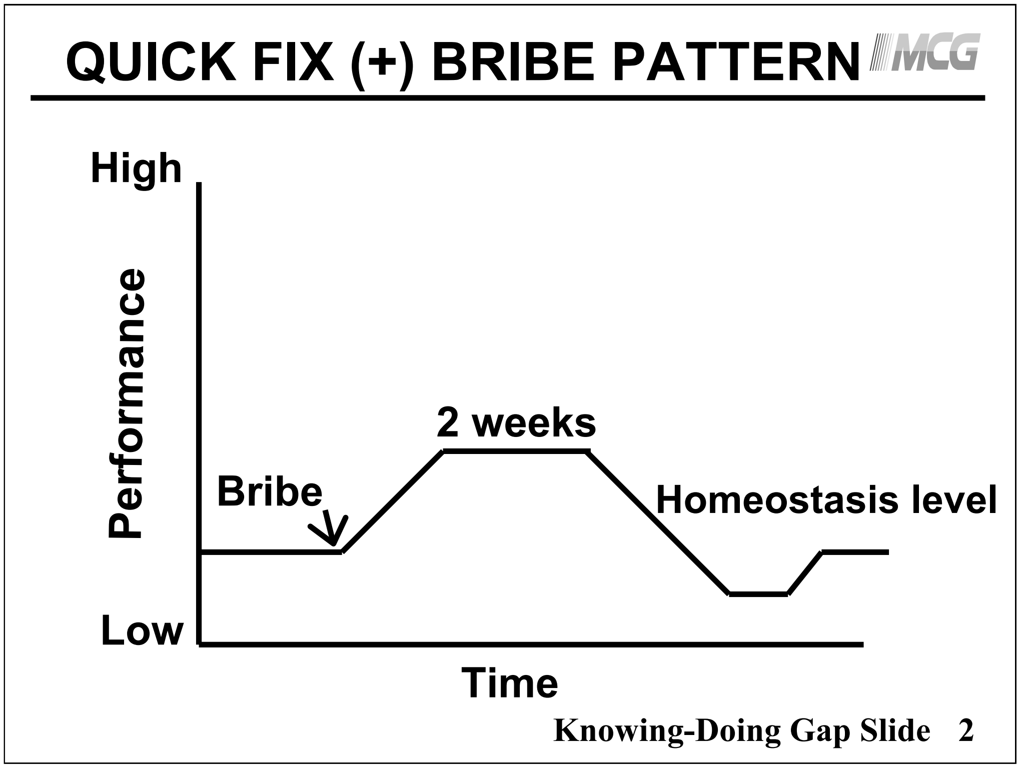
Module 4.1

We all know there is a big gap between knowing what is right and doing it.

Some familiar quotes:

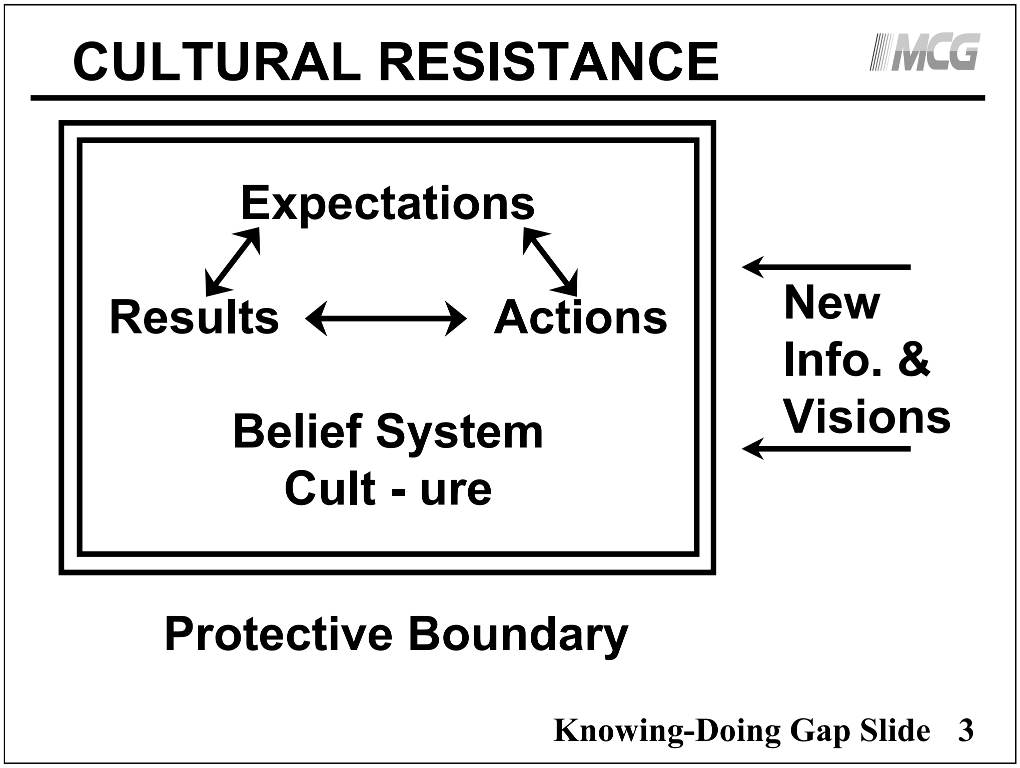
- “We already know how to be two times better than we are doing”
- “Easier said than done”
- “The Devil and God are both in the details”
- (A bell around the cat, will warn the mice), “but who will put the bell on the cat?”

Because any big changes, which are necessary for big gains, will ripple through an entire organization causing everyone to re-align with the new objectives, metrics and incentives, most managers feel overwhelmed and default to doing the past cheaper, harder and/or faster. They thereby join the other 90%+ of an industry group that compete on price to the threshold of financial insolvency and hope to outlast the bottom 50% that will go out of business first. Not a very appealing scenario. Isn’t there some sure-fire way to jumpstart a successful journey to high performance economics for all stakeholders? There is! Read on.



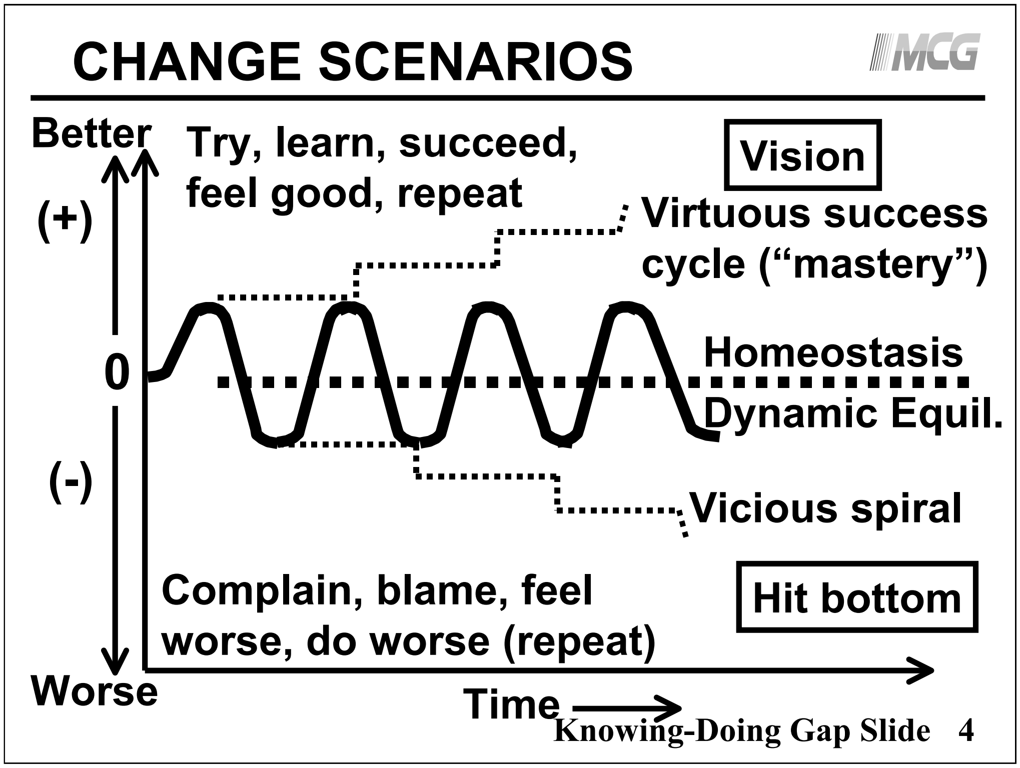
Many programs like “zero errors”, for example, have been kicked off at companies with new incentive plans introduced to encourage behavior change. But, like gold stars on activity work in 1st grade or New Year’s Health resolutions, the average program’s performance improvement (due to doing the same things, the same way with extra effort and will power) lasts roughly two weeks. Then, the entire organization starts to revert back to original equilibrium energy levels, the quick improvements start to fade, people get depressed about it and the results overshoot the original equilibrium level to a depression, rebound state. The original: status quo, dynamic equilibrium or state of homeostasis is eventually re-established.

Sometimes perform or else programs will stay higher longer, because people start to cheat or game the scoring system. If group denial kicks in, a company can pretend that improvements are permanent and that the company is an outstanding performer in some way long after de facto mediocre performance has been re-established.



In the previous slide, we graphed a reality: a few explanations for why a change is necessary plus a new incentive plan is not sufficient for achieving permanent change. This slide digs a bit deeper into why our corporate bodies have such powerful tendencies towards maintaining homeostasis.

In this slide think of the “protective boundary” as a hardened shell from which arrows of enlightenment bounce away. If an occasional arrow gets through to one or two corporate members, they generally vastly under-estimate the power of all of the un-spoken and unseen activity, collective beliefs, habits, old incentive plans, years of personnel policies, etc, that all add up to a “culture”. Re-educating and re-aligning everyone in the box to buy into new beliefs, metrics, re-trained behavior, skills, etc. is a huge, patient, repetitive, educational process.



This is a more in-depth version of slide 2, the “quick fix + bribe” slide. It illustrates three scenarios:

1) The oscillation around the average equilibrium level, similar to 90%+ of personal diet programs.
2) The low possibility of triggering a downward, vicious spiral.
3) And, the even rarer possibility of getting very lucky and triggering an upward, virtuous spiral due to unforeseen champions re-thinking the program on a decentralized, unauthorized basis.

Great parents, teachers, coaches and distribution executives have to be always watchful to nip potential downward spirals in the bud. But, more importantly, how do we implement and orchestrate change programs that turn into transformational, virtuous, self-fueling spirals?

KNOWLEDGE GAP EXAMPLE

"Not all customers are good"

But:

I. **(?s) #1 niche; 5 most profitable; 5 best targets; service metrics on the wall; WIFFM**

II. **Define "perfect service" by niche, by strata**

III. **How-to solutions for improving fill-rates, zero errors, 100% on-time service, surge mgt.**

IV. **Breakthrough results on "small order mgt."**

Knowing-Doing Gap Slide 5

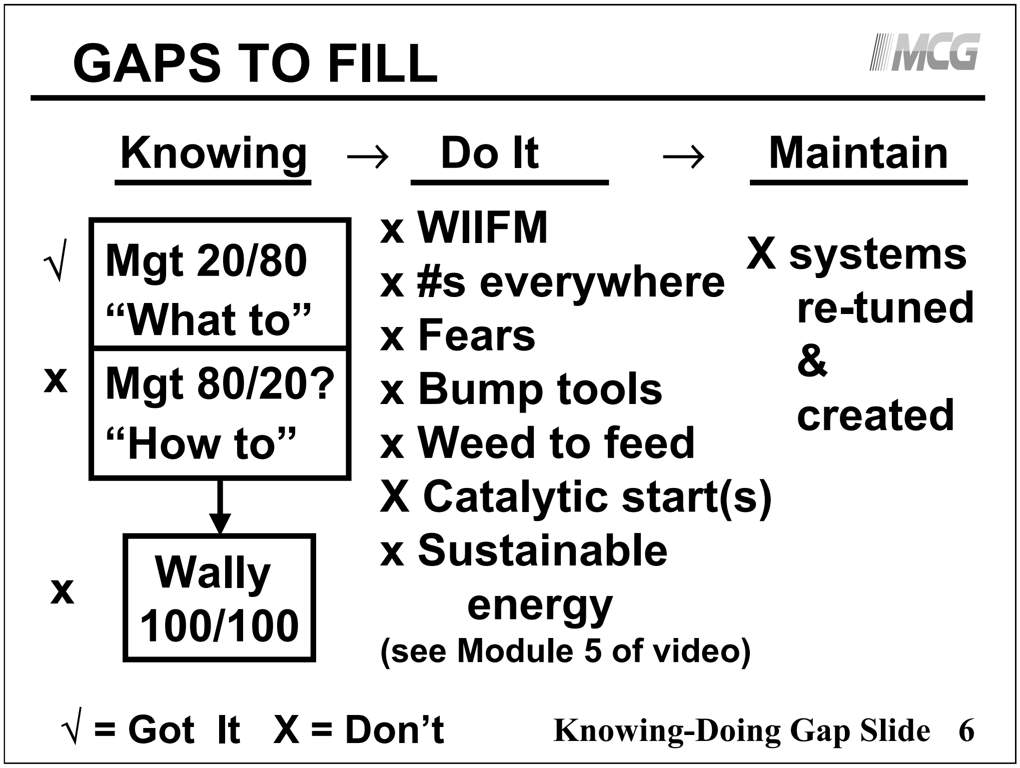
This slide is a case example that illustrates that most managers who think they know everything they need to about an opportunity are guilty of only knowing the 20/80 part of the story. It is the 80/20 understanding of the details that all involved employees must know that will undermine any change efforts.

In this example, most executives know that "not all customers are good", profitable or have promising growth, grow-us futures. But, few distribution executives would be able to answer Level I questions: what is a location's #1 niche of customers? What customers are the 5 most profitable customers in that niche? What customers are the 5 highest expected yield, target accounts for total team focus selling to pursue? What are the exact specs for the service metrics for this #1 niche? How are these metrics gathered, shared, tracked, improved and maintained on a daily basis by all? Why should all of the front-line service employees care about these issues; "what's in it for me" (WIIFM)?

Level II questions suggest that not only must we define our #1 niche, but we must further sub-divide it into four potential strata based on selling mode – outside sales, telesales, mail/catalog, and retail cash-n-carry (A,B,C,D) – and redefine service levels and terms for each strata. (The why's and how to's are in the video).

Level III is the perfect service challenge of how do we: define, measure, achieve, sell, get paid for and leverage basic service brilliance tuned to each target niche/strata. Modules 4.1-13 in our video cover all of these steps.

Level IV suggests that a big part of solving the losing customer problem is to manage the small order customers that come in different varieties for which we need different solutions. Modules 3.5-11 cover this breakthrough opportunity.

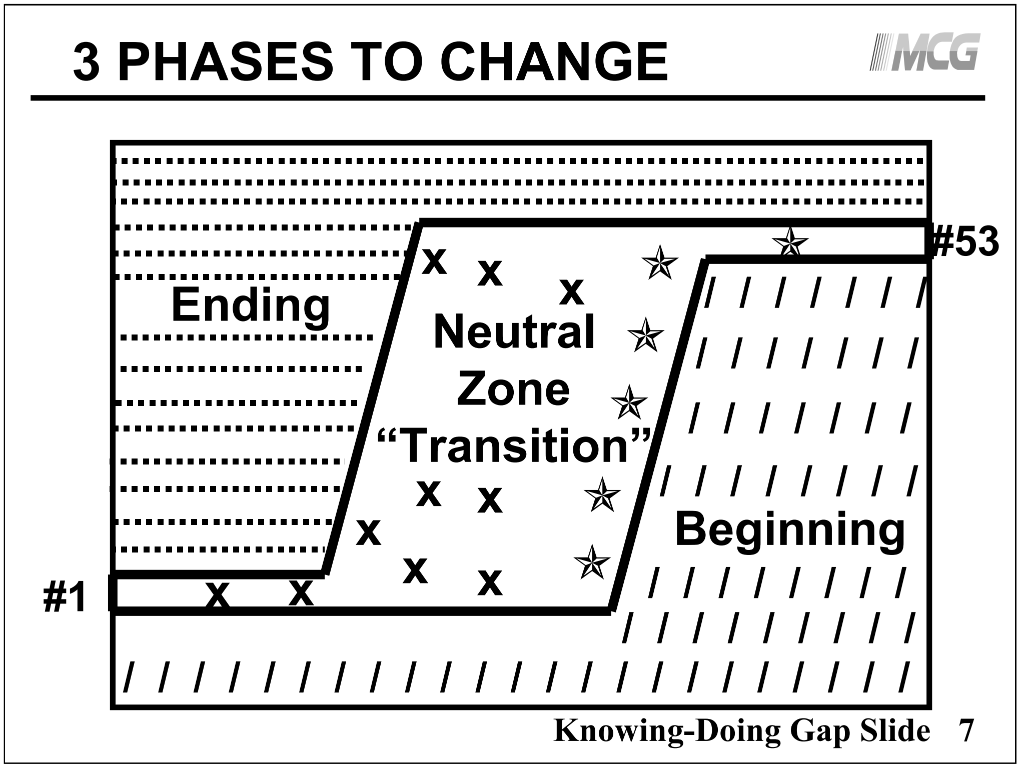


This slide details more of the sub-challenges to the three main chronological steps of knowing, doing, and maintaining positive changes.

The management team must first understand the "knowing" step on a 100/100 basis, then figure out an affordable, effective educational delivery solution for getting all service employees to 100/100 understanding and commitment. Our video offers 10-minute modules with study and discussion questions aimed at getting a group of front-liners through 8 to 10 repetitions, variations on a theme, within a 50 minute training session for a price per student of pennies per hour.

The "Do It" step brings up the entire "how do we learn individually and collectively and fail on our faces forward towards a higher level of performance" process. The entire section 5 of our video introduces a number of tools and techniques (see slides 10 and 11 in this show for two examples). These modules can be applied to any past change programs that may still be viable, but stalled and went back to status quo.

The "maintain" stage involves locking in progress, avoiding back-sliding which is a big problem in a basic service execution business like distribution. The big key to avoiding this problem is re-thinking a number of "systems" which are also covered in the latter part of section 5 in our video.



This slide tries to illustrate a number of concepts:

1. For big changes there are three stages: good endings, transition/neutral zone, and new beginnings. Think how long it takes an individual to go through these three steps after being hit by a big personal set back such as: losing a loved one; being fired and finding the next best job pays one-third of what the last one did; etc. The total time for these changes can be one to many years depending upon the change, the historical investment, the psychological make up of the person and the accessibility of attractive new beginning opportunities.

2. Notice the tails for the beginning of the end and the end of the end can both be quite long. In the book, "Good to Great", the average case study company took 4.5 years to get to the far side of the neutral zone. The front-end tail could take 18 months of comfort zoning and on-going study before the entire management team is ready to plunge into the "neutral zone". Our video can shorten this process enormously, but it is still not uncommon for users of our video to take half a year for just the key players to watch and discuss the video. Then, they are willing to try some of the productivity plays and introduce the educational solution to the front-liners.

3. The little X's sprinkled through the tails and the neutral zone symbolize bumps along the way. The stars in the neutral zone represent serendipitous discoveries that will emerge that will help any company re-shape their vision of what they could look like in a more crystallized and exciting way.

By example, first bumps will arise when a management team starts going through our video's first section that deals with teaching all employees the ABCs of company finance and wages set by labor markets. There will be a range of mostly emotionally generated rationalizations for not going open book which then begs the questions of: how then can we get all the employees to be part of the total service productivity and value creation? If they can't score what's going on, how can they improve it? If they don't know why these big changes are in their short-term and long-term economic interests, why should they try?

Once the company takes the plunge into the "neutral zone", there will not only be unforeseen problems, but interesting positive opportunities(stars). Because things are in flux and some of the solutions will have to be made up as we go along, it is potentially a most exciting and positively creative time. But, orthodox, control freaks won't think so.

TRANSITION TECHNIQUES

- **Let new shared metrics (North Star(s)) apply measurable objective pressure to re-align**
- **Discuss the old & new assumptions & methods as many times as needed, specific skills sets:**
  - **“Dialogue” sessions**
  - **“Appreciative inquiry” guidelines**

Knowing-Doing Gap Slide 8

To highlight a few major skill sets for change management; it is important to <u>share new metrics (north stars) at the beginning of the neutral or transition zone.</u> Then, whenever anyone wants to push back, anyone else can confront them with the metrics which impose a constant, measurable, objective reality and pressure to keep moving towards improving the north star metrics. Two big north stars covered in article # 2.16 are “GM$/Employee” and “PBIT/customer (per niche/strata). The Big 8 of service excellence tuned to a target niche are also process metrics that will force everyone to re-align what they are doing in order to enable breakthrough results.

The people who don’t or emotionally can’t go along with change will unfortunately get drummed out. The peers and the numbers do the tough love work for the management who really just has to keep the numbers and questions flowing:

- “What can I do to help you (and the rest of your process team) get to better north star numbers?
- To support what we want to do and where we are going, what policy changes should we make?
- To help you give the customers what they want so that they will stay, buy more, give us last-look+, partner us, tell their friends about us and secure your future, what do I need to do to help you?”

In the front-end tail on the previous slide, the “comfort zoning process” can use two specific techniques for which there are detailed exhibits at our site. For “<u>dialogue</u>” go to:

<u>http://min.isisit.com/merrifield/exhibits/Dialogue_Exhibit.pdf</u>

For “<u>appreciative inquiry</u>” go to:

<u>http://min.isisit.com/merrifield/exhibits/Appreciative_Inquiry_Exhibit.pdf</u>

3 TRANSITIONAL PROBLEM SETS

(All 3 can be very context specific)

1. **Known problems with known solutions**

2. **Known problems with unknown solutions**

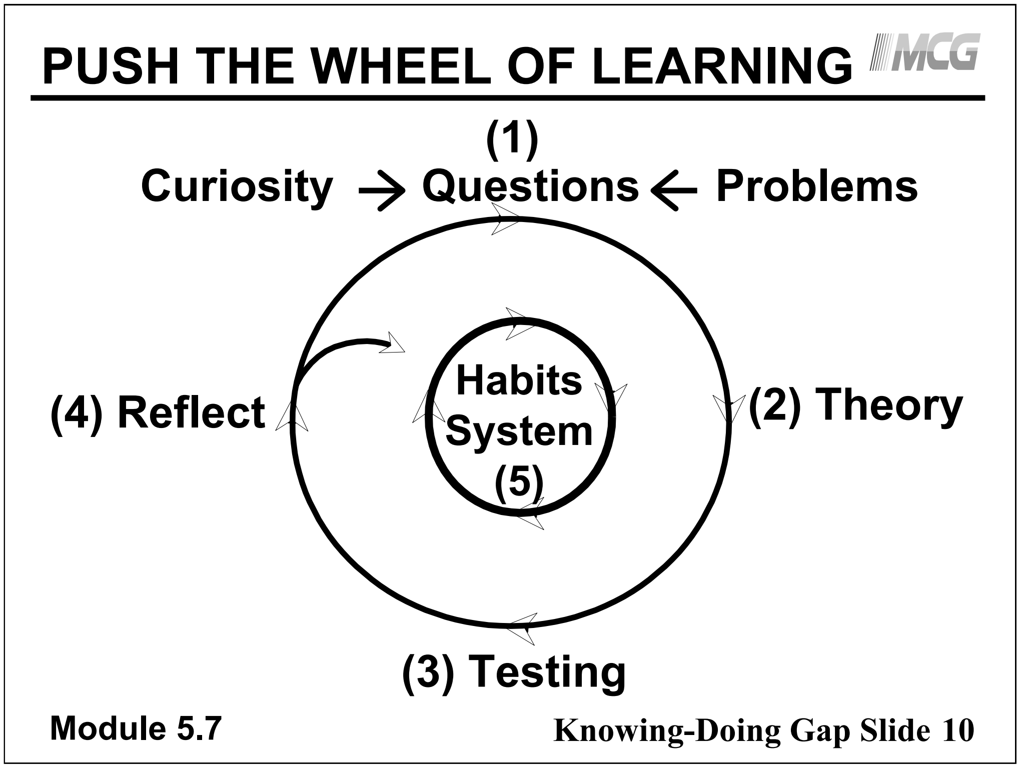
3. **Unforeseen surprises, unknown responses**
   - **the positive ones can be huge**
   - **the negatives manageable, <u>if</u>
     test-cheaply experiments are designed**

Knowing-Doing Gap Slide 9

Because all distributors serving mature markets with mature (commodity) product lines exist on an on-gong basis for the same underlying economic reasons, I can offer very prescriptive, how to solutions that will work for many of these types of distributors: see the 14 annotated slides at: http://min.isisit.com/merrifield/articles/Good_to_Great_Distribution_Results.pdf

There will still be the three types of problems (listed above) that every distributor will encounter on a “good to great” journey once they plunge into the transition. The team should feel free to use these three categories to generate as many problems as possible through brainstorming sessions.

Two important tools for solving these problems along the way will be: “pushing the wheel of learning” and “making good mistakes” which are covered in the next two slides.



This concept slide is the subject of video module 5.7. The idea is that problem solving or creatively improving something is a four-step process. We start by:

1) Asking questions preferably in a pro-active, anticipatory, "appreciative inquiry" way. This step is very threatening to managers who think that maintaining the past is all that matters or who are control freaks who can't deal with transitional uncertainities.

2) Generating theories or ideas about "why" or "how might we". This step also involves case study research, analysis and the formulation of good, cheap experiments with which to fail forward and try again. There is an art to determining what is the right amount of analysis to do before doing some rapid prototyping or quick, simple experiments to start really learning by doing and failing. Don't fall into the analysis paralysis trap which is often just a defensive, stall ploy; or the trap of needing to be comprehensively right and perfect on the first try. Inform all participants and interested bystanders that they should expect to fail forward before we really start to get it and invest more seriously in what and where we are eventually going.

3) The "testing" step is where we do the cheap experiments, the rapid prototyping. See the next slide for more details on making "good mistakes".

4) "Reflecting" involves thinking about what did and didn't work in the experiment, what was left out and what surprises or "interesting" other by-products emerged from the experiment. These conclusions beg more questions which fuels step 1 to start the wheel again.

5) This step occurs only when an experiment sort of works. Then, we push the wheel again, but in a fine-tuning set of experiments to eventually systematically and/or habitually lock up some optimized gain.

There are people on most teams who are uniquely good at one or more of the steps of the wheel, but rarely is there one person who is good at and can lead the rest through all of the steps. But, a whole-brained, leadership team can do a collective leadership job. There are, however, people on every team who have emotional resistance to going through one or more of the steps.

Pushing the wheel in our personal lives is a big, full-time job particularly when we let urgent, reactive business problems take up 110% of our resources. Turning the wheel for a collective organization is an even tougher, bigger job which is why big change projects need champions who are totally dedicated to the entire change management challenge. How often do we have the right amount of a champion's energy allocated to the task? How often does this champion have the change management and corporate learning skills, tools and methods to succeed? How often do we consciously help the champion build a whole-brain, we-can-do-all-of-the-steps project team?

MAKE GOOD MISTAKES

1. <u>Plan it:</u> Certify the benefits
   Max. upside; Min. downside
   Design a good experiment

2. <u>Do it:</u> Cheaply, carefully if possible

3. <u>Learn</u>

4. <u>Try again</u> Smarter

5. <u>Teach and role model</u> "Good Mistakes"

Module 5.8 **Knowing-Doing Gap Slide 11**

This concept slide is covered in video module #5.8. And, I think the steps are self-explanatory. When I ask a roomful of executives "what is the definition of a good mistake?" The typical outspoken answer is: "one you learn from" which is only step #3 of the total definition in this slide. Defining "good mistakes" could be another example of the 100/100 "know it" step challenge we encountered back in slide #6.

To push the 100/100 "know it" concept for "good mistakes" even further. This slide doesn't suggest that good mistakes fit within the wheel-pushing process of the previous slide. Nor does this slide suggest that the wheel pushing should be asking questions within the right strategic assumption framework for a given distribution location. If we try experiments in the right strategic ponds, we will get a lot more "lucky", upside action, than if we are fishing where there aren't any appropriate fish to be landed.

Step #5 in this slide is really an add on challenge of : "how do I get my employees to make good mistakes?" Making good mistakes is, after all, part of any learning progress. Simple answer: Teach them the wheel of learning and good mistakes. Then share with them both good and bad mistakes that management has made, because they have made the most expensive mistakes of all. If we do something that costs the company $1MM, then if they do something that costs a few hundred dollars and meets the definition of a good mistake, what's the worry. And finally, catch people making good mistakes and give them public praising statements for making them, because there was failing forward and new learning at an affordable price. (For more on praisings see article #6.3 and video module 5.2)

Longer answer: We also need to:

1) Identify and share the right strategic performance information regarding: #1 niche, most profitable and promising target accounts, the service metric gaps that need to be filled, current and stretch goal numbers for GM$/employee and PBIT$/customer. This information will generate creative anxiety to do something.

2) Do section two of the video on the ABCs of: corporate finance, where wages come from, how premium wages for each job niche are earned and maintained, and WIIFM. So, everyone will feel responsible and motivated to try to be part of the failing forward solutions.

3) Then, as we attempt to do one or more of the many productivity improvement plays that are in the video, we can make lots of good mistakes.

A FINAL QUESTION

If we have:

- **Vision-pull (greed) of new north stars GM$/employees & PBIT/customers**
- **Detailed strategy maps (+) recipe plays**
- **Better transition management tools**
- **Fear of not changing**

Can enough of us get on board to start the trip?

Knowing-Doing Gap Slide 12

This one is hopefully self-explanatory.

TWO FINANCIAL OUTCOME SCENARIOS

 # 1. High performance ideas (+) strategic information to:

2x sales
1/2 customers
3 - 5 x PBIT %
2x GM/FTE
Fun (+) strategic adjacencies

OR

 # 2. Top-down, financial incrementalism; (x) most competitors

Knowing-Doing Gap Slide 13

For most distribution locations, I think it is possible that our video's prescriptive good-to-great path can yield the following financial results:

- A doubling of sales volume in 1 to 4 years depending upon: your execution, your current share of the number one niche you target (we are looking for an eventual share of 50 to 85%), how competent and responsive your biggest head-to-head competitor is and will be. Most of this increase will come from less than 5% of the current active account base.
- A 50% reduction of your current "active customer" base, because a lot of your current customers are losers with no future that will not want to accept your new prices and service terms for them to become profitable. They need to go to someone geared to take care of them or to paralyze a competitor that doesn't know any better.
- The "profit before interest and tax" percent of sales will increase 3 to 5 times what it has been averaging for the past five years.
- GM$/employee will double. There will be fewer, better employees, because those who don't want to be responsible for profits, productivity and distinctive service levels will self-select themselves out and a new breed of employee will be hired in.
- All four stakeholder groups – employees, customers, suppliers and shareholders – will be having fun, taking pride (and credit) and looking for new innovative opportunities. Success breeds and attracts success.

OR, YOU CAN CONTINUE TO DO TOP-DOWN, FINANCIAL INCREMENTALISM AND TRY TO CUT YOUR COSTS TO PROSPERITY.

FINAL SUGGESTIONS

1. **Try transition dialogue (53-step) process with key people (time is your only risk)**

2. **Use strategic info everywhere for:**
   - **Alignment**
   - **Self-organizing motivation & selection**
   - **Tough love partner**
   - **Strategic breakthrough advantage**

Knowing-Doing Gap Slide 14

What does the cryptic language in point one mean? A client's case story will explain both "53-step" and "transition dialogue process". Our CEO hero watched the entire tape and skimmed the Implementation Guide over one rather intense weekend. He then started weekly early AM sessions with his key employees with an agenda of discussing two modules per week; they were to all watch the tapes on their own.

He got, right off, the biggest push back from two of the eight members of the management team on going "open book" in order to allow all employees to become responsible for growing productivity, service value and their compensation. He patiently went through are support articles on the why's and how's of taking this first big step. The orthodox two would begrudgingly agree after each pair of modules, but then be back with more resistance through the 6 weeks it took to do the first 12 modules on the ABC's of company finance, wages and service productivity. Some of his observations:

1. The ideas were coming from the outside expert on the screen who was the controversial heavy. The CEO played the open-minded, we're just comfort zoning this messenger. The reluctant two did not want to sit in on a teleconference with the expert. They really wanted to work on the CEO one-on-one in private to try to get their way.

2. With a majority of the team saying "why not, let's give it a try, what is there to lose except perhaps a few dependent, coasting, cross-subsidized employees who will weed themselves" it was difficult for the two to put up much of an argument.

3. Our hero used some of the transition management concepts covered in both the video and this slide show. Module 5.1 in particular, "Pursue…with One Sustainable Heart Beat" discussed how to turn the language of complaint into commitment. He found himself frequently saying: "I like your (negative) energy, because it shows you really care about what alternative plan that will lead us to what alternative future results?" They couldn't articulate rational reasons for maintaining the status quo that was going nowhere while everyone else was saying: "sure those are risks, but how can we push the wheel here and try some cheap experiments?"

4. Because two more modules came every week that built on and were inter-connected with the previous ones, the same emotional resistance responses could be revisited and gradually melted away.

5. All the way through, no action other than doing support and follow-up information gathering was taken. The theme was we are just going to comfort zone this stuff on a long-term, systematic basis. They were doing much of what is in our "dialogue" and "appreciative inquiry" exhibits to get to the plunge into the "neutral zone/transition" part of slide #7.

What happen to the two reluctant managers? One of them was compelled to resign before the tapes were finished, everyone agreed this was a good thing. The other chap turned from a vocal negative into a passive positive. The firm doesn't look for this fellow to lead his direct reports on his own with enthusiasm, but for now he is still with the program.

P.S. The company has achieved breakthrough results by implementing the video's concepts.

On point two: When the right input numbers that, when improved, will lead to best financial output numbers are shared widely within an organization, there is no place for coasters to hide or politicians to play games. Many CEOs want to be nice people and not be confrontational, but once new strategic assumptions and measurements have been learned and accepted, then the numbers become the tough guy cops that constantly ask everyone to do their new, personal improvement jobs.