Creating Alignment

Alignment is a simple concept. When all aspects of a complex situation or organization are in alignment, the path is easy to follow. Think about it in terms of walking to the corner store. If you left foot is going north and your right foot is going south, you are going to have a hard time reaching the store. If the store is north of you and both feet are going south there is still a small probability that you will reach the store. You will just have to walk around the world to get there.

The same is true in business. If you want to reach your business goals everything in your company has be aligned with those goals. And part of creating alignment is understanding the direction you need to go. Without direction, you are just wondering around. You may as well not have a goal.

Throughout the 80's and 90's, developing your business "mission" was the hot topic. Hundreds of thousands of hours were spent developing company missions that were printed, framed and hung up on walls everywhere. A lot of those framed missions can still be found in infrequently visited offices throughout the country. If you look around the next time you visit a large company you are sure to run across a few.

Many companies expended a huge amount of resources to develop their "mission" without really understanding the true nature of the mission. You see, a mission is nothing more than a concise statement of company goals. The "formula" below was often used as a starting point for creating a company mission.

> We exist to provide (your customers)
> With (what you do)
> By (how you do it)

In fact just about any small business owner can easily define their mission in just a few seconds. If you don't believe me, just ask. Most of them will answer with little pause… "We're in business to make money (make a profit, grow the business, etc., etc.)" The small business owner understands that without a profit nothing else is possible. You can't provide "great" service if there isn't enough profit to pay the service people. You can't create great products if there is not enough profit to buy raw materials. Without profit, everything else is just talk.

So, unless you are a very rich philanthropist, your first concern as a small business owner will always be "making money". Sure, there are (and should be) other concerns such as treating your customers fairly and providing service after the sale. You should have your dream of "providing a service so exceptional that you customers would never consider going somewhere else". That's the fun part of owning a small business. But, staying in business long enough to do that means you must concentrate on "making money" first.

If you are willing to accept that the primary goal of every small business is "making money" we can dismiss those hundreds of hours necessary to come up with a great company "mission" and get right to work on creating alignment.

Alignment of your business processes is just like walking to the store. You have to know where you are going and you need to understand what it's going to take to get there. Alignment is the process of getting all aspects of your business moving in the same direction. That direction is toward meeting your business goals. Alignment does not guarantee success in anything but it does increase the *probability* of success. In fact, that's how we measure alignment… by the probability that all of your business processes combined will result in "making a profit".

Probability is the "likely hood" that something will happen. *This* is likely to happen if you do *that…Cause and Effect.* There is seldom a situation where any *cause* will have a 100% probability of creating any specific *effect.* If you are 100 yards due south of the store and each step you take is exactly 3 feet long then the probability of reaching the store within 100 steps is 100%. Unless, of course, you trip and fall or get hit by a car or the streets are crowded or a piano falls on you or any of a thousand other things that *could* happen between here and there.

With all of this in mind we now we can now set a working definition of alignment.

> *Alignment is the ability of your business processes to achieve your business goals within a given probability.*

Now that's a mouthful. If your business is *well aligned* the probability of achieving your business goals is higher than if your business is *less well aligned*. It is impossible to see all of the interactive processes within your business to see if they are all aligned. To really be helpful, we need to see the business in small sections to really understand their alignment. We can do this by breaking the business into smaller sections. These sections are connected to each other in a chain that leads to meeting your business goals. These chains are referred to as *cause and effect chains.*

These chains tie (or should tie) everything you do in your business to your primary goal of making money. Unlocking your door in the morning or answering the phone are *links* in a cause and effect chain that leads to making a sale. Obviously, if there are things you are doing in your business that are not directly tied to making a profit they are a complete waste of your time. The problem is understanding which actions *have a high probability* of helping you meet your goals and which actions have a *low probability*.

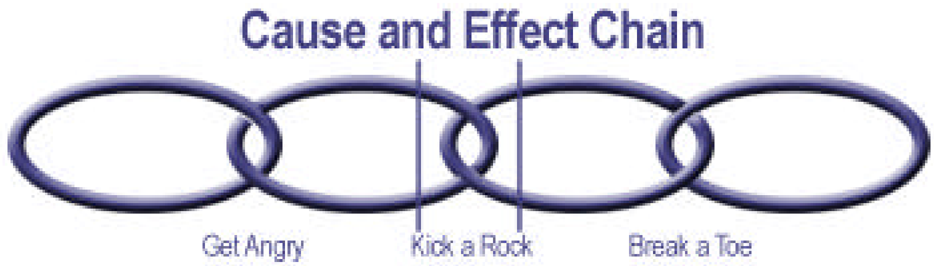

Figure 1: Cause and effect chain - Each link in the CAUSE AND EFFECT CHAIN is a “cause” of the next link and an “effect” of the previous link. In this example, Kick a Rock is an effect of Get Angry and the cause of Break(ing) a Toe.

Figure 1 (above) illustrates a basic *cause and effect chain.* I’m sure you are familiar with cause and effect. If you are from my generation, if you did something wrong you got a whipping. Today’s generation would get a “time out”. Here’s an old one…

For lack of a nail, a shoe was lost.
For lack of a shoe, a horse was lost.
For lack of a horse, a rider was lost.
For lack of a rider, a battle was lost.
For lack of a battle, the kingdom was lost.

Your business is made up of dozens, if not hundreds, of these cause and effect chains. The chain is made up of multiple links. Each link has a cause on one end (the left end in Figure 1). On the other end is the effect. Where the two links come together is called the *transition.* The transition is where the *effect* becomes the *cause* of the next link.

Figure 1 illustrates the concept. The Get Angry / Kick a Rock link has both a cause and an effect. The transitions point is where two links come together. In this example, Kick a Rock is the only transitions point. This is where *Kick a Rock* (the effect of Get Angry) becomes the *Kick a Rock* (the cause of Break a Toe). These links and transition points should flow from the simplest process in your business directly to your primary business goal.

The concept here should be obvious. Most people understand cause and effect. Most business people understand that what they do in their business affects how much profit they make. It’s how you make decisions. If sales drop… you advertise more. (IE:, advertise is the obvious *cause* of selling more)

In reality, what you may be doing is looking at just the ends of the cause and effect chain. Advertise is on the *cause* end and sell more is on the *effect* end of a chain of processes. Get Angry is the *cause* and Break a Toe is the *effect.* In your business chain there may actually be half a dozen links between the beginning cause and end effect. If you don’t know what those links are and how they affect the outcome of the chain, you may well spend money on advertising that doesn't produce the desired effect. In our example you may be getting angry without breaking a toe.

We measure the ability of a *cause* to create a specific *effect* by the probability that the *effect* will occur.

Once you understand the details of a cause and effect chain the process of adjusting the outcome (probability of reaching your goal) becomes a simple matter of measuring the success of each link in the chain. If each link is well aligned and all have a high probability of success you will (within the probability constraints) achieve the end goal. If you are measuring each link in the chain you know immediately which part of the whole process is not working.

For instance, in Figure 1 the end goal is to "Break a Toe". If you failed to meet this goal go to the previous goal (Kick a Rock). If you achieved this goal (you did kick a rock) and did not achieve the Break a Toe goal, there must be a problem in the Kick a Rock cause. You may have to change the cause to "Kick a Rock Really Hard". Then try the process again and check the results. On the other hand, if you didn't "Kick the Rock", go to the previous goal, "Get Angry" and see if there is a problem there.

In a well thought out and measured cause and effect chains you will be able to predict the final results based on any link in the chain. For instance, we can predict that one out of every ten times we *get angry* we *break a toe.* We can also predict that 9 out of ten times we *kick a rock* we *break a toe*. The more "aligned" our cause and effect chains are, the more predictable the results. For instance, if we changed the cause *Get Angry* to *Get Angry in a Rock Pile* the probability of *Kicking a Rock* (and therefore *Breaking a* Toe) may increase dramatically.

Although the example is a *very* simplified cause and effect chain, it is easy to see the benefits of understanding the cause and effect chains in your organization. They can make it very easy to spot exactly where in the process a problem occurred. This may not help you create a fix for the problem but it accurately shows you where the problem is.

The problem is that, even in a small business there are thousands of links between the things you do (your business processes) and your business goals. Understanding and managing every one of those links is nearly impossible. This is especially true in a small business with limited human resources. But, unless you understand the effect of each of your processes you cannot possibly expect to know which are the most important to work on.

The solution is to map and measure *only the primary cause and effect links.* If you run into a chain with a low probability of success, you can take the time to map the details of the chain to help locate the problem. This way, you are only working on the processes that are creating problems.

Clearly defining your cause and effect chain

The strength of a cause and effect link is defined by its probability of achieving the effect. If you are a poker player, you understand probability… chances are, you are NOT going to successfully draw to an inside straight. Probability is the likelihood that a particular thing will happen. Referring back to Figure 1, if you *Kick a Rock* your chance of *Breaking a Toe* may only be one in five… if you kick a rock five times it is probable that you will break a toe only once. If you *Kick a Rock Very Hard,* the probability of *Breaking a Toe* may increase to one in two.

Probability can also be expressed in percentages. *You have a 20% chance of breaking a toe if you kick a rock or you have a 50% chance of breaking a toe if you kick a rock really hard*.

To be effective for your business there must be a high probability of the "cause" resulting in the "effect". If the probability is low, we have minimal alignment. The following example has a low probability because it is too vague. There is no way to tell if you will *make a profit* if you *sell your products*. There are too many other factors involved.

Effect (goal): making a profit
Cause (process): selling your products

In this case we need to add some specifics to the cause to get a clear representation of how the "cause" creates the "effect". If you sell one product a month you can't make a profit. If you sell your products at a loss, you can't make a profit. To create a valid cause and effect, you must clarify the cause and/or the effect.

Effect: Making a profit
Cause: Selling 100 of products per month with a gross profit margin of 30%.

Now we have a good CE chain because, if we achieve the "cause" the likelihood (probability) that we will "make a profit" is high.

Effect: Make a profit on every product we sell
Cause: Selling products with a gross profit margin of 30%

Again we have a good cause and effect because the probability of the effect occurring if the cause is achieved is high. However, in this case the effect does not lead to our goal of "making a profit" unless we further specify how many products we must sell.

Cause: Sell $10,000.00 in products per month with a gross margin of 30%
Effect: Make a profit

Creating effective business goals

Now we know what a business goal is, how cause and effect chains control how likely it is that a goal will be met and how to clarify our goals… it's time to put all of this to work to create alignment in your business.

Getting started is the easy part. Just assume that the primary goal for your business is to "make a profit".

Now ask "How?" How will we make a profit?

We will use an imaginary computer store as an example. To simplify things, our computer store only sells computer hardware and repair services. It is located in a market of 20 thousand homes that has three competitors that offer the same services. Computer hardware doesn't have much of a margin. New computers have only a 15%. Computer components generally have between a 10% and 20% margin (averaging 15%). Computer service averages $30.00 per hour in revenue. Each repair takes an average of about an hour and a half. Our operating expenses are $9,000.00 per month.

How will we make a profit? (What are the requirements for making a profit?) To meet our goal of "making a profit" we choose the following goals for our store. Remember that, in our cause and effect chain, these become the "cause" of the "effect", making a profit.

1. Sell $15,000.00 in computer hardware per month with an average margin of 12.5 %. (Gross profit of $1875.00)
2. Sell 150 computer repairs, with an average revenue of $55.00 per repair. (Gross profit of $8250.00)

If we achieve these goals our business will meet its primary goal of "making a profit".

Now we look at each of the previous "causes" for our primary goal and ask, "What is required to meet these goals?"

Goal 1: (Sell $15,000.00 in computer hardware…….)

Sell 15 new computers at an average retail of $700.00 ($10,500.00 per month in gross revenue)

Sell $4,500.00 per month in computer hardware components and accessories.

Goal 2: (Sell 150 computer repairs ………) We can predict, from the industry average, that every computer will need some type of repair once every 2 years. To have 150 computer repairs per month our customer base must own at least 3600 computers. (150 repairs per month with an average of 1 repair for every 24 months equals an installed base requirement of 3600 computers) Our average customer owns one computer.

The goal: Increase our customer base to 3600 active customers.

A flow chart often makes these relationships a little easier to see.

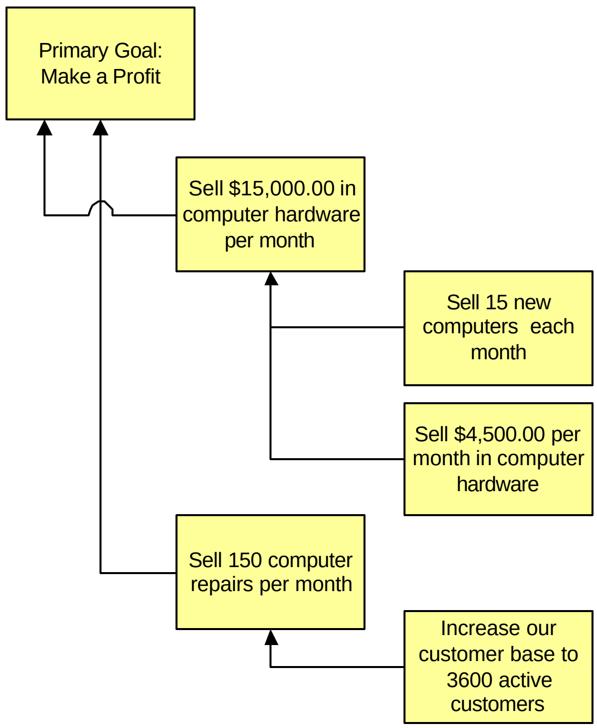

Figure 2: Partial cause and effect chain.

Let's look at where we've come so far. As you can see, we are attempting to define goals that have a high probability of producing the desired effect. This minimizes the risk of working on the wrong things. You should also be able to see that we have alignment throughout our cause and effect chain.

From this point on we will be working with a single cause and effect chain of *Selling 150 computer repairs per month.*

We have set a goal of increasing our customer base to 3600 active customers. The next step in the process is to again, ask "What is required to meet this goal?" The first step is to define an active customer as any customer that makes a purchase from us at least once a year. Within this definition, we currently have 2900 customers. We know that we cannot add 700 customers immediately so we define a time frame in which to achieve our goal. Our goal is to add 700 customers over 12 months. This makes our requirement for meeting this goal to “Add 59 active customers per month.”

What are the requirements for adding 59 active customers per month? Creating a new customer doesn’t require that they purchase anything expensive. We just need them to have some sort of relationship that will keep us “top of mind” when they need something else. We now clarify our goal to “create a relationship with 59 new customers (or potential customers) per month.

In this case we choose to initiate 3 different approaches to getting new customers.

1. Advertise sales on common, high margin, items where the price can be substantially less than our competition.
2. Advertise sales on consumables such as printer ink.
3. Offer a FREE computer checkup that checks the hard disk, power levels and cooling fans at no charge.

Our cause and effect chain now looks something like this:

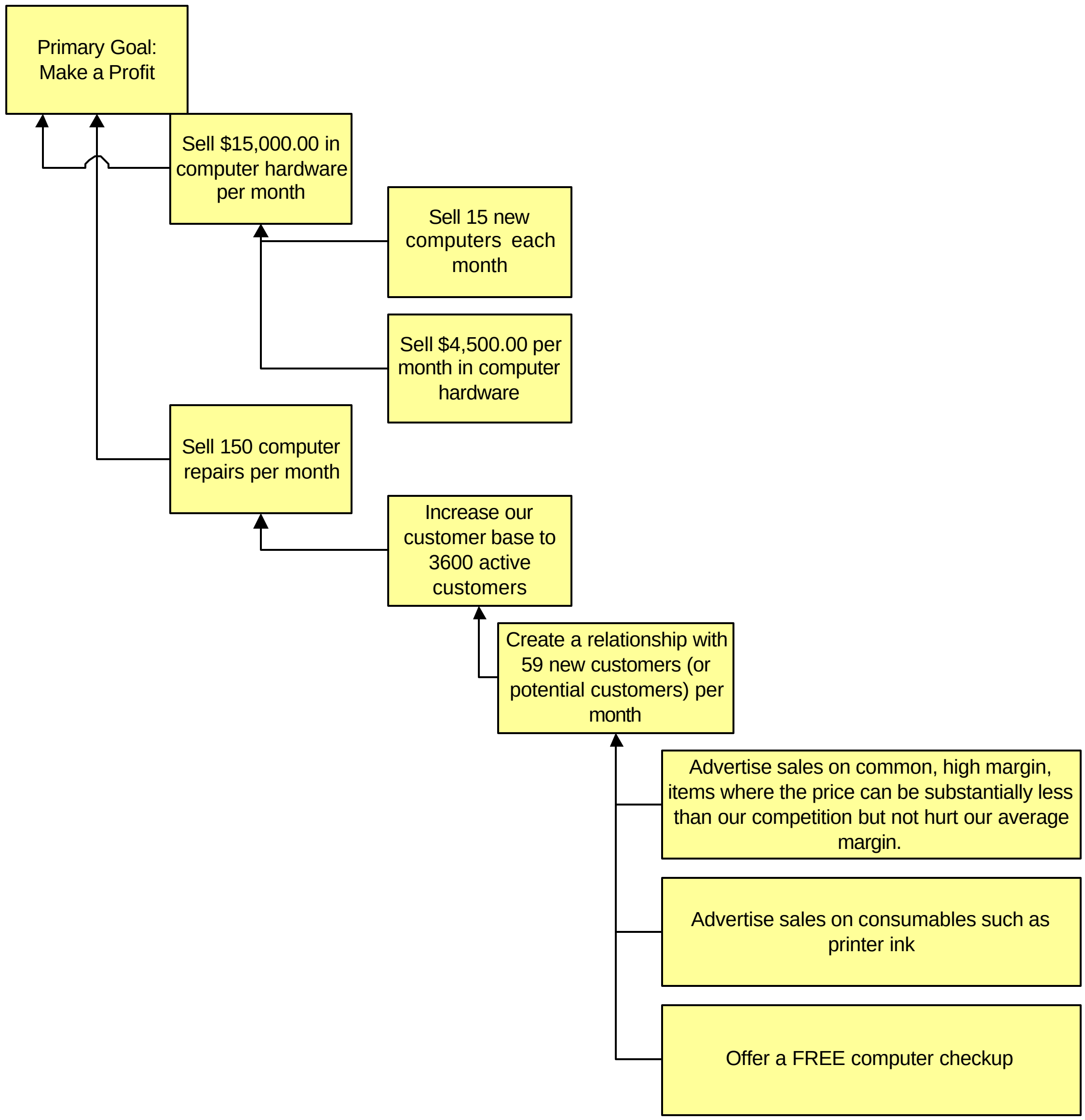

Figure 3: Partial cause and effect chain

Every step of this CE chain can be measured. We can now track our movement toward our goal every month. We will track the number of new relationships we have developed through adding new customers and giving away free computer checkups. One enhancement to this chain may be to measure each of our advertising links to see how well each one is working individually. (See Figure 4)

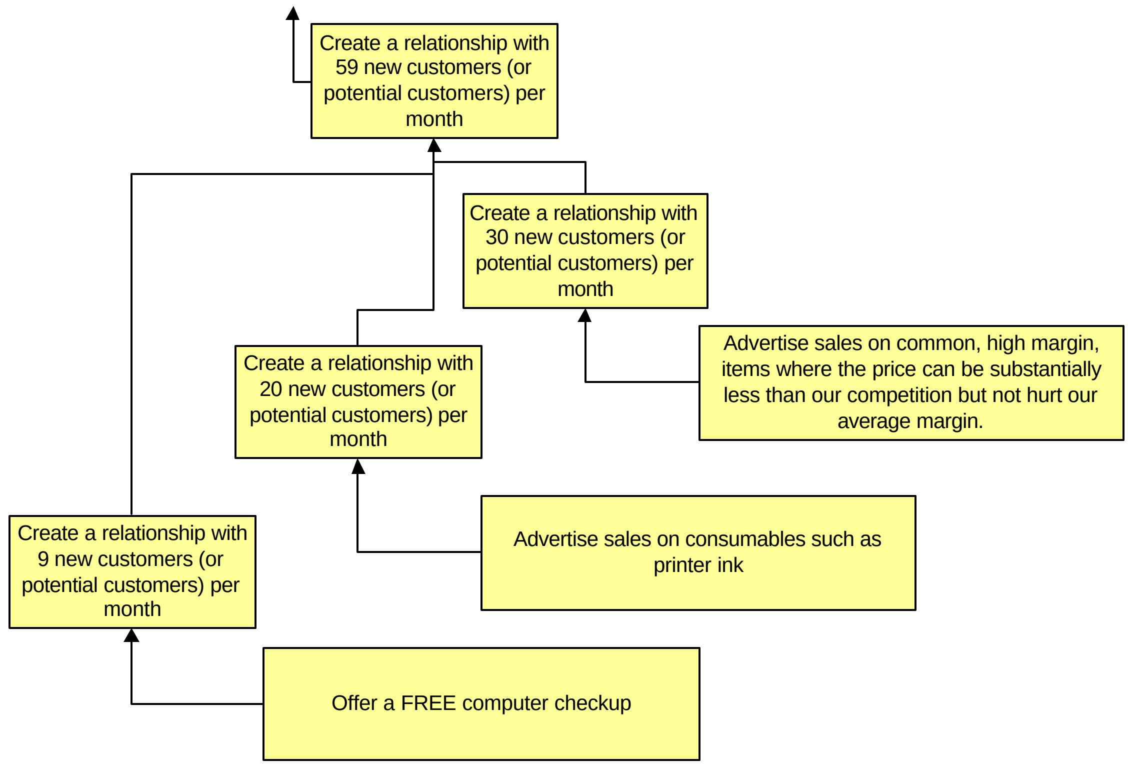

Figure 4: Enhanced advertising cause and effect chain

We now have a clear path from “advertising” to our goal of “making a profit”. With simple measures we can quickly see if we are meeting our goals. And, if we are NOT meeting our goals, we can tell exactly where the problem is. If we are achieving our goal of 59 new customers per month and our sales of computer repairs is not increasing proportionally we know that the probability of “creating 59 new customers per month” is too low to be an effective “cause”. This tells us exactly where in our processes we need to focus our attention and efforts.

Remember that we suggested that you only map the “primary” cause and effect links to limit the amount of time you have to invest. Once we locate a cause and effect link that is not proving to have a high probability of producing the required effect we may have to create a “detailed” cause and effect chain of the processes between the effect that is failing and the previous primary cause. We can then use this “detailed” chain to determine even more precisely where the break in the chain or “low probability” cause is located.

Creating your cause and effect chains can be a time consuming process even for a small business. But the benefits are huge. Once you have your cause and effect chains defined and their associated measures are set, you can review the effectiveness of your entire business in just a few minutes. You will be able to immediately locate the links that are broken and focus your attention on fixing the things that will do you the most good.

This process has the added advantage of making it easy to communicate the most important processes in your business to your managers and employees. Take another look at Figure 3. Wouldn't this be an easy way to let your employees know where their responsibilities lie?

Simply put, clearly defining your cause and chains and establishing associated measures is the most productive thing you will ever do in your business. Lets look at a short list of the benefits:

1. Alignment: Creating and publishing your cause and effect chains insures that all processes in your business are aligned with your business goals. Your employees can clearly see how their jobs affect the business.
2. Focus: Your cause and effect chains clearly point out which processes are most important to the success of your business and keeps you focused on those processes.
3. Immediate feedback: Tracking your primary cause and effect chains tell you immediately if there is a problem instead of having to wait months.
4. Focused feedback: Tracking your primary cause and effect chains tell you immediately WHERE a problem is occurring.

If you need help getting started, give us a call.

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