Chapter One

IDENTIFYING YOUR POINT OF CONSTRAINT

Every action that does not bring the company closer to its goal is not productive.
—Eliyahu Goldratt

One night a man walking down a street turns a corner and sees another man, down on his hands and knees on the sidewalk, under a streetlight, clearly trying to find something. "Hey buddy," the Good Samaritan says. "What are you looking for?"

The second man stumbles a bit as he answers. "I'm looking for my keys," he says. "I really need to get home." It's obvious he's had a few drinks.

"OK," the first man says, "I'll help you."

After searching for fifteen minutes, the keys are still nowhere to be found. "Where exactly were you when you lost them?" the helpful stranger asks.

"Over there in that dark alley."

Stunned, the first guy says, "Well then, why are we looking out here on the sidewalk?"

"Because the light is better," says our drunken friend.

If you can forgive the old joke, there is actually an important lesson to be learned here: Lots of leaders and CEOs spend their time where it's light, where they're comfortable, while the real problems lurk in the dark alleys they don't want to venture into. They get stuck working hard in low-leverage roles. To drive organizational performance to new levels, leaders need to be willing to stretch themselves beyond their comfort zones and challenge themselves to tackle tasks that will truly lead to results.

A CEO'S PRIMARY MISSION

If you wanted to water plants in your garden and you squeezed the handle on the hose nozzle and the water only dribbled out, you'd quickly realize that a kink in the hose was restricting the flow. Solving the problem, of course, would be as simple as locating and untangling the kink. What would happen if you began to think about your company's flow rate—the revenues, profits, growth, and service to your customers—in the same way? If you find yourself confronting poor results—a dribble—or even if you are looking for new paths for growth in your company's performance, wouldn't your time be best served identifying and removing the kinks? Unfortunately, many executives try to get more water to flow without dealing with the underlying issue—the kink in the hose.

To drive organizational performance to new levels, leaders need to be willing to stretch themselves beyond their comfort zones and challenge themselves to tackle tasks that will truly lead to results.

Obviously every business is far more complex than a garden hose is. But the lesson about identifying and removing constraints—anything that prevents you from reaching your goals—holds true. This notion was studied extensively by Eliyahu Goldratt, an Israeli physicist turned management guru who defined the Theory of Constraints, which can be summed up by the ancient adage that no chain is stronger than its weakest link. Goldratt believed that the very best organizations learn to continually identify their weakest links and then restructure to remove these links in a way that could propel the organization forward—unkinking the hose. Most important, all work that is not at the point of constraint is a waste. Yet, thousands of CEOs continue to work all along the hose, hoping that some of their effort is actually useful rather than finding the kink and applying all of their time and effort at that point.

In his research, Goldratt focused most of his early work on manufacturing operations and, specifically within that realm, on finding what one process or piece of equipment might be inhibiting throughput. But the same principles apply regardless of the system or process you study. Your primary mission as CEO is to identify and remove constraints, whether they're related to quickly designing new products; understanding why you're not fulfilling orders fast enough; figuring out why it takes so long to hire people, close the books, or acquire new customers; or determining why you can't keep your customers coming back. Do these sound like tasks a CEO should delegate? Do you think you should be spending more time focusing on things that don't add as much organizational value?

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Not based on our research. The point is that the single most important job any CEO of a growing company can perform is identifying the constraints that are keeping the organization from sprinting forward in the right direction and then allocating as much of their time as needed to remove them, thus freeing up space for the organization to perform more effectively. Using the garden hose analogy, our Lazy CEO will notice the dribble of water, find the kink in the hose, untangle it, promptly hand the hose back to someone in the organization, make sure the system won't allow another kink at that place, and eventually head back to their lounge chair. After all, you can't harvest the fruits of your labor if your garden dies from a lack of water.

THE ERROR OF UNIFORM TIME ALLOCATION

A lot of the mediocre and hardworking CEOs we have run into over the years are exceptionally good at what we call "peanut buttering." When it comes to allocating their time to the various tasks and stakeholders in their businesses—their boards, their supply chains, their investors, their communities, etc.—these CEOs do their best to spread their time as evenly as possible across all of them. The concern, of course, is to make sure everyone feels like they're getting the CEO's attention. In this effort, the CEO will work very hard, sometimes as much as eighty or more hours a week. The bad news is that this is the surest way possible to dilute the CEO's impact on any one issue. Unfortunately, this concept of tending to every stakeholder is taught at many major business schools, which only perpetuates the error. This is done, in part, because CEOs aren't certain what actions will drive the business forward; consequently, they work on all fronts, hoping one will yield results.

Lazy CEOs, on the other hand, play favorites with their time. Rather than allocating a uniform amount of time to everyone and everything, they give usually between 30 and 50 percent of their time specifically to the task of removing the constraint(s) in the business. Remember this: It's only the work done at the point of the kink in the hose—the constraint—that will truly make a difference in your business. Whatever time is left gets distributed to the other stakeholders—some of whom may get zero CEO attention then, or perhaps forever. In an ideal world, smart CEOs would build a strong organization of individuals who would handle all of the work that is not at the point of constraint. That way, the only work our Lazy CEO would do would be to remove each constraint as it arises.

Unfortunately, since a business is a complex system, the diagnostic phase of identifying the true constraint, the root cause, is not an easy task. Let's say, for example, that a business is unable to fulfill orders on time. This kind of issue can have a ripple impact throughout the organization, affecting everyone from customers to suppliers. It will show up as a slower growth rate, reduced margins, or even customer losses.

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But think about the difference between a CEO spending 10 percent of his time on that issue versus the CEO who dedicates 50 percent of her time to it. That second CEO will remove the constraint five times faster—and thus allow the company to move forward more quickly—than her mediocre counterpart who remains committed to peanut buttering his time. With the constraint having been cleared more quickly, the CEO can concentrate on removing the next impediment. When you can carry this out over time, the compound impact is profound. Given that most CEOs don't even know where the constraint lies in their organization, it is easy to see how exceptional CEOs generate results many times better than unfocused CEOs do.

Dealing with a constraint is a two-step process: First, you have to go on the diagnostic journey to identify it, and second, you need to make the time to implement the therapy to solve it. This effort of focusing on identifying and removing constraints is relevant only for companies that have a stated objective, whether it be generating improved growth and greater profitability, increasing cash flow, servicing more clients, or increasing market share or position. We will delve into how to assess your business later in this chapter.

Quantitatively measuring such objectives is critical to determining if progress is being made. The point is, if you know where you want to go, and you can identify what's keeping your organization from getting there, you can then spend the time you need to correct that issue. If you're happy running a lifestyle business, for instance, you probably don't face any true constraints on where you want the business to go, although there is the question of optimizing how little time one can spend in the business and still get acceptable results.

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In our experience working with Inc. 500/5000 companies—the fastest-growing companies in the country—we've dealt with constraints that come in many different forms. And, interestingly enough, we've found in working with the CEOs of these companies that about half of them already know what the big constraint in their organization is. That's right; roughly 50 percent *know* the thing that is holding back their company. Unfortunately, this also means that half of the CEOs *do not know* or understand their point of constraint. This is clearly a problem. You might ask yourself which half you are in.

CONSTRAINTS ARE CONTROLLABLE

It's important to identify constraints that are within your control. It's not productive, for example, to blame climate change, the state of the economy, or the president of the United States for the stagnation of your business. You can't change any of those factors. Let me give you an example to illustrate how realizing this led one CEO to recognize the true kink in the company's hose.

Inc. CEO Project worked with a service company a few years ago that dealt with repairs to high-voltage electricity wires. The barely profitable business was struggling to remain afloat, but it always flourished when hurricanes and ice storms hit because those natural disasters usually meant lots of extra work at overtime rates to help repair downed power lines for power companies. The CEO had no control over the weather, so he could hardly fault it as the point of constraint for his company. While he could pray for a hurricane, he had other issues he needed to address, like the fact that his business model was so dependent on bad weather for its success.

In essence, what we're looking for are areas where you, the CEO, can step in and make a difference by serving in one of the five high-leverage roles—putting on one of the five hats—that all Lazy CEOs deploy: Learner, Architect, Coach, Engineer, and Player. Let's quickly go through the five hats.

The Learner: Great CEOs realize that they don't have all of the answers, and they likewise realize that to keep their company growing, they have to keep learning. They are curious. This means finding ways to educate yourself both inside and outside your organization. When you put your Learner hat on, you gain the ability to integrate your prior experience with your new situation and to see over the hill and gauge what's coming next in terms of informing and sparking the kinds of new ideas that will continue to propel your business.

The Architect: When you're wearing the Architect hat, you're spending time improving your existing business model or taking a new business concept and building up the elements to support it. You're planning, thinking, and plotting strategy. Every hour you invest will yield a strong multiplier effect, a disproportionate return. The goal is to build a superior business model with high margins, a compelling offer, low capital needs, and good recurring revenue because this type of business is easier to grow, operate, and, potentially, sell.

The Coach: With your Coach hat on (and maybe an optional whistle in your hand), you'll spend your time thinking about employee talent: how to acquire it, improve it, and divest yourself of underperforming team members.

The Engineer: When you're wearing the Engineer hat, you're working on implementing and improving the processes that align with the value proposition of your business along with the measurement systems to check your progress. With your Architect hat on you ask, "What?" With your Engineer hat on you ask, "How?" You're thinking about how to create that "Wow!" experience for your customers. In other words, you're looking for ways to make functional and systematic improvements to your organization.

The Player: When great CEOs put on the Player hat, they dip into the company's different functional areas such as sales, marketing, product design, accounting, operations, or whatever their particular gifts or passions might be. Wearing your Player hat from time to time can be a valuable use of your time, particularly when it allows you to keep in touch with your business. In other words, by wearing the Player hat, you can help identify opportunities to tackle when you're wearing the other hats.

The five hats are a useful mnemonic to remember the roles you should be playing at any given time. They can also be used to determine if a particular task is high leverage (one of the hats) or is something that is more appropriately delegated. But the question is, what hat should you wear at what point? This is where we need to delve into assessing your business in pursuit of the kink in the hose.

ASSESSING YOUR BUSINESS

As the popular saying goes, "If you can't measure it, you can't improve it." If you don't yet know what your constraint is, it probably means you do not have the proper metrics in your business to give you direction.

DON'T KNOW WHERE TO START (LEARNER HAT)?

Metrics that track each process important to customers should help point to the kink in your hose. A great question to ask yourself is this: "If I came upon a genie and he granted me a single wish to make my business better, what would I change?" Get a quicker close cycle? Faster service delivery? An improved ability to attract excellent talent? Chances are, whatever you settled on is likely a good place to start looking for your constraint.

If you do not have measurements deployed in your business that help point to the constraint, then ask the following questions:

1. What's the one area in your business where a change could bring about the most profound economic (revenue or profitability) impact?
2. What's the biggest risk factor your business faces? What one thing could derail your business? For example, is there a key customer relationship that your business may be too highly leveraged against such that if you lost them, you might lose your business as well?
3. What's your organization's biggest pain point (i.e., the one issue or difficulty that persistently remains unresolved)? This could be something that impacts internal operations or clients.

One of the goals in performing this kind of assessment is to help determine in what area of the business you should be spending the bulk of your time. To put that another way, you're trying to find the kink that will help inform which of the hats you should be wearing most of your time. This is why it is also useful to begin to look more deeply at more specific indicators within your business that might clue you into the kind of work you should be focusing on. To do that, you almost need to start thinking like a doctor or an investigator in learning to ask the kinds of questions and to identify the sorts of clues that will help uncover what's really holding up the growth of your business.

Inevitably, operating with the Learner hat on your head to determine what is next or to find the kink in the hose is high-leverage work. A fair amount of your effort should be focused inside the business, looking at metrics, delving into talent and processes; a fair amount of your effort should be outside the business too, looking for some breakthrough thinking. We will cover the Learner hat in depth in chapter two.

Areas to Focus On

- Track each process using metrics.
- Ask in which area of your business a change would yield the biggest impact.
- Ask what's the biggest risk factor your company faces.
- Ask what your organization's biggest pain point is.

DO YOU HAVE BUSINESS MODEL PROBLEMS (ARCHITECT HAT)?

The very first business I worked in made a reinforced plastic material, one of the original plastics invented by Leon Baekeland in 1907. There were lots of smart people, millions of dollars' worth of physical plant and equipment, and rigorous processes, yet we had a hard time growing. In a good year, this business could generate a 4–5 percent growth rate year over year—basically GDP growth plus some price increases. The number of customers we added each year matched the number of customers we lost. It was a moribund environment, which ultimately led to my departure. When I look back at that company, I now recognize that they had a significant business model problem.

Lack of Momentum

The first clue that a business model problem exists is a sense that the business lacks momentum in some way, like my first business. That's opposed to feeling like the organization is "winning" and there's a lot of upside still left to take advantage of. When you have a flaw in your business model, it can feel like you're stuck in the mud and there's no easy way to get the wheels moving again. If you feel like you're working hard and smart and still not seeing any progress, that's a sure sign you're dealing with a business model problem.

The best businesses, on the other hand, have developed an incredibly compelling offer. Something that makes customers take notice and allows the business to consistently win new clients. The primary issue is getting in front of potential clients, because if they understand, they'll buy. Goldratt called this a "Mafia Offer," that is, an offer you can't refuse. (You'll read much more on this concept in chapter three.)

Capital Intensity

Another important clue that your business model has flaws is if the business is constantly short of cash or needs a cash infusion every time there is an opportunity to grow. Consider the case of a steel distribution company we worked with. Rather than making the steel, which was highly engineered and used in the oil and gas industry, they bought it on speculation and then custom finished it based on the customer's order. It was a highly capital-intensive business that required $0.50 of capital for every dollar of revenue growth in the business. Unfortunately, it wasn't a high-margin business and thus couldn't fund its own growth. That meant that every time the business landed a new significant contract, they would have to go out and borrow money from banks in order to afford the steel inventory they would need to support their customers. The result was that the business was constantly digging deeper into debt.

The question for the CEO was this: Is this really valuable growth; are we increasing the value of the enterprise? The company began selling equity in the business to get the capital they needed to keep growing. This is always an option of last resort, as the business would have been better off finding ways to reengineer its supply chain and customers in some way that allowed them to grow without needing as much capital. They ultimately accomplished this and materially reduced the cash use and cash per dollar of revenue required—and best of all, they needed a lot fewer trips to the bank to fund growth!

Low Gross Margin

Another clue that you're dealing with a flawed business model is that your gross margins are too tight—say, anything less than 30 percent. If you're dealing with tight margins like that, you almost certainly can't grow rapidly without an infusion of outside cash. The steel company we discussed fell into this category as well. They simply couldn't generate enough profit to fuel their own growth.

Low Profitability

A related measure is looking at how profitable you are relative to sales. If your profits are anything less than 10 percent of your sales, your growth will likely be constrained in a significant way and you are certainly not rewarding your shareholders for the risks involved in owning a business. It's not efficient when you have to raise outside money every time you want to grow. Plus, with limited returns, finding investors will be difficult. Clearly, the benefit of having a highly profitable business is that you can generate the kind of cash that fuels your growth without having to access outside debt or equity capital.

Low Recurring Revenue

Another symptom of a flawed business model is a lack of recurring revenue, which typically results from subscriptions or long-term contracts with your customers. Think about what it would be like to run a construction firm. You land a single job at a time with no guarantee that you'll land another after you're done. The key question to ask yourself on January 1 is, how much revenue am I guaranteed this year? The answer is your real recurring revenue number. Of course, the higher the number, the better off you are. In the case of our construction company, the answer could very easily be zero or, at best, perhaps a few months of revenue in backlog once they finish the existing projects. It is extremely difficult to grow a business like this, let alone finance it and ultimately sell it. We discuss recurring revenue in more depth in chapter three.

> Another symptom of a flawed business model is a lack of recurring revenue.

Low Return on Capital Employed

A final symptom for you to consider when it comes to analyzing the health of your business model is to assess the rate of return on the risk-adjusted cost of your capital. Businesses destroy capital in many hidden ways, and this is one approach to uncover one of the most common and most commonly misunderstood ways it happens. It is important to determine if you are delivering at least an adequate return on the capital you are employing in your business. For an investment to be worthwhile, the expected return on capital—both debt and equity to the cash used—must be greater than the cost of capital. The cost of capital is the rate of return that capital could be expected to earn in an alternative investment of equivalent risk.

Let's say, for example, that your cost of capital is 10 percent. That would mean that an investor might expect to make 15 percent or higher on their investment in your company due to the risk inherent in that investment. If the return on capital rate for your business is anything less than 15 percent, your business is essentially destroying wealth. In other words, your business might be making some money, but it might be doing so while also destroying capital in the process because there are better investments for that level of risk. If this is the case, then it is a serious red flag indicating that you need to rework your business plan.

What happens in many businesses is that the areas that are performing well can obscure a poorly performing area. A single line could be destroying wealth while the other lines cover for it. But when you can both identify the poor-performing unit and correct it, perhaps by exiting that business, you can create a ripple effect from which the entire organization benefits. Sometimes stopping something can be as powerful as starting something because it allows you to focus.

Areas to Target

- Lack of momentum—a growth rate under 5 percent
- Capital intensity ($0.50 or more capital/$1.00 of sales)
- Low gross margin (under 30 percent)
- Low profitability (under 10 percent)
- Low recurring revenue (anything below 50 percent)
- Low return on capital employed (under cost of capital)

DO YOU HAVE PROBLEMS WITH YOUR EMPLOYEE TALENT (COACH HAT)?

A CEO has many opportunities to play the role of Coach with individual performers and teams—something we'll talk more about in chapter four. But one clear indicator that you might have *a talent problem* on your hands is if you find yourself repeatedly swooping in more and more often doing *someone else's* job. You do it because you're good at that task, and you figure you're helping out the other key employee as well as the company. But you could be overlooking a key constraint in your business.

You Are Covering for a Low-Performing Employee

In one company we worked with, a food exporter, the CEO found himself involved with closing the books on a monthly basis because he would regularly uncover errors made by the CFO. When we asked the CEO about such poor performance, he insisted that the CFO was doing a great job but needed a hand during crunch time. While the CEO's loyalty was admirable, he nevertheless needed to replace the CFO so he could free up his time for higher-value work. This CEO wasn't being lazy enough. Rather, he was beginning to tolerate a situation in which he had to continuously do his CFO's job. He ultimately replaced the CFO, and once the right person was in place, the CEO didn't need to be involved in closing the books again.

You Wouldn't Rehire the Employee

When you consistently find an individual who is performing poorly, that's a key sign you have a talent problem. The symptoms of poor performance are subtler when it comes to your B players, those folks who aren't your superstars but who still serve valuable functions on the team. You'll need to look deeper and more regularly to track if they are performing well compared to your A players, whose high-profile work shines a bright light on the B players' successes and failures alike. Ask yourself: "Would I rehire this person if he were to leave and then ask to come back?" For a C player the answer is no. For a B, the answer is yes. In the case of an A, you'd work hard to make sure he or she never left you in the first place.

Your Team Doesn't Have a Commitment to Learning

You should also observe how transparent and open to learning your team members are. If you start seeing a pattern where some people are defensive about being coached or accepting feedback—by implying that their work is perfect or that they have done the job as well as anyone else could—then you know you have a significant issue to deal with. Negative attitudes like this can be poisonous if they're allowed to exist in the organization.

An Employee Isn't Committed to Team Performance

You'll also likely see a lack of alignment with these defensive and negative folks in terms of how their performance stacks up with their team. They may be working on their own agenda instead, which leads to missed execution and poor performance.

As CEO, you'll need to assess if you need to step in as Coach in these circumstances or remedy the situation by replacing the person altogether. One thing you can't afford to do is nothing; action is needed if an employee is at the point of being a constraint. If you decide to live with bad behavior, you'll undermine the sense of trust among the team and its ability to work in a collaborative way. Ultimately, you will lose the team's confidence in your leadership as well. That's when team performance really suffers.

Ideas and Energy Don't Bubble Up to You

Ask yourself about the energy and idea flow between you and your direct reports: Do your people generate as many exciting ideas about the business as you do? Is there a lot of energy that bubbles up and helps feed you as you map out the future of the organization? Or do you find that you're the one supplying all the ideas and energy to those who report to you? It's simply not sustainable for you to be the one injecting all of your energy to help your team amp up their game. Eventually, that won't scale, and you'll be out of energy, ideas, and, ultimately, luck.

Areas to Examine

- You are covering for a low-performing employee.
- You wouldn't rehire the employee.
- Your team doesn't have a commitment to learning.
- An employee isn't committed to team performance.
- Ideas and energy don't bubble up to you.

DO YOU HAVE SYSTEMS AND PROCESSES PROBLEMS (ENGINEER HAT)?

When it comes to running your high-performance business, have you found it necessary to bring aboard more and more employees to make things work, without the advantages of your scale? If so, it's likely that you have some glaring holes and weaknesses in your systems and processes.

Recurring Need to Hire Superstars

It's unrealistic and unsustainable to expect that you will be able to tap a steady stream of superstars capable of driving your organization forward. You hear this in sales all of the time, when a CEO complains that he has a talent problem because he can't find the right person to head up the sales team or be a salesperson. But is it possible that rather than a talent problem, the company is really facing the fact that they haven't created the kinds of systems that allow ordinary people to perform in extraordinary ways? In other words, they haven't done the marketing job of developing the business offer and value proposition and connecting them to their clients. In the early days, the business will be talent led, but as it grows and scales, robust processes are needed.

Think about McDonald's. While they would love to recruit superstars to fill out the rosters of all of their restaurants, the truth is they count on motivationally challenged teenagers to deliver fast food to their customers. McDonald's needs robust systems and training to turn those teenagers into a fast food symphony so that the dining experience will be remarkably similar at all of their restaurants around the world. That's the power of having great processes and systems.

Missed Commitments

Another symptom that indicates problematic system issues is that your organization is having trouble meeting its commitments—in terms of production, if you are a product company, or even in closing sales. Maybe your product development team has begun to have trouble predicting release times for your new products. Or the problem could show up in the back office, where you find that closing the books has begun taking longer. Because predictable timeliness is a symptom of high-quality processes, all three of these situations are examples of opportunities to improve by reengineering your processes and systems in a way that increases speed and efficiency without having to re-staff the organization with superstars.

The Seven Wastes

Increased waste throughout the organization is another sign that you have room to improve your processes. Take Toyota, for instance. Through its Toyota Production System (TPS), the company tracks waste in seven categories that fall under the acronym TIMWOOD: Time, Inventory, Motion, Waiting, Over-Processing, Over-Production, and Defects. If you find that your people are constantly forced to redo work or that people are waiting around for another task to finish before they can begin, you likely have a process problem that you should correct as soon as possible. While this TPS model was developed for manufacturing, it can also be applied to administrative systems and professional service businesses. (See chapter five for more details on TPS.)

Improving Cycle Time

Speed is a competitive advantage. There is a phrase that goes, "The large don't eat the small; the quick eat the slow." Imagine a product development time that took half as long, or a delivery process that could get product to customer in one day instead of two weeks. Both of these are potentially sources of competitive advantage. Perhaps even more exciting is developing an offer and a customer base that paid before the product was delivered rather than ninety days after delivery!

Alignment with Strategic Advantage

You should also be thinking about what your competitive advantage is when it comes to your customers and how your systems and processes help strengthen your position—or weaken it. The goal is to create happy customers who feel they are getting good value so they will buy more and refer you to others.

You should also look at how aligned your current systems and processes are in terms of what your target customers value the most. While you may have invested in that brand-new accounting system, your customers might still be frustrated by how slowly you are getting your product to them. It's not that a new accounting system won't help; it's just that it needs to be good enough for you to get the job done. But where you really want to invest your precious time and resources is in those processes that will drive how your customers think about your products, services, and value. Be careful here, because different customers value different things. If you try to create an acceptable offer for all of the potential clients, you will never be excellent at serving any one set of them. You have to pick which clients are most important and optimize for them.

Areas to Focus On

- Recurring need to hire superstars
- Missing commitments—unpredictable timeliness
- Eliminating the seven wastes—TIMWOOD
- Improving cycle time—speed wins
- Aligning processes with strategic advantage

DO YOU HAVE TO DIVE IN AND HELP (PLAYER HAT)?

The CEO is usually a very strong individual performer as well as being the leader of the business. And there is nothing like the impact a CEO can provide to a project or a special effort. Unfortunately, this strength can be overused and become a weakness.

Need to Help a Team

At times a team with an important project needs some help, be it a capacity issue or help clearing roadblocks. Lazy CEOs will sometimes jump into a project and help a team get it finished. Many times, this is a sales project where the CEO title helps make the customer comfortable and closes the sale. Almost all CEOs will do this, but Lazy CEOs go one step further and ask why they were needed; and they make moves to prevent it from happening again.

Time to Set an Example

The CEO owns the standard for performance, and as we alluded to previously, you will get what you tolerate. When the organization needs an example of what the standard looks like, usually because they are not performing, a Lazy CEO will show them. Once again, your example is important, but the real benefits are the changes that will allow the team to hold to the standard. Otherwise, you'll be back in to show them the right level of performance again and again.

Need to Cover for Someone You Terminated

I once had a VP of Sales who was simply not performing as a leader, but he was an excellent individual contributor. After working to help him see this and change, I ultimately terminated him—leaving myself without a VP of Sales. This meant that I had to take over the role until I could figure out the best way to proceed. The clarity I gained from a few months in the job allowed me to make a much better decision and ultimately elevate two regional managers and split the Country. Taking the job was only temporary and made for a better call on the new approach.

The Best Way to Learn

You can see a pattern here. Lazy CEOs will go into Player mode, but only to learn and understand the point of constraint. They start with the end in mind, which is to back out of Player mode, deploying talent and systems to improve the organization permanently. Bad CEOs get stuck in Player mode and cannot seem to get out.

Areas to Focus On

- Need to help a team
- Time to set an example
- Need to cover for someone you terminated
- Use Player mode to learn

WHERE TO START?

As a Lazy CEO who alternately wears an Architect hat, a Coach hat, and an Engineer hat, you ask yourself these types of questions on a regular basis. That's how you'll be able to constantly keep on top of identifying and removing your constraints. But what happens if you identify more than one constraint at any given time? How do you determine which one to tackle first?

The best place to start is to make a list of all of the primary constraints you've identified and then assign an economic value to each one based on how much it could impact the business. Again, it all relates to the objective you have for your organization. Issues surrounding profitability may not be as important as those related to growth, for instance, or perhaps you're most concerned with building as much strategic protection around your business model as possible.

As CEOs seek to understand the point of constraint, the Learner hat is almost always the first hat they put on in any cycle of improvement.

Once you've got your list and sorted it in order of value, it's time to reallocate your own time and find which of the five hats fits best with the task. Interestingly, as CEOs seek to understand the point of constraint, the Learner hat is almost always the first hat they put on in any cycle of improvement. You will too. Thereafter, if you have a business model issue, it's time to pull your Architect hat off the shelf. Is talent your problem? Then the Coach hat is your answer. If you have a serious systems issue, it's time to start thinking like an Engineer. And sometimes you might have to dig in as a Player to directly impact the situation, with your goal being to learn enough to deploy talent and systems even as you exit Player mode.

If you have multiple constraints it may be tempting to go after some or all of them at once. This is a mistake. You need to focus on the first item on your list until you've eliminated it. Once you've knocked off the first item, take another look at your constraints and re-rank the items—their potential impact may have shifted once you solved the first constraint. If your top priority was correcting your customer acquisition process, for example, you may find that your revenue has suddenly spiked, which means that your new top issue becomes how you're adding the capacity that you need to support production.

The first issue that should get attention is any risk to the business that could end the business. Perhaps you have a sole supplier that is in financial straits, or your relationship is weakening with a customer that accounts for 70 percent of your revenue. Once that risk factor is resolved or mitigated, move to the biggest economic impact, be it constraint or opportunity. In the case of a tie, where you really can't determine which constraint is holding back your company the most, we recommend that you use this order of attack:

1. Wear the *Learner* hat to dig in and understand the business while you are on the diagnostic journey to find the point of constraint.
2. Go into *Architect* mode to fix your business model. If you get this right, everything else becomes much easier.
3. Tackle your employee talent issues as *Coach*. Your business model trumps talent because it won't do you any good to focus on hiring great people until you know exactly what you need them to do. Hiring the very best multilevel marketer won't help you, for example, if your business model involves selling direct to consumers over the Web.

4. Shift into *Engineer* mode once you have your business model down and the right people on board. The beauty of hiring great people who fit your business plan is that they can actually eliminate many of the issues you used to have with your systems and processes. But if they can't, then your job becomes clear.
5. Once the kink in the hose is resolved, put on the *Learner* hat again to find a way to accelerate growth for the business if things are going well. Perhaps it's a new target customer, a new product, or a new geography. Usually this also involves going deep into *Player* mode to understand the situation before handing the new initiative off to the organization to execute.

This should be a fluid and repeatable process, one that involves art and intuition and one that you, as the CEO, need to be constantly vigilant about. After all, the future of your business is at stake. In the chapters that follow, you'll learn more about each of the five hats you can wear to help solve the constraints you've identified and how you can take a more active role in eliminating them and supercharging your company's growth.

Now that we've covered the five hats in overview, it's time to go into depth on each of the hats and how they are used by highly effective CEOs once they have identified the point of constraint. If you know your point of constraint, jump right to the chapter that corresponds to it. If not, we are going to follow the hats in the order of their use.

KEY POINTS

- Constraints are controllable—if they are not in your control, they can't be constraints.
- Constraints lie in the following areas: economics (revenue, margin, assets); risk (negative impact to the business); pain (recurring difficulties, internally or with customers); or strategy (Mafia Offer, expansion opportunities).
- You might have a business model problem if there's a lack of momentum; there's a low gross margin, low profitability, low recurring revenue, or low return on capital employed; or a low-performing segment masks overall business performance.
- You might have talent problems if you cover for low-performing employees; you wouldn't rehire a particular employee; an employee is unwilling to learn or is not committed to team performance; or your people do not generate as many exciting ideas as you do.
- You might have process and system problems if you need to hire superstars all the time; your organization has trouble meeting its commitments; cycle time is poor; there are a lot of non-value-added processes (TIMWOOD); or your current systems and processes do not align with your target customers' values.
- Order of attack: List the potential points of constraint; rank them based on economic impact, risk, or pain; ties go to Architect; repeat. If all is going well, use the Learner hat to figure out what's next.

Chapter Two

THE LEARNER HAT

Never become so much of an expert that you stop gaining expertise. View life as a continuous learning experience.
—Denis Waitley

There is one hat that Lazy CEOs never take off: that of the Learner. One of the most pivotal roles any CEO can play within an organization is addressing the question, "What's next?" Since you've reached this point in the book, you now know that CEOs should be spending the bulk of their time working on solving the organization's point of constraint. If you are working on something with less than a twelve-month time scale, it is a tactic. Anything longer than twelve months is a strategy. Being a Learner means shifting into a longer time horizon, unless you are learning to find the point of constraint. When you have your short-term constraints under control—like solving an immediate need by hiring a new salesperson—it's important for you to spend time looking further out on the horizon, eighteen to twenty-four months out, to identify what the next big thing will be that drives the organization into the future. When you put your Learner hat on, it becomes your job to answer these key questions: What's possible? and What's next?

Denis Waitley emulated this behavior, reinventing himself from a naval officer to a fundraiser to a public speaker and a best-selling