Can a set of management and leadership principles that made John D. Rockefeller the richest man in history more than a century ago deliver the same dramatic impact today?

Without a doubt - provided it’s suitably translated for the 21st century way of doing things, as it has been by Verne Harnish.

That’s “without a doubt” because Harnish first synthesized and published the 10 Rockefeller Habits, as he called them, 12 years ago. Since then, thousands of companies have applied them and affirmed their effectiveness.

Now Harnish has almost totally rewritten his original guide. It’s been updated for the current business environment and has become a new classic. Scaling Up has also won several business book “Oscars” including the 2015 International Book Awards for General Business and a Readers’ Gold Medal for Non-Fiction Business.

Among his many concurrent roles, Harnish is best-known as the founder of the Young Entrepreneurs’ Organization (YEO), and co-founder of the Gazelles Growth Institute – “Gazelles” being his term for the fleet-footed stars of the entrepreneurial world.

Fortunately, you need not have read his earlier masterpiece, Mastering The Rockefeller Habits, to reap the benefits of his latest work. But it’s well worth taking a quick look at an outline of the 10 habits, available as a free download (along with lots of other documents and templates referred to in the book) at www.scalingup.com

Actually, the 10 habits aren’t dealt with in any kind of order in this book. Nor, indeed are the individual habits explicitly referred to in the first half.

Instead, Harnish structures the book around four key decisions that every business leader must make:

1. Attracting and keeping the right people
2. Creating a strategy that differentiates you from competitors
3. Driving flawless **execution** and

4. Having plenty of **cash**

These are crucial elements of any successful business, but in companies that are expanding exponentially - or striving to do so - they demand a laser focus.

Remember, this is a book about growth, not just about doing better business. Growth causes growing pains and if you don’t deal with them, you’ll soon find yourself stalled.

**Scaling Up People**

“The only way to grow a company is to grow the people first,” Harnish tells us.

Accordingly, the first three chapters shine the spotlight on the fundamental components of human resources in business - leading, hiring and managing people.

**Leading**

“Challenges within the company normally point to issues with, or among, leaders…” Harnish declares. “As a company scales up, the toughest decisions involve people and their changing roles in the organization, especially within the leadership team.”

In the early stages of rapid growth, individual leaders often find themselves taking on more and wider responsibilities, until they’re stretched too thinly and taking on responsibilities they’re not well-equipped for. How can a business move forward when this happens? It can’t.

You need to analyze key business processes and who’s-accountable-for-what to identify overlaps, over-stretching and gaps. The aim is to ensure each process - for example, product development, marketing, accounting - has only one owner and that no individual is shouldering multiple responsibilities, while others are having a relatively easy ride.

This review might also highlight whether individual leaders are in the right job, or whether a change of roles is called for.

“Loyalties, egos and personal friendships make these decisions even more difficult when the company faces a situation in which it has outgrown some of its early leaders,” the author warns.

**Hiring**

A big challenge for a rapidly growing business is finding the best possible candidates as new employment opportunities open up.

An expanding business can’t afford to recruit lightweights. You only want “A Players” - people in the top 10 percent of the available talent pool.
You should select specialists because they can provide depth of knowledge and expertise in specific areas, rather than just generalists who know a little about everything. But both are necessary to constitute a well-rounded team.

Crucially, in order to attract the best talent, you must invest time and effort into raising and promoting the profile of the business - for example by creating a popular blog, winning awards, or writing a book - all activities that make a company a desirable employer.

Although the author doesn’t devote too much space to recruitment techniques, he does make an important recommendation: Use the Topgrading scorecard method for selecting and interviewing.

Topgrading (see www.topgrading.com) is a detailed process for measuring and scoring candidate competencies, structuring interviews and screening for the best applicants. The technique isn’t detailed in the book but he references two important resources:

- For an overview of the process - Who: The A Method For Hiring, by Geoff Smart and Randy Street, and
- For a more detailed exposition - Topgrading: The Proven Hiring and Promoting Method That Turbocharges Company Performance, by Bradford D Smart.

One other powerful tip: Consider hiring fewer people but paying them more. Everyone knows that the best employees are way more productive than the rest. Offering above average pay will make it much more likely you’ll attract the cream of the crop.

For instance, wholesale club Costco pays its employees 70 percent more than its rival Sam’s Club, but it needs 40 percent fewer employees per dollar of revenue generated.

Managing

Once you’ve recruited your new A Players, one of the crucial management roles is to retain them by keeping them happy and engaged. Your tactics might include:

- Providing regular training, periodic one-on-one coaching and mentoring.
- Recognizing achievement and showing appreciation. Research says the ratio of positive to negative interactions with an employee needs to be at least 3:1.
- Setting clear expectations and explaining how the individual contributes to the company’s objectives.
• Eliminating and avoiding demotivation. “The #1 demotivator for talented people is having to put up with bozos,” the author candidly declares. The best managers remove the hassles that block team performance.

• Helping people play to their strengths - refocusing their activities over time to areas where they excel.

• Exposing them to different experiences within the organization, like shoe retailer Zappos does by ensuring all employees spend at least four weeks working in customer service.

“Investment in people is the biggest single predictor of a company’s ability to beat its direct competitors and the overall market,” writes Harnish.

Scaling Up Strategy

Can you state your firm’s strategy simply? For instance, could you be like Domino’s Pizza founder Tom Monaghan, who encapsulated his strategy in 10 words: Pizza delivered in 30 minutes or less, or it’s free.

Naturally, it takes a lot more thought and planning to arrive at this type of succinct declaration and it must be underpinned by a powerful and shared sense of mission.

The next three chapters bring the relevant issues into focus.

What’s At The Core?

Three attributes make up the core of any successful and growing business - its values, its purpose and its competencies.

Values, says Harnish, aren’t qualities you invent, or a list of nice-to-haves, but genuine ideas that probably existed when the company was founded. In other words, they may have to be unearthed, or maybe rediscovered.

The core values of his own company, Gazelles, Inc, for example, are: Practice what we preach • Nothing less than ecstatic customers • First class for less • Honor intellectual capitalists • Everyone is an entrepreneur • Never, ever, ever give up.

Your core values should define the company’s culture and personality. They provide an effective test for judging behaviors and performance. Are your company’s activities and behaviors aligned with its values?

Purpose is what some firms call their mission, answering the question: Why does what we do matter?

It’s good if you can capture your purpose in a single word or phrase. For example, Innovation (3M), Happiness (Disney) and Robin Hood (Wal-Mart).

To identify your purpose, begin by asking, What do we do? Then ask, Why? several times - a technique known as the 5 Whys.
Core competencies are a company’s inherent strengths - something competitors find difficult to imitate, that can be reused for many products and markets, and that benefit the end users.

Avoid defining your competencies too narrowly. For instance, had BIC seen its core competency as making cheap pens, it likely would not have progressed to the $2 billion firm it is today. Instead, the firm labels its strength as “making disposable plastic anything.”

The 7 Strata Of Strategy

Articulating the core elements of your business is the launching point for developing a framework for dominating your industry.

Harnish calls this framework The Seven Strata of Strategy, “an agenda for the strategic thinking team to create and maintain a competition-crushing, differentiated approach to a specific market.”

1. Identifying Words You Own, like Google owns “search” and Volvo owns “safety.” “The key is picking a niche and owning or creating the words in the minds of the people you want as your core customers.”

2. Knowing who your core customers are, what you’re selling to them and what your brand promises are - or as Harnish calls it, identifying your Sandbox (i.e., operational area) and Brand Promises (like that 30-minute pizza delivery).

3. What’s your Brand Promise Guarantee? The promise needs to be strong so you feel real pain if it’s broken (like Domino’s free pizza).

4. Creating a One-PHRASE Strategy. Beyond the Word You Own, is there a phrase that represents a key lever in your business model and focuses on a particular set of customers? For instance, IKEA’s business model is based on “flat pack furniture,” while Apple’s One-PHRASE Strategy is its “closed architecture.”

5. Building on the one-PHRASE, identify your Differentiating Activities - three to five ways in which you deliver your products or services, which are nearly impossible for your competitors to copy. For example, you might be able to manufacture or source products in a way that gives you a price advantage no one can match.

6. Finding your X-Factor - a creative and original competitive edge. For example, restaurant chain Outback Steakhouse extended the length of time it retained its managers 20-fold compared with the industry average by developing an investment and equity program for them. The clue to finding your X factor is that it’s usually something that removes a major chokepoint in your business or industry.
7. Establishing the right metric for the underlying economic engine of your business - Profit per X - and setting a Big Hairy Audacious Goal (BHAG) to achieve in the next 10 to 25 years. As its Profit per X, Southwest Airlines sidestepped the industry standards of profit-per-mile or profit-per-seat and went for a much more lucrative profit-per-plane. Your BHAG should be measured in the same units as your Profit per X.

Creating A One Page Strategic Plan

Harnish and his Gazelles are great advocates of one-page plans as a way of capturing sets of related ideas, and he believes that doing this when formulating your strategy provides a concise document around which your teams can align.

Again his template for this is freely downloadable from the website. It incorporates the Core Values, Purposes, Competencies/Capabilities outlined above along with your Sandbox and Brand Promises.

The plan should also identify your #1 Priority for the next 90 days and 12 months respectively, Key Performance Indicators, and a list of who’s accountable for various aspects of the plan.

The one-page plan should be the outcome of a strategic planning session that considers feedback from employees and customers on what they think the company should start, stop or keep doing.

It should also feature a SWOT (the standard business analysis of Strengths, Weaknesses, Opportunities and Threats) by middle management, and then what Harnish calls an SWT (Strengths, Weakness and Trends) by the leadership team.

“Leaders should look at major trends,” he suggests, “such as significant changes in technology, distribution, product innovation, markets, and consumer and social developments around the world that might shake up not only the business but the entire industry.”

From the feedback and analyses, both middle managers and leaders should draw up a Top 3 Priorities list, from which the #1 Priority is selected.

Scaling Up Execution

It is in the execution of strategy and people policies that the author finally calls on the 10 Rockefeller Habits, which he spreads across three disciplines: Priorities, Data and Meetings.

Priorities

The author’s key message with regard to priorities is “less is more.” In other words, having too many priorities will slow you down and could send you off the rails.

He recalls this guidance from Stephen Covey, author of The 7 Habits of Highly
**Effective People:** “The main thing is to keep the main thing the main thing.”

Harnish adds: “Individuals or organizations with too many priorities have no priorities and risk spinning their wheels and accomplishing nothing of significance. In turn, laser-focusing everyone on a single priority — today, this week, this quarter, this year, and the next decade — creates clarity and power throughout the organization.”

So your starting point is **Rockefeller Habit #1** which dictates: The executive team is healthy and aligned. In other words, everyone has agreed on what the priorities and strategy are.

Identifying the Number 1 priority is **Habit #2**. Specifically, asks Harnish, what is your BHAG, what is the **Critical Number** you need to achieve within the next three months to one year that will move you closer to the BHAG, and what are the steps you must take to get there?

One useful tool which the author considers almost essential is to invent themes, a “fun motif” you can use to rally everyone around reaching that Critical Number.

A great example comes from an Irish garbage disposal firm called The City Bin Co, whose quarterly themes have included “Saving Mrs. Ryan”, a wordplay on the movie *Saving Private Ryan*, “Ryan” also being a common Irish last name.

Competitors’ contracts were coming up for renewal and, in a military themed presentation, the firm told employees their task was to save 10,000 Mrs. Ryans from the “Soviet-era” service of its rivals.

In another theme, “Life Begins at 40,” The City Bin Co used Last Vegas gambling imagery to encourage employees to increase monthly earnings by 40,000 euros.

The author uses the remainder of this chapter to reference several Rockefeller habits already discussed above:

- **#4** - Every facet of the organization has a person assigned with accountability for ensuring goals are met
- **#7** - Core Values and Purpose are “alive” in the organization
- **#8** - Employees can articulate the key components of the company’s strategy

**The Power Of Data**

Gathering and analyzing data is crucial to corporate development. But that doesn’t mean just collecting numbers. Just as important is what Harnish refers to as “plain old human intelligence.”

That was the tactic Sam Walton employed at Wal-Mart, insisting the opinions of employees (Rockefeller **Habit #5**) and customers (**Habit #6**) were regularly
canvassed and fed back to a Sunday morning executive meeting that, along with performance data, enabled Wal-Mart to get a jump on competitors by adjusting activities first thing on Mondays.

“Learn fast; act fast” was Walton’s motto.

And it’s not just speed that counts. If you solicit feedback, the author warns, be sure to close the loop by ensuring people see you act on it.

Measurable performance data should be the bedrock for Key Performance Indicators (KPIs) for everyone (Habit #9), which, in turn, should be related to current priorities and, ultimately, the near-term and BHAG Critical Number.

Everyone, from senior leaders to staffers, needs to be able to report on one or two Key Performance Indicators every week, he suggests.

Across the business, everyone should be fully aware of the overarching business goals and there needs to be “Scoreboards Everywhere,” displaying progress on KPIs and the Critical Number according to Rockefeller Habit #10.

The Rhythm Of Meetings

Harnish devotes the whole of the final chapter in this section to Rockefeller Habit #3 - the importance of a regular rhythm of communication.

Unlike some other business texts that dismiss meetings as potential time-wasters, this book strongly advocates them as the key to good communication. Not only that, but Harnish argues for several layers of meetings, and lots of them - every day for some.

But that’s not to say that meetings should be lengthy. They should be tightly disciplined and align with the following pattern:

1. A daily huddle lasting up to 15 minutes. This is where you discuss tactical issues and provide updates.

2. Weekly team meetings of up to 90 minutes, for employees and managers to review progress on quarterly priorities.

3. A monthly management meeting lasting up to a full day involving senior, middle and frontline managers to discuss just one or two big issues.

4. Quarterly and annual offsite planning meetings to discuss priorities, growth tools and, if appropriate, themes.

“These meetings bring focus and alignment, provide an opportunity to solve problems more quickly, and ultimately save time,” says Harnish. “They also address the #1 challenge people face when they work together: communications.”
Scaling Up Cash

Do you have any idea how long it takes for each dollar spent in your organization to make its way through your business and back onto your balance sheet?

This Cash Conversion Cycle (CCC) is critical to the healthy growth of your business. The faster cash returns to your business, the better position you are in to finance your expansion.

Take the case of computer manufacturer Dell. As the firm underwent explosive growth in the 90s, it began to run out of cash - growing broke, they call it. When new CFO Tom Meredith arrived, he calculated the CCC as 63 days - the time Dell spent a dollar to when it flowed back onto the balance sheet.

He launched a new cash improvement strategy every quarter, eventually bringing the CCC down to negative 21 days - that is, the firm received a dollar 21 days before it spent one. The company became cash rich, enabling it to finance its own expansion.

The book doesn’t explain how Meredith achieved this transformation, nor how to calculate CCC. But Harnish recommends reading The Customer-Funded Business: Start, Finance Or Grow Your Company With Your Customers’ Cash by John Mullins. He also offers another downloadable one-page tool called Cash Acceleration Strategies.

You can also consider:

- Asking for prepayment or to be paid sooner
- Giving value to customers who pay on time
- Getting invoices out more quickly
- Sending out reminders before payment is due
- Obtaining recurring credit card authorization from regular customers
- Understanding and tackling the cause of late payments
- Timing billings to coincide with customers’ payment cycles
- Paying many of your own expenses with a credit card
- Shortening delivery cycles

Meredith’s achievement also underlines another potential weakness in fast-growing businesses: They often overlook or neglect the importance of the finance function, specifically the accounting process, in driving profitability.

“Accounting is often underfunded as a result,” Harnish notes. “Most entrepreneurs, if they have an extra dollar of profit to spend, invest it in either making or selling stuff.”
But hiring just one additional person to support the CFO can improve cash flow management, and provide the capacity for analyzing trends and developing early warning systems.

Furthermore, as growing firms grapple with their finances, they have 7 financial levers they can use to tweak cash flow and returns in the business:

1. Increase prices
2. Sell more units at the same price
3. Reduce the price paid for raw materials
4. Reduce operating costs
5. Collect from debtors faster
6. Reduce the amount of stock on hand
7. Slow payments to creditors.

"By giving the cash flow statement just a little more consideration, and tweaking (the) 7 key financial levers... a company can grow considerably faster using its own internally generated cash than by raising or borrowing external capital," the author points out.

**Conclusion**

For your next steps, Harnish suggests:

- Having your management team read the book.
- Forming a weekly “council” of key leaders to discuss opportunities and challenges facing the company.
- Launching a quarterly theme that will capture everyone’s imagination to achieve the #1 Priority and the Big Hairy Audacious Goal.
- Starting daily huddles, beginning with the executive team and then cascading down.
- Planning your first quarterly or annual offsite strategy meeting.

But don’t rush or try to do everything at once.

Harnish writes: “It usually takes two to three years for all the tools, techniques and habits to become part of the company’s DNA, and another two to three years to truly master the use of them."

Phew, that’s a relief!