Hierarchy of Corporate Success

A CEO's Guide to Creating Shareholder Value | by John Jazwiec

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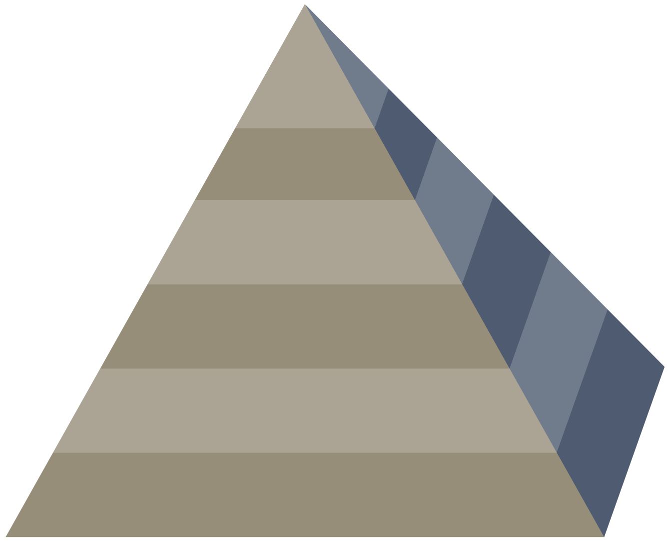
Preface



In 2002, I received a U.S. copyright for a new corporate management theory. The theory was called the "Hierarchy of Corporate Success." The name was derived from Abraham Mazlow's famous "Human Hierarchy of Needs."

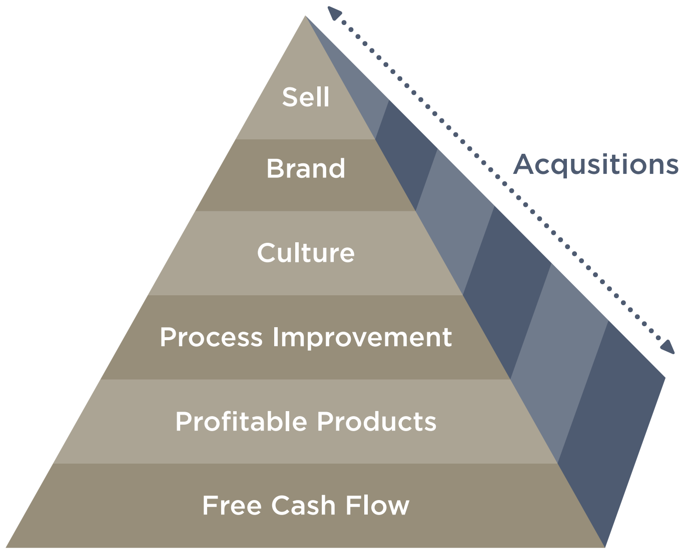
Like Mazlow, my model was built on a pyramid concept of moving from survival to prosperity. The bottom layer is free cash flow then – moving upward – profitable products, process improvement, organization culture, brand development and selling strategies. Unlike Mazlow, I added a third dimension to the pyramid, called acquisitions.

By using this theory over the last decade, I have helped companies create $ 100s of millions of dollars of shareholder value.

I recently wrote this guide, "Hierarchy of Corporate Success," to put more meat on the bone of my management theory as opposed to a simple pyramid that had to be explained. I am hoping it can help unsuccessful companies rethink their priorities and paradigms. This guide, if adopted, can provide a corporate "bible" so that all stakeholders can "read from the same hymn book" and understand when and why actions are taken.

This guide is not rooted in academia nor did it come from some kind of business genius – far from it. It came from my own personal journey working for many different companies and seeing what worked and did not work.

Introduction



In this guide I will walk the reader through each step of the pyramid. In order to understand how to navigate the pyramid, the following general rules must now be detailed and explained.

1. React instead of plan.

Wow, I am sure that one hit you hard! Peter Drucker, who recently died and was the most prominent management theorist of the 20th century, must be rolling in his grave. The key paradigm of legacy strategic planning and organization structures still adheres to being proactive not reactive.

Lest you think Rule #1 "came out of a basement" let me assure the reader that I have worked in corporate management for 25 years, spending half of my career inside corporations and half in vendor corporations. I also got my MBA in 1989 and went on to teach various MBA-level courses at DePaul and Marquette University.

During my time in business and academia, business planning was a simple legacy "Drucker" process. You started out with a sales plan for the year based on goals to improve from last year. You don't have enough top line sales? Then add more sales staff, partner program managers, marketing and blend them until you get the right revenue numbers.

Now that you have the revenue number, the various parts of the organization can budget based on new hiring, raises and capital improvement processes. Now take your new revenue number and subtract your new cost number and see if you like the profit.

Still not enough profit? Well then blend more revenue-enhancing ingredients or cut back spending on organizational costs. Now you have a budget and report your earnings every month against budget. Then you add a third report sometime in the year to show actual profits, budgeted profits and "forecasted" profits – the latter being the profits you believe are more likely to happen than the budgeted numbers as you get more visibility throughout the year.

Does this process sound familiar? It should for anyone managing corporate operations. It also should sound familiar for those who participated in computerized business planning in school. Remember the countless hours you spent in computer simulated "businesses," basically feeding all of these numbers into models proactively – exactly as we do in business today – and in seconds the computer came up with the final year "forecast" and compared it to your "budget?" The only difference in business is that this comparison does not occur simultaneously, as you have to change the "forecast" every month.

The problem with computer simulation is that it is artificial and it gives the wrong answers, leaving new business graduates lacking the skills to prepare an accurate business plan and budget. Why? Because computer simulation models are written by humans, and in real life no human has ever been able to find all the ingredients to come up with the revenue number. How many salesmen do you need, what is the addressable market, how do you quantify the quality of your marketing programs, and finally how will the overall world economy perform?

The paradigm shift of this guide is to start with the most concrete measurement in a corporation – free cash flow – and start to reactively plan each new month, quarter and year on a rolling basis, always truing up to free cash flow to meet and exceed promised financial commitments.

2. You don't just get to move up one level at a time.

Any other rule that made the process linear would have been simpler. Master each step on the pyramid and you can move to the next, sort of like a black belt. Well a CEO's job is not that simple.

The CEO must first project free cash flow, produce and distribute products profitably, invest in process improvement and capital, provide a culture that fits the company and results in less unplanned turnover, establish a strong and identifiable brand image, using that brand and profitable products to selectively use selling strategies, look for acquisitions opportunities, and improve shareholder value. The breakthrough of this new management theory is that it assigns company priorities from the bottom to the top of a hierarchy pyramid.

3. You don't just get to freeze the amount of time and resources on each level because business variables continue to change.

If this rule were not the case, this model would be too static and not much more productive than older models. The key is watching free cash flow and deciding how much to invest in the rest of the pyramid. It is a hierarchical pyramid, meaning improving free cash flow should be allocated disproportionately the higher you move up the pyramid.

For example, if free cash flow is improving, more money should be allocated to new product development or supply chain strategies, a little less on culture programs for employees, a little less in developing the brand, and a little less on selling programs.

One exception to moving up the pyramid is in making acquisitions. Acquisitions are the least risky way to invest free cash flow. The acquisitions must make sense though and be accretive – and most are not. So you have to have a lot of "poles in the water" and a lot of time to watch them. In my history, only 5% of potential acquisitions make sense and are accretive.

But if you find the right one and at the right price, this IS the most efficient use of free cash flow investment. It is the most efficient because you are buying something concrete with a history of mixing the right and wrong ingredients – there is no guess work. You can review and model free cash flow, what products are profitable, how much process improvement has been done and how much needs to be done, what the culture is like and the value of the brand, and accurately predict revenue and cost numbers determining long-term profitably. Each time a company is acquired, its increased "depth" in the pyramid must be managed in total within the whole corporation.

4. You can't freeze the amount of time and resources on each level.

Revenue was climbing, right? Free cash flow was climbing? Well, now revenue and free cash flow is now dropping. Your response must then be to focus on each layer of the pyramid from BOTTOM to TOP.

5. Your corporate culture must understand this way of managing.

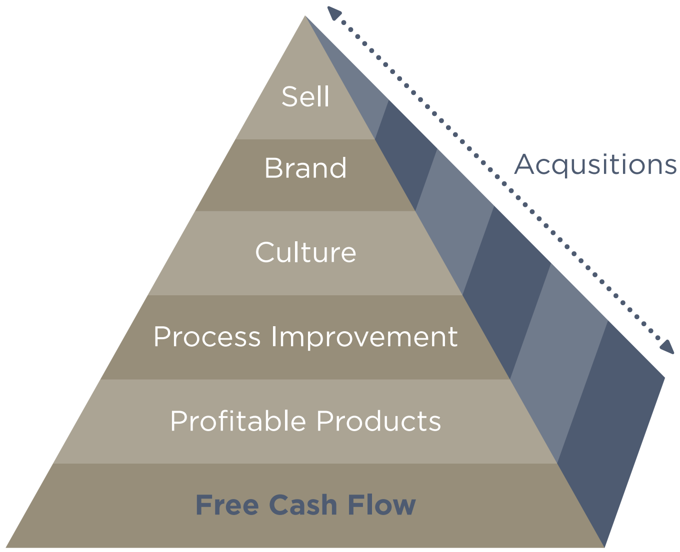
When you use traditional planning methods, the budget is set and everyone pretty much has their game plan. The employees know they have jobs for another year and x% increase in compensation. Although there is sometimes corporate anxiety in traditional companies when business is not doing well or when a new year's budget is coming out, if not properly proactively managed, there is always corporate anxiety in one that uses the concepts of the "Hierarchy of Corporate Success."

What creates the most anxiety in working in this type of environment? No, it is not jobs or pay. Everyone is encouraged to work autonomously and is well rewarded for doing so in this culture.

Rather it is the fear of CHANGE. People are not initially used to change happening every month or quarter. This is the hardest part of making this model work for a CEO. You must lead it. You must communicate it. I had to do it through weekly emails and brown bag lunches with each leader and employee.

Although these are very effective coaching tools and highly recommended tactics to be used in transforming a traditional company to one that is based on this guide's thesis, my hope is that this guide can be used as another tool to get through the fear of CHANGE – which is just another word for not understanding why the model works and how employees and shareholders can thrive in this kind of successful company!

Chapter 1 – Free Cash Flow



The definition of "free cash flow" is simply comparing cash received during a period of high spending and the cash spent in the business during that period of time. If it is a positive number then free cash flow is positive and if it is not, it is negative.

Periods of high spending are when payroll costs are incurred. The definition of free cash flow assumes that you pay your employees on time and that you pay your bills within 30 to 60 days.

It is very possible to have negative free cash flow when your revenue is up, you pay your payroll on time and you pay your vendors according to normal commercial times. This possibility exists when your DSO (Days Sales Outstanding) grows higher. In this case, it could be just poor bill collection. But it could also be more ominous. The quality of the products may be poor or certain customers may not have been vetted to determine if they were cash liquid.

Either way, action must be contemplated during positive or negative free cash flow. Letting positive free cash flow sit in a bank might seem tempting, but what kind of CEO would you be if you could not manage the business and generate more than a nominal interest rate on your company's money? Correspondingly, negative free cash flow lowers your bank balance and interest dividends. It also may cause credit lines to be in default. Finally, it can create a dangerous spiral effect where your customers see negative facts in your D&B (Dunn and Bradstreet) or hear the "word on the street" is that you are becoming less solvent.

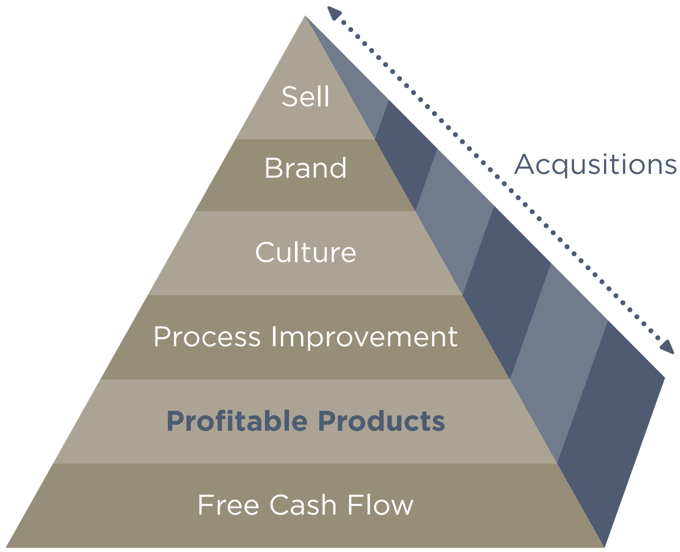
Speaking first about positive cash flow: why do we start with a prejudice toward "positive product development?" First of all, let me explain what positive product development is. It requires finance to overlay financial reports with fully loaded costs for new and existing products. Profitable products are the lifeline of the successful company – not only because they sell, but they create more cash, which allows you to invest in process improvement, corporate culture, enhance your brand and attract customers, partners and new employees.

So what do we do if we have negative cash flow? Again we must start looking at the fully loaded cost of each product. Can we improve the profitability of manufacturing or distribution? Can the price be increased? If not, the product must be eliminated or sold to another company.

This likely will mean the organization culture must be managed because people will change or lose their jobs. For example, you don't need a partner program or salesman for a product line being discontinued. But the economic benefit of responding to unprofitable products is tremendous. The end result of recognizing a bad product line is that its costs are eliminated, which results in overall corporate cash flow increasing going forward.

One more thing to remember is that I said "action must be contemplated." This does not mean you will make changes. You must determine if there are mitigating factors this month or quarter. Have you implemented sophisticated systems to trend all this data? If you have made this system investment, the decision to take action will become easier.

Chapter 2 – Profitable Products



I define products as either tangible (ownership of something is exchanged for a price) or non-tangible (services). Products must be desirable (revenues) and make money (revenues minus costs). All products have life cycle curves that take initial investment (revenues lower than costs), then grow (revenues start to exceed costs) and finally, enter a maturation state where revenues far exceed costs and the products become "cash cows."

In order to run a successful company you must blend these curves and make money by continually starting new products and using the cash from your cash cows to fund new products.

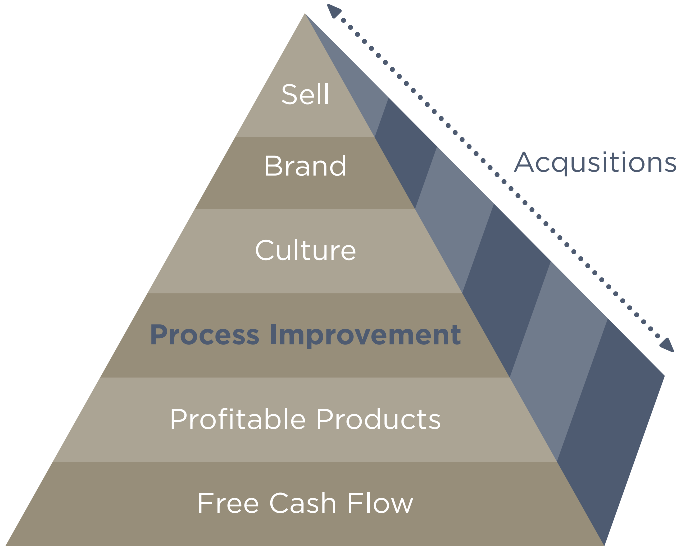
Not enough companies break out each line of business and load their costs with all the costs to distribute and sell the product. This type of product line reporting is a must in a "Hierarchy of Corporate Success" company.

You may have a desirable product, but because there is too much competition, your price point is losing money. Not paying attention to detail down to the product line is one of the major reasons companies get into trouble. Why? Well for one, they lose the necessary cash flow to fund new product development. Secondly, if they have not seen it down in the free cash flow line yet, they soon will. Finally, paying a partner or a salesperson to sell the product only exacerbates the cash problem by continuing to pay cash to sell a losing product.

The losing product does not have to be killed. The price can be adjusted up or down to increase total revenues depending on the respective inelasticity or elasticity of the price of the product. The product line can also be sold to stop losing money and increase total free cash flow to fund better products or acquisitions.

One additional point in making products profitable is how nimble your manufacturing of products and services is. Do you receive component parts or people JIT (Just in Time) or do you keep a massive amount of owned inventory? Where do you manufacture or source materials and people? How do you get your product to the market? Do you “push it” by sending planned order quantities or fixed bid contracts and potentially having them returned or fighting over statements of work? Do you let your inventory and, for that matter, your whole manufacturing process be “pulled” or people billed on a time and material basis, potentially lowering your costs?

Chapter 3 – Process Improvement



There are two main themes to this chapter. One is that 99% of customer dissatisfaction comes from undocumented processes and very rarely originates from poor employee performance. The second is that process improvement is best performed by your best employees, not management.

Let's pick an easy example – customer call centers. I don't know about you, but it is a rare event where I have had a satisfying experience navigating the labyrinth of automation and number of people in a call center.

I inevitably leave the phone call unsatisfied, but is that an employee's fault? In my opinion it is not. In most cases, the automation system has not been designed properly and the employee does not have the proper information documented to enable them to deliver a satisfying outcome.

Any customer-satisfying experience can be mathematically determined by the "Customer Satisfaction Equation."

Customer Satisfaction = Performance minus Expectation

For example if the expectation is a "2" and the performance is a "5" the satisfaction is positive by "3." Conversely, if the expectation is a "6" and the performance is a "4" the satisfaction is negative. Notice this dynamic. In the former case the performance was better than the latter but the customer was more satisfied in the former.

In my customer satisfaction equation, regardless of what kind of process it is, the easiest variable to manage is "expectation." In a call center it may be as little as an announcement of the expected wait time on the phone call.

This formula is universal in business. It is well known. We commonly call it "under promise and over deliver." Whether it is a customer call, the delivery of an order, the quality of a product or the promise of economic performance, a company or CEO will not survive long if they don't follow this law.

Now let's get back to documented processes and undocumented processes. Most companies don't document their processes. This leads to new employees and exiting employees having a disproportionately negative effect on customer satisfaction.

Documented processes should be automated by computers so that an employee can quickly and intuitively be plugged into a role and excel quickly while multitasking. Why? For one, most employees must be able to perform more than one task in their day. We don't run Henry Ford assembly lines anymore! Secondly, processes change exponentially as a company and its product lines increase. Without a way to automate the changes in real-time, there is no way for employees to keep up.

Of course it is one thing to have all your processes documented and quite another to have these processes optimized. Dr. Deming and General Electric have made the term "Six Sigma" a household name for optimizing processes. But what exactly does Six Sigma mean?

Assuming a large population of events, standard deviation theory scientifically predicts levels of performance to take on a "bell shape" when added together, centering on an average. As you move away from the average, higher and lower levels of performance are exponentially less likely. Each standard of deviation is a "sigma" and is far less likely to occur. Six Sigma and optimized performance are two ways to explain a level of quality and consistency that require each documented process to work almost 100% of the time!

Clearly, having this type of quality of customer experience is optimal. But how do you get there? And is 100% a realistic goal?

To the first question – how do you get there? – the best way is to get Subject Matter Experts (SMEs) or employees who know the most about a subject matter to document processes and then meet with customers to work together to optimize the processes or products.

Why not management? First of all, management usually knows the least amount of the details of any process or product. Second, managers change more frequently than SMEs.

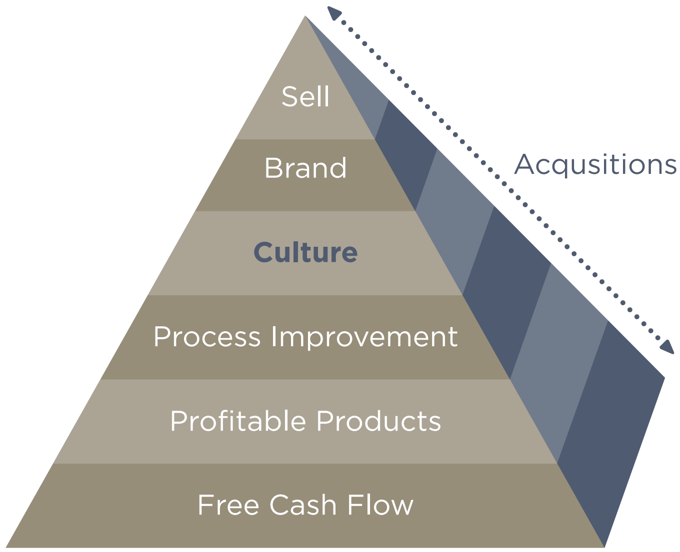
The second question: is 100% a realistic goal? This question is complex and its answer may be controversial to the reader. First of all, because SMEs will be working with customers the "Customer Satisfaction Equation" must be respected. The worst thing that can happen in any process improvement program is that there are over-promises made and they are under-delivered!

Second of all, and maybe even more controversial to the reader, is that the best performing companies realize that every incremental level of customer satisfaction adds a non-linear level of cost. Said another way, you can go broke getting to 100% satisfaction.

I have looked at buying probably hundreds of companies in my career. When companies survey their clients using, for example, a rating system from 1 to 5 with 5 being perfect and 1 being unacceptable, the best performing companies have had two traits – their scores were consistent over time (see the Customer Satisfaction Equation) and they mostly ran above 3.8 but not too close to a 5.

The company that provides a desirable product or a service, that is consistent in its delivery, that does not over-invest in quality and has enough money to reinvest in all layers of the pyramid will be the most attractive company to work with in the long run.

Chapter 4 – Organization Culture



There are non-negotiable contracts between the company and its employees in a "Hierarchy of Corporate Success" company.

1. Employee Communication by Management – The job of management is to communicate the status of the company and its strategy, even at the risk of it leaking out of the organization. Unless management can provide a two-way communication system between corporate status and employees' concerns/input, the first organization culture contract will be broken and can't be fixed. Does this mean if you are introducing a new product that is very secretive that you pre-announce it to the employees? Of course not. Think of Apple and the introduction of the iPhone. You would never push this communication implicitly forward. On the other hand, everyone at Apple knows that product innovation is a constant, and that design must be simple, elegant and intuitive.

2. Decision Making Must Be Pushed Down in the Organization – Once management has communicated to its employees with what the military calls "mission intent," it is up to the employees to develop strategies on their own in the field. Only employees can execute strategies. First, because they are the most numerous participants. Secondly, they are the most knowledgeable. Finally, by working together as a team, they become sticky stakeholders to strategies and their companies.

3. There Can Be No Difference in the Status of Management and Employees – Titles are discouraged. They convey a difference in everyone's contribution to the company. Offices are also discouraged. They not only convey elitism, but they restrict free-flowing communication. You are simply a "leader" or a "key contributor" in this new management theory.

4. Mistakes Must Not Only Be Tolerated but Rewarded – Any company that is going to let its non-management employees be key contributors must establish a culture that encourages employees to take chances. I have always told my employees if you

don't take risks you will not be rewarded. For example, if an employee who takes on 10 initiatives in a given period and seven are done well and three are not, they will be rewarded greater than the "safe" employee who does one initiative and it is successful. Why? Because the "safe" employee only produced 1/7 of their peer's potential. Time is not an ally in business. You must move quickly, make a lot of small bets by your employees and then either let the good initiatives thrive or quickly shut down the ones that don't.

5. Incentive Systems Must Be Aligned With The Organization –

    a. There are two types of employees – to use a sports analogy: the "front office" and the "players." The front office provides support for the players. A player is someone who produces revenue.

    b. Base pay is determined by skills and the marketplace for those skills.

    c. Bonuses and stock options are based on achievement, not effort.

    d. Front office employees – management, finance, HR and marketing – are supposed to provide a system to make the players successful. Their bonuses and stock options are based on wins/losses. In other words, their bonuses and stock options must be aligned with adding shareholder value.

    e. Players or revenue producers should be rewarded by making "plays." In the corporate world, that is to say, they must bring in free cash flow. Players should also be more heavily weighted toward cash bonus compensation than stock option awards.

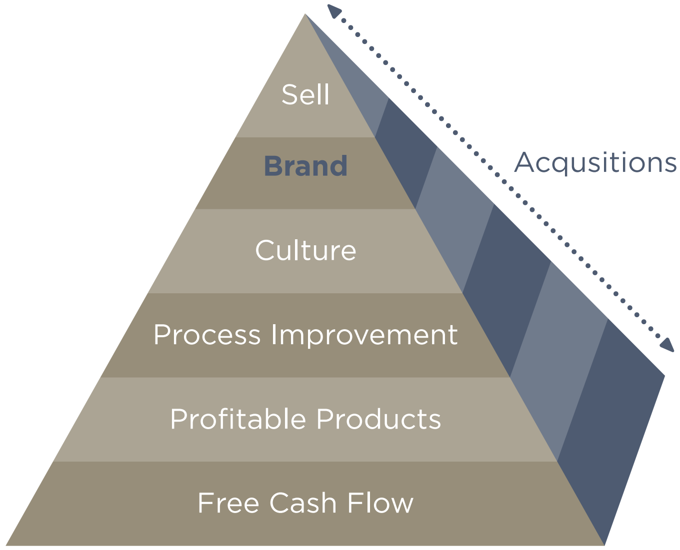
    f. All employees are constantly stack-ranked and their ability to remain in a high performing company is determined by their relative performance at a given time of "team quality," the needs of the corporation and its free cash flow.

    g. NEVER let a team or organization grow beyond 150 employees. Research has shown that homo-sapiens evolved as a superior species by being able to utilize "a network of brain power." This was due to their ability to develop cooperation skills within a social network. The physical limit of that social skill has also been calculated to be close 150 people.

Investing in corporate culture goes beyond the company/employee contract. The contract must be adhered to whether you are moving up or down the pyramid. Investment and de-investment, on the other hand, are determined by the "Hierarchy of Corporate Success."

The relative reimbursement of health care benefits, training, fun events, sabbatical programs, company charity programs and tuition reimbursement are very important and every company I have ever run has had them. However, they must be thought of as an investment and not a right or privilege. The periodic review of these investments is critical to both the shareholders and the employees. If you don't have enough money to invest in these programs, you either have to disappoint the shareholders with weaker economic performance or lay off employees to keep paying for them.

Chapter 5 – Brand and Marketing



Like corporate culture there are non-negotiable rules in a "Hierarchy of Corporate Success" company.

1. A Company must have a unique brand – There are always going to be many new and established competitors to compete with. It is a MUST that the market understands why you are different and special. Advertising, marketing programs, corporate websites and marketing material must enforce this uniqueness.

2. The Brand needs to be simple and concrete and sticky – Any brand that must be explained is not a brand. Any brand that does not concretely explain to potential customers how it enhances their business or personal lives will fail. Finally, if the brand is not sticky it will be easily forgotten and will lose its value in days.

3. The Brand must push the envelope – In today's fast changing nature, any brand that is dull, conventional and not eye-catching will not last because it will not stick out in the crowd.

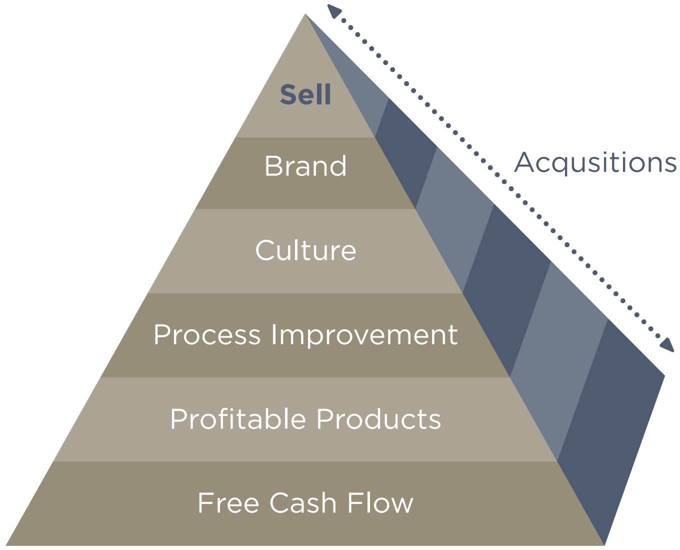
4. The Brand must thrive to become part of today's common man's lexicon – This has always been intuitive in business-to-consumer marketing, but today it must also apply to business-to-business marketing as well. This means the brand must thrive to become a synonym for some kind of progress.

5. The Brand must coalesce all product lines – Whether developed internally or by acquisition. No one wants to buy a product or service from a provider who appears to be just a mish-mash of different things to different people. The brand, in fact, is the most important unifying force within the company. It must generate cohesive links between prospective customers, employees and the shareholder marketplace.

Market investments include lead generation programs, advertising programs, more salesmen and trade shows. Investments in marketing programs require positive cash flow, profitable products that customers want, good and consistent processes and employees that are ravenous about the company.

Without cash, you don't have money to spend. Without profitable products that customers want, there is no reason to promote them. Without consistent processes and quality, even profitable products will not sell due to customer dissatisfaction as you grow. Finally, no one wants to buy products and services from employees who are not excited about their company – so don't over invest in marketing trying to attract a larger customer base if you have not met the needs below in the pyramid.

Chapter 6 – Selling



There are two ways of selling your products and services. You can sell them directly or indirectly. Direct selling is where you own your own "brick and mortar"/web store or employ your own sales force. Indirect selling is where you sell your product through a multi-product retailer or a partner program.

Which one should you invest in? The first rule is to calculate your direct and indirect selling costs and to determine if they are a commercially reasonable portion of Cost of Goods Sold (COGS). The second rule is to determine how much control you need to make your product sell. Control issues might include the simplicity or complexity of selling the product. The former lends better to an indirect model, where the latter does not.

First let's talk about direct selling. Investments in direct selling must be constantly reviewed. The first review, of course, should be how are the lower layers of the pyramid performing? Assuming they are performing well, each retail selling point (stores, catalogs and websites) must also be performing well. Each one of these selling points must agree to a sales plan and meet it. If an entire group of selling points are not doing well then changes must be made in the front office strategies. If the selling group, on the other hand, is doing well, but there are exceptions, those poor performers must be fixed or eliminated.

UNTIL ALL SELLING POINTS AND THEIR PARTICIPANTS ARE PERFORMING WELL YOU CAN'T ADD MORE SELLING POINTS OR PARTICIPANTS.

Now let's talk about indirect selling. This is frankly the most dangerous part of the pyramid.

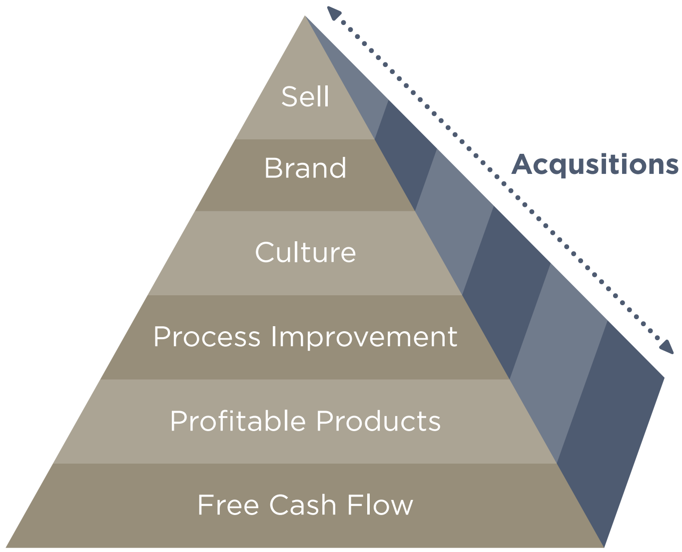
For product companies using retailers, partner programs are viewed as a necessary evil. Most consumer product companies are never completely happy with a multi-product indirect relationship. Inventory ownership, returns policies, floor space and promotions are just a few of the headaches of a product company's product manager.

As far as business-to-business selling, there is theory and then there is practice. Partner program theory says that when direct selling cost restricts a product line's penetration down-market or in other geographies or is a "natural" component to another company's product line, a partner strategy should be employed.

In practice, only two things tend to happen in partner programs. One is that they don't generate enough sales or at least not profitable sales. The second is that they work for a while and then die as each partner tries to get the better of the relationship.

Don't get me wrong, I have made partnership programs work, but they require tremendous "hidden" investment. These expenditures may include hiring a partner-sponsor to manage the relationship, double commissioning the partner-sponsor and the salesman, and legal costs, such as setting up the relationship, arbitrating disputes and formally ending the relationship.

Chapter 7 – Acquisitions



Why acquire companies? I may have scared you off because they are so tough to find. But I also said they are the most efficient way to build a company and to increase shareholder value.

1. Instead of trying to build new products, you can immediately sell "new" products within your company and focus on managing this new depth of the pyramid.

2. Instead of costly and risky partnering programs, buying a complimentary company (product, service or new geography) de-risks the reasons partner programs don't work. In a nut shell, you are now all on the same team and can manage the program internally.

3. By buying a company for the right price and subsequently eliminating duplicate costs while increasing both companies' revenues (synergies), 1+1 will = 3 and shareholders will be rewarded.

Now let's talk about the risky part of acquisitions – integration. I have had the luxury of seeing what works and what does not work. The following are some rules for a successful integration that must be followed or 1+1 will be less than 2.

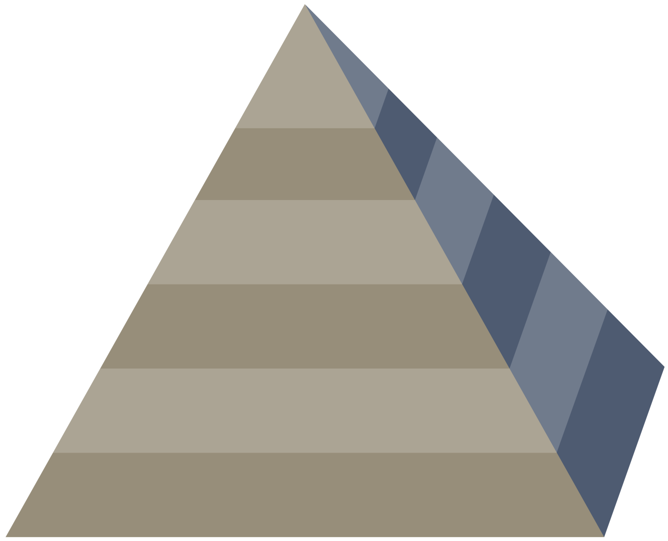
1. During the due diligence process, you must decide if you can work with their culture. Do they have leadership that can run their or a reconfigured business unit autonomously? This is important to know because you can't be in more than one place at one time.

2. Also during the due diligence process, decide if their leadership is willing to sign up for a business plan that is required to make 1+1 = 3. Consider special bonus plans to meet this objective.

3. Let leadership have as much autonomy as you can possibly manage. This will let management and their employees consider the acquisition as a non-event instead of a disruption. This will let them pour their energy into making 1+1 greater than 2, not wasting energy worrying about how their workplace is going to change. Instead, have the corporation focus on consistent marketing messages and making sure the brand is consistent.

4. In the case where costs must be eliminated in order to make the deal accretive, do not move so fast that it hurts the acquired business and makes your company look like the "evil empire." The timing of the cost cuts should be agreed upon in the business plan, but it is important wherever possible to let acquired leadership steer "timing" from their knowledge of the local market and their culture. Make no mistake about it, the business plan must still skew toward moving fast, as time is never an ally. Just don't move too fast without knowing how local market reaction will be or how their culture might impact the acquisition.

Concluding Remarks



I have given you a new management theory and how it should function. I am now going to highlight the main differences between my theory and the way traditional business runs today. There are two main conventional business beliefs that separate my new theory from past beliefs.

The first is that selling programs should be the most important area of a corporate operation. It is easy to see why this is so. Selling programs have always been linked to revenue. It is anathema to not make this connection.

The second argument against this guide is that my theory handcuffs companies from being more creative by not letting them invest or divest in any area of corporate operations at any time. Why should a company not invest or divest in all areas of corporate operations in any proportion that they want to?

Let me first argue against the conventional wisdom that selling programs are the most important area of a corporation's operation. Conventional wisdom says that selling programs differentiates a successful business from one that is not. Selling programs are an "art" and the rest of the operations of a company are just "common sense." This guide's wisdom is that selling programs are just that: programs – a systematic operation on an equal footing with every other corporate operation.

My management theory treats selling as a program on equal footing for three reasons. The first is that without sound cash flow, profitable products, process improvement, a great corporate culture and brand, products will not sell, no matter how good your selling program is. The second reason is that selling programs must attract the best talent in an industry to work and those individuals are most attracted to companies where the other lower areas of the pyramid are strong. Lastly, whether it is in retail selling or direct product selling, best-in-class companies use computer tools to train and codify how to best sell on a particular day or during a new promotion.

Conventional wisdom also argues that a strict management process does not allow the creativity of a CEO to be unleashed. But are successful companies required to have a larger-than-life CEO? Again, conventional wisdom would have you believe this answer is an unequivocal yes. In reality, the media builds up a CEO or a sports coach when times are good and it tears them down when times are bad. Did the CEO really change? No, the company changed and it relied on using traditional management theories.

If you look at the most successful companies or sports teams in the world they are a model of consistency. In a phrase, they have a system. Using sports again as an analogy to further my point, the best sports team have core philosophies that don't change. Everyone inside and outside the organization knows the system. The coach is an integral piece of the system, but not because he or she is a genius. The coach's job is to ensure that the system is well understood and always adhered to.

The Chicago Cubs are my favorite baseball team. They have not won a World Series for one hundred years. Why not? In small part, luck has played a role. But it is mostly because they have not had an operating system for building a consistently winning team. They don't develop players in their farm systems. They don't have a prototype for what kind of player should play for the team. They don't have a hitting philosophy. They just let hitters do what they want, regardless of where they are in the batting order or what the game circumstances require.

So when, out of the mediocrity they put together a winning record, the coach and the players get the credit. When they have a losing season, which is frequent, they think that the way to fix it is to simply fire the manager, trade the players and spend money to buy players who had a good year last year. How do you get rid of managers, coaches and players and acquire new ones if you can't describe how any of them will fit into your system?

Now compare the Chicago Cubs to the New England Patriots! The Patriots win consistently because they have a rigid operating philosophy. Players are expected to be smart and be able to play multiple positions. Every year they lose great players due to free agency but they don't miss a beat because they draft well and they sign free agents based on whether they can fit into the existing system, not because they are well known, over-paid and did well in past seasons.

This point now takes us to the last and most important part of this guide's new management theory. Success is not simply one good quarter or one good season. Rather it is CONSISTENT positive results. Successful organizations are consistent in their results and the way that they produce these results.

I am living testimony to that statement. If you met me on the street, you would not even guess I am a CEO. I don't have the look or the "pipes." I have, however, made investors happy and have been personally rewarded for it. The secret is that I have built an "operating system" and I stuck to it. I do not have a bigger-than-life personality or have been the smartest person in the company. I instead always surrounded myself with smarter people.

My management theory works. So instead of firing a CEO or changing your strategies constantly, realize that your problem is not your personnel or a lack of creativity. It is that you have not codified a “system.” You must demand CONSISTENCY and recognize that you are not working in a laboratory, but a playing field that requires a management theory and a CEO who will stick to it every day!