

The Art of Business

Prologue

- The word business defined by Chinese character script, Sheng Yi, translates into “the meaning of life.”
- Dr. Yeh extends Sun Tzu’s metaphor of organizations, including an army, as living, organic systems to compare and better understand the business organization as a living organism.
- The Art of Business is the author’s exploration into modern business practices to discover how the wisdom of Sun Tzu’s, *The Art of War*, transcends antiquity.
- Thirty leading companies are evaluated in relationship to the five Arts of War; Possibility, Timing, Leverage, Mastery and Leadership.
- Each art is its own chapter with an introduction first then presented in story form so the reader can find particular solutions without reading cover to cover.

Chapter 1

The Art of Possibility – Tao

- Dynamic flowing force described as the moral purpose or vital force that defines existence. Expressions of Tao are the Yin & Yang or light and dark where there is not one without the other.
- **Holistic** – The whole is always there.
- **Dynamic** – The whole is constantly changing.
- **Inclusive** – The whole is inclusive of Yin and Yang within one another.
- **Harmonious** – The whole is balanced with the ebb and flow of nature.

The Tao Experience

- The same questions one asks when seeking their own soul translates to Vision, Purpose and Values (VPNs) for organizations.
- **Vision** – What is our dream?
- **Purpose** – How do we fulfill our shared vision?
- **Values** – What do we stand for and how do we behave ethically?

The Yin Yang Formula

- **Yang** – Freedom and empowerment leads to accountability and investment in the organization.
- **Yin** – Accountability and discipline innate in having freedom.
- Internal freedom is the soul of a beneficial enterprise where discipline, accountability and empowerment are its byproducts.

Fueling the Winning Formula

- Trust
- Each person in the organization trusts that the organization will take care of them through job security, bonuses and employee benefits, that they trust the VPV’s are strong and worthy.
- The organization trusts that its employees believe the VPVs are strong and worthy and will do their part to achieve them.
- Trust among employees to further teamwork and expansion of their horizons.

One More Piece of the Puzzle

- The Tao begins with the dreamers.
- The dreamers often create VPVs as a way of communicating their dreams.
- These visionaries have an irresistible drive to create a freer more dignified world.

Medtronic – Restoring People to Full Life

- The word Medtronic is the combination of “Medicine” and “Electronic.”
- 1949 – Medtronic starts in an un-insulated garage with a dream of using tiny electronic devices, either implanted or attached to the body, to reduce the debilitating effects of disease.
- Medtronic currently employs approximately 30,000 people worldwide.

First Success

- Medtronic visionary, Earl Bakken, had to identify a market niche for the cash starved start-up.
- Bakken chose to focus Medtronic products on those of the highest quality and reliability.
- 1957 – Medtronic produces the first battery powered pacemaker.
- Medtronic’s pacemaker is used by 300,000 new patients each year.

Desperate Days

- 1960 – Medtronic runs out of money.
- Medtronic had lost site of its Tao (VPV).
- The Tao of Medtronic (extracted from its Mission Statement):
 - **Vision** – To contribute to the restoration of people toward full life.
 - **Purpose** – To direct growth in the areas of biomedical engineering where the company displays maximum strength and ability.
 - **Values** – The greatest possible quality and reliability.
 - Being the unsurpassed standard of comparison.
 - Being recognized as a company of dedication, honesty, integrity and service.
 - Making a fair profit.
 - Recognizing the personal worth of employees.
 - Maintaining good citizenship.

Back to the Garage

- How do you keep a corporation of 30,000 employees inspired and connected to the original vision?
 - With Rite’s of Passage.
 - Medallion ceremonies.
 - Indoctrination of Medtronic’s Tao.
 - Testimonials by patients who have been “restored to full life.”

To The Letter

- Employees are required to sign a code of conduct agreement each year.
- Violation of this code means grounds for termination.
- Medtronic merges only with other companies that share the same values.
- Medtronic’s success hinges on the ability to focus on their vision.

What Tomorrow Brings

- Not to be bogged down by projects outside its original focus of “restoring people to full life.”
- Continued budget commitment of 10% of revenue to Research and Development.
- \$50,000 grant per project for developing research projects from current employees.
- Enlarged product focus to include a wide range of chronic diseases.
- Currently, every seven seconds someone is being helped by one of Medtronic’s products.
- Medtronic’s long term goal is to reduce every seven seconds to every second.

Grameen Bank – Micro Lending for the Poor

- Lifting the poor out of the perpetual cycle of poverty.
- For borrowers that could not live without 22 cents.
- These entrepreneurs were considered unworthy by traditional banks.
- Grameen (Village) Bank was started in 1974 by an Economics Professor when he loaned 62 cents apiece to 42 street beggars.
- In one day the loans were repaid.

A Basic Human Right

- Grameen Bank was started on the premise that credit is a basic human right and the poor are as trustworthy as the rich.
- 25 years later Grameen Bank is 93% owned by 2.4 million borrowers, 95% are women and 98% have paid back their loans.
- Grameen created its own financial culture with the belief that each person should be given the tools and assistance to control her/his destiny.
- Keeping repayment of loans simple since most of its customers are illiterate.
- A set of core values for its staff and borrowers reflected in “The Tao of Grameen Bank”:
 - **Vision** – A poverty-free society
 - **Purpose** – Extending credit as a human right
 - **Values** – Discipline
Unity
Courage
Hard Work

How it Works

- Grameen will not cancel loans because of tragedies but will restructure them, there-by instilling self-reliance and confidence.
- Bank members are required to form investment groups of 5 borrowers.
- All five are in default if one borrower defaults.
- Each member is required to deposit 5% of their loan into a group fund.
- Groups must become members of a “center” comprising 8 groups that can pool their resources collectively.
- Majority members, being women, have developed another set of core values called the Sixteen Decisions.
- Sustaining culture is done with celebrations.

Sending Poverty to the Museum

- Professor Yunus' vision is to create a poverty-free society by 2050.
- The belief is that poverty does not belong to civilized human society, it belongs to museums.

Southwest Airlines – Being Whole

- The most unionized airline in the industry.
- Most dedicated employees.
- Highest customer satisfaction.
- Most profitable with:
 - 35,000 employees spanning
 - 59 airports and
 - 75 locations
- Has never laid off a single employee.
- Lowest operating cost per mile flown.
- When starting a new market SWA slashes fares by 65% and increases volume by 30%.
- Why the “South West Effect” is possible:
 - A clear and simple purpose of permanently low fares that increase revenue and profitability.
 - Total job security, profitability and affordable fares.

The Crusaders

- Herb Kelleher fought for 4 years against 15 corporate lawyers to get his vision, SWA, off the ground.
- While the battle went on employees at every level were encouraged to contribute fresh innovative ideas.
- The democratization of the skies begins to set people free to fly.
- Every employee is in the business of empowering people to fly.
- The Mission of Southwest Airlines:
 - Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.
- Creativity and innovation are encouraged.
- Employees are treated with the same concern, respect and caring they are expected to extend to SWA's customers.
- Clear purpose fosters a sense of pride and ownership.
- The mission of SWA started as a dream which is reinvented everyday through the commitment of its employees.

The Daily Dance

- SWA won the Triple Crown Award 5 years in a row for:
 - Fewest delays
 - Fewest complaints and
 - Fewest incidents of mishandled luggage.
- On-time performance depends on the coordination of 11 different functional areas.
- This coordinated effort happens 3,000 times per day.

Control? What Control?

- Herb Kelleher: “What control? Don’t have control, don’t want control, if we had control we’d screw it up, you know?”
- SWA relies on deep-seated core values and discipline.
- Organizational values help employees work together like a well-oiled machine.
- The Tao of Southwest Airlines
 - **Vision** – Liberating people to fly-democratizing the skies.
 - **Purpose** – Total job security, profitability, and affordable fares.
 - **Values** – Integrity
 - Trust
 - Mutual Respect
 - Inclusion
 - Openness
 - Excellence
 - Courage
 - Frugality
 - Initiative
 - Fun
- The result of SWA values:
 - Encourages employees to take initiative and be accountable.
 - Employees have an exceptional longevity with SWA.
 - Allows SWA to have a substantial cash balance.
 - Creates customer loyalty.

From the Beginning

- The spirit of SWA’s employees is the hardest thing for other airlines to copy or create.
- Intangibles (esprit de corps) are much more important than tangibles; the competition can buy tangibles.
- People that fit SWA’s culture of accountability, initiative and caring are hired based on service mentality and fun-loving attitude.
- The culture is so strong at SWA that peer pressure becomes a significant training influence.
- SWA acquires only other companies that hold true to the same cultural considerations.
- From the early days, “A Day in the Field” was instituted where executive officers spend the day working side by side with other employees.

Yin and Yang

- Freedom and accountability fueled by trust; a rare and precious asset.
- Trust is everywhere in SWA’s culture.
- Employees are free to arrange schedules, even days off, within their work groups.
- Employees have freedom to take action to serve and assist customers and co-workers.
- Educated on the impact of their actions, employees are not chastised.
- “Culture Committee:”
 - Reviews current strategic decisions for conformity to values.

- Communicates values to the ever growing family of SWA.
- Yearly Award Banquets celebrate those employees who have extraordinarily contributed to SWA's spirit.

Being Whole

- Once an employee is part of the SWA family they will be for life.
- The family atmosphere at SWA produces a hard working dedicated workforce.
- SWA family values give each employee's work meaning, fun and the freedom to be who they are.

Possibility – Sustaining the Dream

- For true dreamers nothing is impossible:
 - “. . . that credit is a human right,
 - that Frankenstein could be real,
 - that the masses should be liberated to fly?”
- The visionaries all have one thing in common; they have developed and nurtured a culture to manifest their dream by organizing their institution around its soul.
 - **Vision** – A shared vision provides a collective identity which will move an organization ahead as a whole.
 - **Purpose** – Guides people in the organization to move in synchrony towards its vision.
 - **Values** – Form the concrete ethical guidelines for employees and officers.
- To balance the equation, accountability and responsibility are cultivated.
- Institutionalizing the dream:
 - Celebrate – To remember their higher purpose and daily actions that have changed the world.
 - Back to The Beginning – Revisiting how and where the dream began so that new recruits can experience that dream.
 - Dignity – Reinvented every day through empowerment, inclusion and personal recognition.
 - Cultivate Culture – Chief Culture Officers will be prevalent in future organizations; corporate culture is where the dream and the higher purpose will continue to flourish.
- The Tao of truly great companies are expressions of freedom and liberation.

Chapter 2

The Art of Timing

“All of us,...,have a cubic centimeter of chance... from time to time...The...warrior...is to be alert, deliberately waiting, so...he has the necessary speed, the prowess, to pick it [the cubic centimeter of chance] up.”

Creating the Cubic Centimeter of Chance

- Create a strategic road map.
- Letting go of long held views to create lasting values.
- Clearly defining your competitive space to keep the company on a focused path.
“Think Backward While Moving Forward.”
- Know the end game vision of the company.
- Establish incremental goals to empower companies to co-create their future.
- Define the competitive space to allow dedication of resources, attention and agile speed in action.

Three Approaches to Interact With the Future

- Predict and Respond
- Predict and Influence
- Co-Create

Royal Dutch / Shell

- Using scenario analysis to create future memories Shell was aware of and prepared for the 1973 oil crisis.
- Predict and Respond.
- Not interfering with the direction of the future.

Skirmishing with the future

- Scenario planning forces decision makers to create stories about the future that weave current trends, future barriers, potential breakthroughs and other social, economic and political factors into an understandable format.
- Without scenario planning decision makers tend towards a myopic view of the world and ask short term questions.
- Shell’s process of creating future memories focuses on collaboration and synthesis rather than deep analysis:
 - Uncover the key frames of reference.
 - Identify the key drivers of change.
 - Use workshops to gather, share, test and link ideas.
 - Craft the scenarios.
 - Test and qualify the scenarios.

Shell’s Scenarios Experience

- Helped the company grow and change in the oil crises of 1973.
- Shell uses predict and respond scenario planning for both global and focused stories throughout the company.
- Decision makers at Shell consider scenario planning a cornerstone of their decision making process.

South Africa's Flight of the Flamingos

- 1994 – Using Shells' scenario planning method, guided by Adam Kahane, the Mont Fleur forum with 22 members came up with four scenarios:
 - Ostrich
 - Lame Duck
 - Icarus
 - Flight of the Flamingos

Co-Creating the Future

- Mont Fleur participants were not observers trying to adapt to the future, they were active participants trying to influence the future.
- Co-creating the future takes passionate, active participation along with an inspiration to serve a higher purpose.

Intel – Leaping into the Future with Moore's Law

- Noyce and Moore, two of the "traitorous eight" from Silicon Valley, launched Intel in 1968 and were joined by Grove one year later.
- Noyce co-invented the integrated circuit.
- Moore developed Moore's Law, a guiding force to keep pace with industry.
- Grove, a scientist turned management guru, lead Intel to the top.
- Moore's Law, Intel's end game and vision, states that the number of transistors on a chip doubles every 18-24 months.

Defining the Competitive Space

- Individual manufacturer's production of chips created limiting factors, low in volume and profit.
- Large volume of sales = high profits, therefore justifying advertising and design cost
- 3rd Try: Using silicon gate technology the chip was not too difficult to produce and not so easy as to invite early competition.
- Unappreciated sleeper product, EPROM, generated a major portion of profit for 10 years.
- When market prices dropped 90% in 9 months Intel moved into microprocessors.

Seizing Opportunities

- 1996 – Intel's Ted Hoff created the first microprocessor, the first "computer on a chip."
- Following Moore's Law, Intel continued to double transmitters on chips; they second sourced the manufacturing thereby giving profits away.
- With the introduction of the 386 chip Intel second sourced nothing, which secured its place on top of the heap.
- Controlling price and software of the 386 chip, Intel assumed the dominant position in the industry.

Strategic Inflection Point

- Instead of being fired by the board, Grove and Moore changed the course of Intel by moving out of the memory business.
- This was a strategic inflection point; change the course or disappear.

Intel's Fresh Fruit Business

- Moore's Law consistently empowered Intel's R&D and product launches.

- Moore's Law dictates capturing high volume early in a chips life.
- If high volume is not captured inventory rots.
- Industry shared expectations have increased productivity and demand for semiconductor products.

Influencing the Future

- Intel defines the curve as no one else.
- To introduce new, unknown technology Intel slashes prices.
- Marketing to end users increased Intel's market share.
- Reliability established, Intel began to move information to computer super stores through Retail Managers that educated key people in these stores.
- Field Application Engineers (FAE) provide support to microprocessor-based product manufacturers.
- Key Management Principles:
 - Invest in R&D – Budget remains steady and stable.
 - Use Minimum Information – Focus on speed and time to market instead of full understanding.
 - Outsource Equipment for Speed – Keeps Intel focused on the cutting edge.
 - Take Risks – Stay ahead of obsolescence.
 - Develop a Problem Solving Culture – Questions and applied responsibility encourages openness.
 - Strategic and Operational Planning – Synchronizes Intel's vision and goals.

When Moore's Law Hits the Limit

- Moore, with a smile, acknowledges this limit.
- Where will Intel take its technology when Moore's Law hits the Limit?

Southwest Airlines – Strike With the Force and Alacrity of a Puma

- Readiness with empowered, dedicated employees not long term planning
- SWA sticks to its plan: short haul, point to point, frequent flights, rock bottom fares, job security and profit
- At the ready, SWA is able to “strike with the force and alacrity of a puma”

Skirmishing with the Future

- What are some scenarios of the future?
 - Create 3-6 possibilities and contingency plans for each.
 - Plans are not implemented but ready responses to keep SWA from being blindsided.
 - How can we learn about our future from past history?
 - Kelleher advocated overlaying past events on the present to see where similarities might be going.
 - With this strategy he leads SWA to many anchor points instead of just one.
- What are our competitors about to do?
 - Kelleher focuses on outer conditions of market.
 - Constantly asking, “What are our competitors doing, thinking about doing?” thereby picking up bits and pieces of clues.
- How can we distract our competitors from what we're doing?
 - Lots of activity to cover actual intention.
 - Making moves that predict competitors counter moves.

- Kelleher banks on his own “unpredictableness.”
- Does an opportunity fit the SWA strategy?
 - When considering a new city-pair, SWA considers how the new city-pair will fit into the existing network of flights.
 - SWA stimulates traffic in new markets by increasing city-pair flights and reducing fares.
 - Using scenarios and precise formulas, refined synergistic levels of planning, SWA can predict within 5% what traffic will be with given fare and frequency rates.
- Do the economy and the culture support a growth opportunity?
 - Following the philosophy, “managing in good times to do well in bad times,” Kelleher waits for the “cubic centimeter of chance.”
 - Kelleher limits the amount of growth by watching the community culture.
 - When expanding SWA moves swiftly with the attitude that, “If it doesn’t work, you can always stop it.”

Co-creating a Better Future

- SWA stands poised to move quickly.
- Employees empower SWA to remain lean, speedy and agile.
- SWA co-creates a future that allows people more freedom to fly, employees with job security and profitability.

Mirror, Mirror on the Wall – The Value of Time

- When Shell looks into the mirror, it sees a myriad of possibilities wrapped into a few succinct stories, but rarely seeks to change or influence the world itself.
- When Intel looks into the mirror, it sees the pioneering role it plays in the semiconductor industry, a trailblazer.
- When SWA looks into the mirror, it sees itself creating freedom for people who wish to fly, relying on agility, wit and the spirit of SWA employees to respond with speed and innovation to any barrier or opportunity.
- What can leaders learn from Shell, Intel and SWA?
 - Start with a roadmap.
 - A roadmap requires leaders to move with fluid grace along the time scale, leaping nimbly between visioning and implementation.
 - Following the roadmap will lead them where the action *will* be.

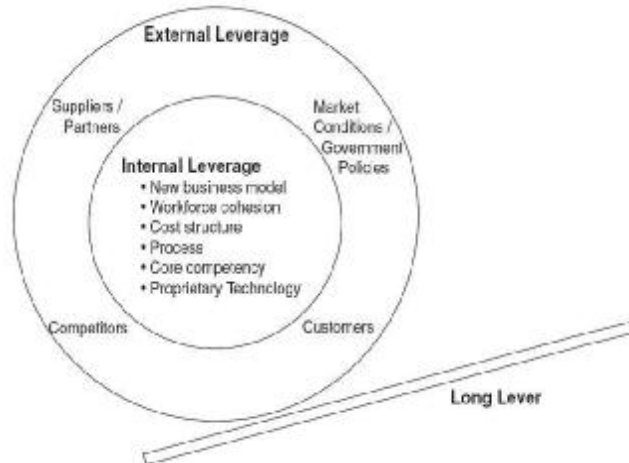
Chapter 3

The Art of Leverage

- Leveraging predictable responses.
- Leveraging pride.
- Leveraging resources or internal strengths.
- Avoid un-leveraged frontal assaults.

Points of Leverage

- Internal and external leverage help achieve great results with minimum effort.
- Where to Leverage?



The Process of Leverage

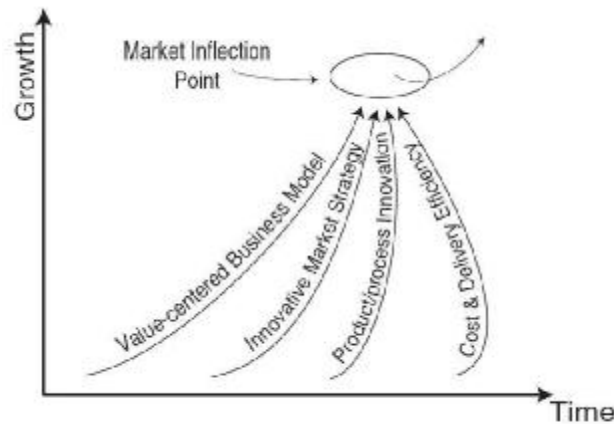
- Identify resources needed in environment without prejudice.
- Understand predictable patterns that affect resources.
- Create a space to channel patterns to your advantage.

The Market Inflection Point

- **Value Centered Model** – Based on Omidyar’s (eBay) self-subscribed values; people are basically good and will do the right thing.
- **Innovative Market Strategy** – Equal competition with only a computer and an internet connection.
- **Product and Process Innovation** – By connecting 30 million buyers and sellers, eBay has increased the social utility of the goods and services offered among participants.
- **Cost and Delivery Efficiency** – eBay is a virtual commercial crossroad and large community. It leaves the selling up to individuals.
- These categories spur new market growth at the same time lowering the price of services and products dramatically.

A Journey into the Land of Leverage

- The Effect of the Market Inflection Point



Wal-Mart – An Agent for Customer

- Sam Walton spent much of his early years gleaning retail secrets from his competitors by spending actual time in their stores.
- The Wal-Mart greeters were originally hired to cut down on shop lifting; they were kept because they also enhanced the customer service image.

In the Beginning: Small Town Strategy

- Small town customers appreciated Wal-Mart's low prices, convenient hours and large parking lots.
- Wal-Marts all over the country were established and waiting for communities to grow to them.
- Wal-Mart served small town customers by building discount stores where there were no stores at all.
- Walton's "think small" strategy:
 - One store at a time.
 - Ear to the ground.
 - Push responsibility/authority down.
 - Force ideas to bubble up.
 - Fight bureaucracy.

An Agent for Customer

- Employees are encouraged to negotiate on behalf of the customer.
- Walton understood customers wanted everything.
- Wal-Mart pioneered the idea of "a store within a store."
- Wal-Mart's guiding principle is "Always low prices."
- The disdain of discount chain stores by some major retailers allowed Wal-Mart a solid foothold in the industry.

Merchandise Driven

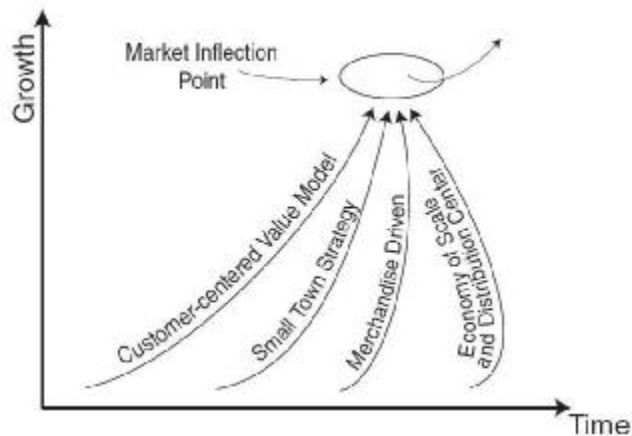
- Merchandising managers are put in charge of the stores "within the store."
- "...senior management strikes a fine balance between autonomy and control."

Cost and Delivery Efficiency

- Frugality, one of Wal-Mart's key cultural elements, says if expenses are controlled lots of different mistakes are affordable.
- It's distribution system is considered the best in the industry and is broken down by the authors as follows:
 - Hardware – Stocking > 80,000 items with a turnaround of < 2 days time from the originating order to receiving the order at origin.
 - Process – Suppliers become partners achieving maximum efficiency and savings, constantly improving the distribution process.
 - Information Technology - Wal-Mart manages information not inventory which allows management to extrapolate information showing all trends.
 - People – Dedicated employees continue to make the difference for Wal-Mart.

The Wal-Mart Effect

- The Wal-Mart Effect – Prices Go Down and Volume Goes Up



Dell Inc. – The Direct Connection

- Bypassing middlemen and recruiting “high potential” customers.
- Using the Direct Model (DM), Dell captures 40% of the world market share.

The Direct Model

- Selling products directly to end user.
- Extending the reach of its DM, Dell utilized the Internet to become legendary.

Build to Order (BTO) Strategy

- Dell's BTO strategy, resembling the fuel-injected carburetor, is based on pull vs push.
- Market pull is based on demand.
- Meeting customer demand is not enough; Dell strives to quickly respond to market conditions, competitor changes and changing customer preferences.
- Because they get what they want the first time, Dell's customers are repeat and require less support.

Market Strategy

- Segmentation
 - Dell creates complete business units around different customer types.
 - Newly emerging customer groups are quickly recognized and catered to.
- Technology Standardization

- Identifies markets whose technology is becoming standardized.
- Then, using its BTO technology, Dell strikes before commoditization occurs.

Management Principles at Dell

- Drive for customer value.
- Exchange inventory for information.
- Focus on velocity, value, and volume.
- Embrace constant change.
- Understand the criticality of coordination.

Drive for Customer Value

- Three key metrics of improvement to increase 15% during every 12 month period:
 - Order and Delivery – Orders shipped to customers by targeted date.
 - Installation and Operation – Customer calls to tech support that require a part dispatched within 30 days.
 - Service – Resolved on-site service calls within the target time frame.

Exchange Inventory for Information

- Information is easily stored and kept.
- Information is easily moved and discarded.
- Information mistakes are easier to correct than inventory mistakes.

Focus on Velocity, Volume, and Value

- Velocity – Responding quickly to changing requirements of customers and technology.
- Volume – As velocity increases volume follows suit.
- Value – Increased velocity and volume means savings for customers while compression of time adds value for stockholders.

Embrace Constant Change

- The only known constant is change.
- Dell drives changes for greater control.
- Dell sells “solutions not systems.”

Understand the Criticality of Coordination

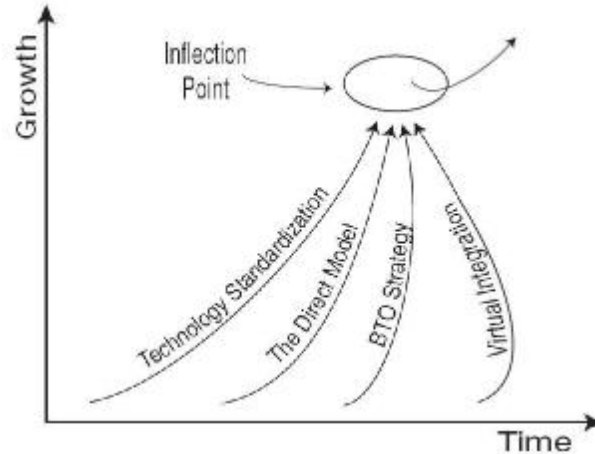
- Empowerment is critical.
- Aggressive communication.
- Coordination keeps people from working against one another.

Virtual Integration

- Ecological approach – all entities receive the same information.
- Each entity has knowledge as to what their part of the information is and acts accordingly.
- Using the “ecological approach” Dell’s business model results in virtual integration, where the sharing of information across vertical integration creates blurred boundaries.

The Dell Effect

- When Dell enters a market it typically lowers the price by 30% and quickly tries to capture a 20% market share.



Next Step?

- Revolutionizing the infrastructure of business models in major global companies?

Southwest Airlines – Think Small

- Twin pillars of success are Kelleher’s concern for his people and SWA’s ability to survive.
- The whole of Kelleher’s leverage philosophy is “Think small.”

A Value-Centered Culture

- The Power of Collective Identity
 - Employees are on a mission to liberate the skies.
 - The crusader identity channels energy into the leverage used against competitors: The un-tangible SWA spirit.
- High Performance from Bridging Work and Family
 - “Whole people within a whole company” is the characterization of SWA’s trusting culture.
 - SWA reaps the rewards of an environment reflected in a family business.
- Effectiveness of Principle-Based Relationships
 - Focus on the situation, issue or behavior, not on the person.
 - Maintain the self-confidence and self-esteem of others.
 - Maintain constructive relationships with your employees, peers and managers.
 - Take initiative to make things better.
 - Lead by example.

Market Strategy

- Filling in
 - Stabilizing the foundation, SWA spends 75% on existing routes and 25% on new markets.
 - Like Wal-Mart, SWA fills in their existing framework before venturing new city-pair flights.
- Unpredictability

- Kelleher keeps a sharp eye on his competitor's predictable patterns and leverages that predictability in his favor.
- That people judge others by their own standards gives SWA the leverage of Kelleher's un-predictable nature.
- Patience
 - Expansion is limited by maintenance of its value-centered principle-based culture.
 - Consideration as to how new city-pair flights will fit into existing network.

Service Mentality

- Two tangibles: More flights and lower fares and a less tangible: Excellent service quality.
- Even the finance department is required to hire for the same qualities as the rest of SWA does.

A Company of Families

- Inclusion
- Heavily unionized, SWA enjoys successful relationships with unions.
- Proactively builds relationships with airports and Air Traffic Controllers.

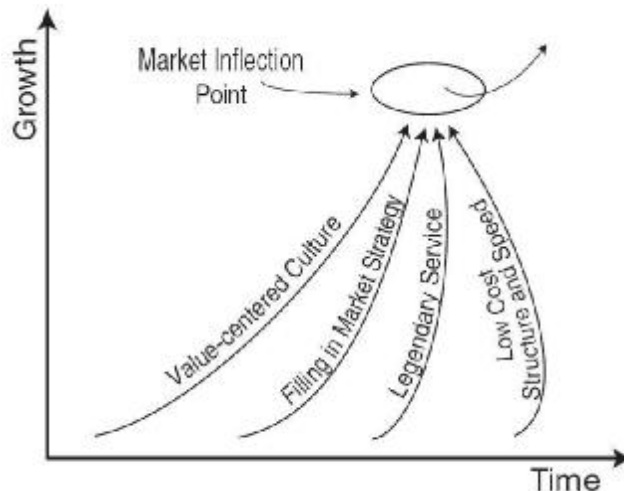
Low Cost Structure and Speed

- SWA believes it is imperative to have quick response capability.
- SWA stays quick and low cost with a strong balance sheet allowing it to do anything that happens to pop up.

Think Small

- "Think small and act small, and we will get bigger. Think big and act big, and we will get smaller."
- Courage is a necessary component of thinking small.

The Southwest Effect



Finding the Long Lever

- Identify what resources you need and where they are in your environment, regardless where they are located.
 - Dell removed middlemen from its equation.
 - SWA removed the traditional spoke-and-hub system.

- Understand the predictable patterns in and around the players that affect the resources.
 - SWA continues to leverage low cost structure and efficient delivery process.
 - Wal-Mart and Dell continue to leverage essence of vision.
- Create a channel or new space to redirect those resources for your own use.
 - Wal-Mart redirected Kmart's weekly special ads to its own advantage.
- Military Strategies and Their Leverage Points

	Defense	Offense	Flanking	Guerrilla
Principles	To block competitive moves; to attack self.	To attack the weakness of others; focus on a narrow front.	Surprise; uncontested area; fast follow up.	Start with a small, unoccupied niche.
Leverage Points	Internal strength; relationships.	Internal strength; relationships.	New model; new technology; new market.	Not on radar screen of others.

Chapter 4

The Art of Mastery

- Mastery comes from the heart.
- Depth of character and fairness balanced by a competitive spirit.
- Mastery, as defined by Lance Armstrong, is an inner passion of the heart and stillness of the mind.

A Metaphor

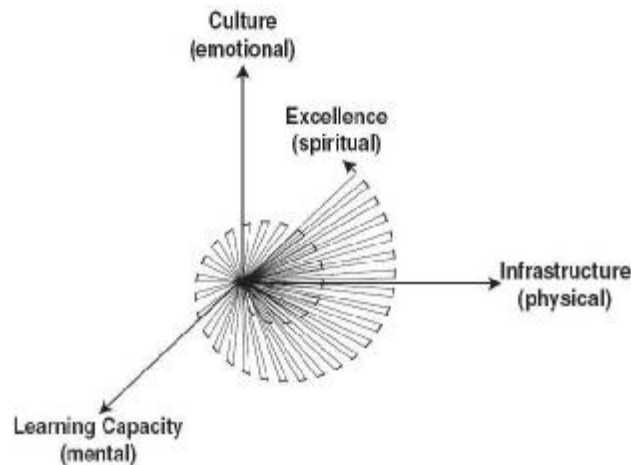
- Level 1 – Sword and Man are One – Tremendous discipline and talent.
- Level 2 – Sword in Mind, No Sword in Hand – Precision without apparent effort.
- Level 3 – No Sword in Hand or Mind – Winning without fighting, strategy with surrender to Tao.

Doing the Fosbury Flop

- Striving for the next Fosbury Flop, companies maintain awareness and balance in constant preparation.
- Leading companies prepare themselves to see and leap to the next plateau.
- Awareness and balance are the cornerstones of great leaps.

Organizational Mastery

- Balance of infrastructure, learning capacity, knowledge and culture at the same time, developing their spiritual component.
- Drive, continually raising the bar, pushing the edge.
- In addition, growth should be balanced within each of the three axes.
- Organizational Balance



Achieving Mastery

- Staying balanced while pushing the limits of possibility.
- Different elements at different levels
 - **Discipline and Talent** – Build a strong foundation for excellence.
 - **Passion** – Bonded with passion and a strong covenant with the organization is the level of “sword and man are one.”
 - **Wisdom** – In a quest for internal perfection people gain wisdom to transcend knowledge to intuition, or the level of “no sword in hand but sword in mind.”

- **Surrendering to Tao** – Living in Tao synchronizes an organization with its destiny, the level of “no sword in hand or mind.”

The Journey to Mastery

Mastery requires balance and expansion among and between infrastructure, culture, learning capability and excellence.

Singapore – Thinking Schools, Learning Nation, and Gracious Society

- Singapore’s per capita GNP went from US\$320 to US\$37,000 in a 41 year span.
- Singapore’s impossible journey was made possible by an indomitable spirit, a tremendous investment in its people and an unstoppable desire to be the best.

From Bare Survival to International Presence

- Kuan Yew Lee built on the natural resource of Singapore’s people and skill.
- When cheaper labor threatened its foothold, Singapore leapt to the next plateau.
- This plateau focused on more capital-intensive industries such as technical and services beyond labor.
- Secure in its international business architect, Singapore prepared for the next leap to economizing knowledge.

Thinking Schools, Learning Nation

- Singapore’s Education Service recognized that education would take the population from poverty to prosperity.
- The Service has created 5 “thinking schools” in Singapore.
- In 1999 Singaporean students were ranked first in math and second in science world wide!
- Singapore recruits world-class talent from other countries.
- Scholarships are offered to cultivate domestic talent.

Strive to Be the Best

- Perfect blend of traditional Confucian meritocracy with western civil service is a key part of Singapore’s excellence.
- Singapore has invested and saved more than any other nation.

Adapt to Constant Change

- Assume the future will be different from the present.
- “One-North,” a multi-government effort to allow scientists, researchers and entrepreneurs to reside and exchange ideas while working together.
- PS21 – Advocates a code of conduct with core values for customer-oriented service.
- Government executives are assigned simultaneous roles in different agencies to “broaden their horizons.”
- Singapore’s key asset is its ability to adapt.

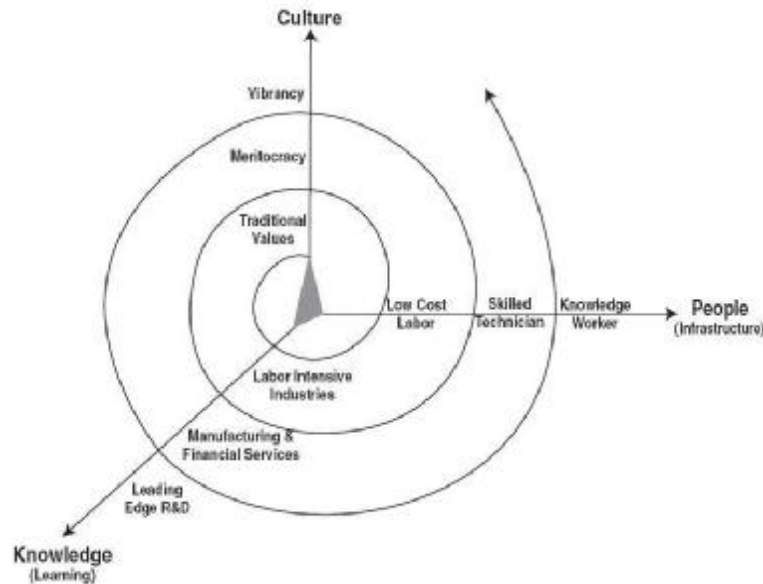
Towards A Gracious Society

- Singapore is now adding the flavor and flair of the arts to their stable culture.
- Singapore’s blueprint for success is one that is not duplicatable.
- Singapore walks the edge with grace and style.

Singapore’s Path to Mastery

- The addition of arts, giving Singapore a vibrant lifestyle, is helping them walk the edge with grace and style.

- Singapore's Evolutionary Path to Mastery



The UCLA Bruins – Be Quick but Don't Hurry

- UCLA Bruins coach, John Wooden, was more interested in his players life potential than winning championships.
- Mastery for the Bruins meant the balance to play near peak performance no matter the circumstances.
- Wooden's definition of success was the key factor in the Bruins' success.
 - “Success is peace of mind as a result of knowing you have made the effort to do the best of which you are capable.”
- Emphasis on effort not winning.
 - Practicing Under Pressure**
 - Concentration on seemingly ridiculous details helped build a solid foundation.
 - Wooden applied heavy pressure on players during practice not at games.
 - He promoted consistent precision and accuracy.
 - Constant pressure at practices created natural good performance during actual games.
 - Four Steps to Learning**
 - Making mistakes is essential to learning.
 - *The Four Laws of Learning* written by Swen Nater, one of Wooden's players, captures the essence of the coach's approach.
 - These four laws are
 - Demonstration
 - Imitation
 - Correction
 - Repetition

Balance, Balance, Balance

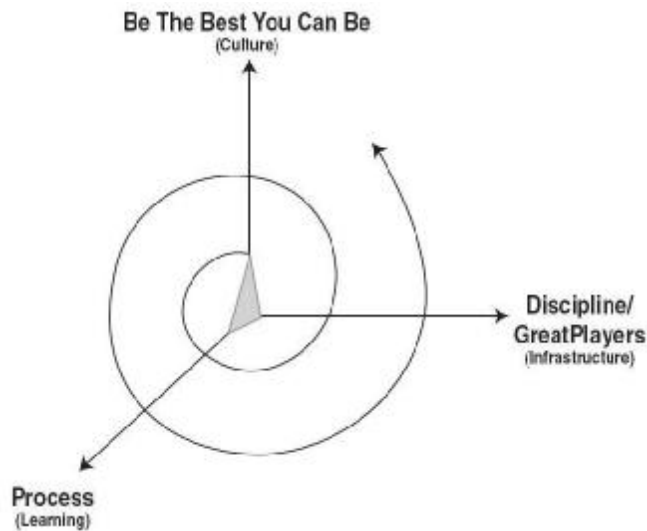
- Special attention was given to each player’s physical, mental and emotional balance.
- Focus on life skills such as precision, accountability and attention to detail was primary.
- Wooden himself practiced balance between personal and professional life, encouraging the same from the Bruins.

On the Edge

- “Be quick but don’t hurry.” Don’t cut corners.
- Wooden wanted his players to be balanced on the edge.

UCLA Bruin’s Masterful Journey

- Bruin’s Evolutionary Path to Mastery



Southwest Airlines – Lean, Fit, and Ready

- Ready, fire, aim! Otherwise too much time and energy is spent on aiming.
- Manage in good times to do well in bad times. “Be a squirrel at all times.”
- Every customer counts at SWA.
- Every penny saved counts at SWA.
- SWA has very little long term debt.

Keep It Simple

- Simplicity in processes including but not limited to rules, type of airplanes, in flight extras and cleaning personnel.
- Increased airtime – point-to-point vs hub-and-spoke.
- Simplified boarding process – no assigned seating.

Old Fashioned Values

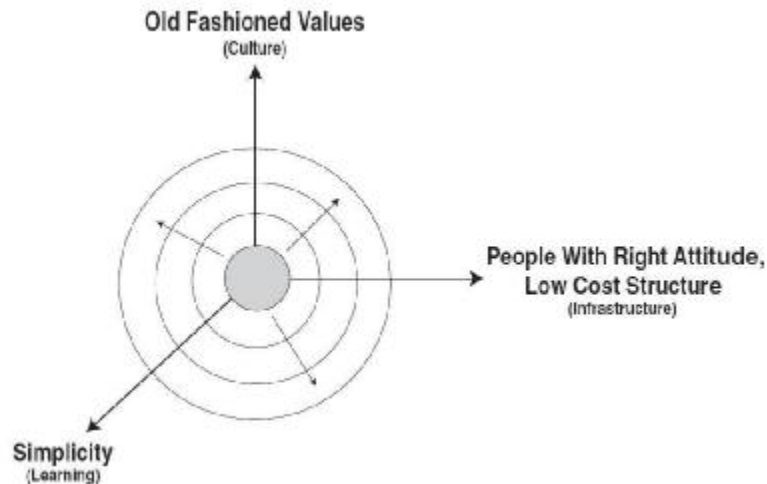
- The organization is accountable and responsible for their actions.
- SWA looks for talented and ethical team players.
- Careful attention is given to keeping employee environment stable by not adding too many new workers at once.

Lean, Fit, and Ready

- Frugality
- Focus on simplicity
- Trusting nature

The SWA Journey

- SWA's culture has always been the old fashioned value of "making a difference."
- By burning the 750-page manual SWA has kept its processes simple and streamlined.
- Infrastructure is maintained by hiring the right people and educating them on frugality.
- SWA's Evolutionary Path to Mastery



A Master's Journey

- Mastery is a never-ending journey
 - Singapore's mastery is one of continual growth.
- Mastery is About the Journey
 - The joy of Mastery is in the journey not the consequences or goals of the journey.
- Tao Determines Level of Mastery
 - Organizations whose Tao strives to make a difference in the world ascend the ladder of Mastery.
- Masters Inspire with the Impossible
 - Because they see possibilities ordinary people do not, Masters believe in and inspire with what appear to be impossible dreams.
- Keys to Mastery
 - Striving for inner achievement of excellence
 - With passionate vigilance
 - While maintaining balance.
- Ingredients of Mastery
 - Talent
 - Powerful cohesive passion
 - Surrender to a higher purpose

Chapter 5

The Art of Leadership

- Marks of a true leader
 - Releasing one’s ego.
 - Absolute commitment to succeed.
 - Alignment with a higher purpose.

What is Leadership?

- As defined by the authors:

“Leadership is the process of attracting the right people and influencing them to collaborate together towards a common vision, with unwavering resolve, while, at the same time, liberating their potential to achieve the best possible results.”
- Primary Roles of a Leader

Roles	Functions
Visionary/Architect Create the context for accountability.	Envision the future and face reality.
Teacher/Coach Mentor without taking responsibility.	Recruit the right people, train them, and mentor them.
Steward Allow the people to fulfill the potential.	Create and maintain momentum.

Walking With Leaders

Walk with K. T. Li, John Wooden, Earl Bakken and Herb Kelleher to witness how they walk their talk.

John Wooden – Success is Peace of Mind

“What impressed me most about [John Wooden] was his spirit, conviction, and his ability to totally be in the present,” says Dr. Yeh.

Early Influence

- Wooden’s mother taught him that “hard work and patience are the grist of life.”
- His father taught him “that a person’s true strength lies in his gentleness.”
- High school teacher, Lawrence Shidler, had his students write essays about success.

Be True to Yourself – The Pyramid of Success

- As a result of essays from high school, Wooden’s definition of success is happiness and peace of mind.
- Setting goals within your reach of being the best you can be.
- Using an internal measuring stick vs an external measuring stick.

- The Building Blocks of Wooden's Pyramid of Success



Be Quick But Don't Hurry

- Old adage; "Timing is everything."
- Wooden's twist on the old adage; "You don't want activity without achievement."

Focus on What You Can Control

- Points of focus for the Bruins
 - Effort
 - Teamwork
 - Inner achievement
 - Focusing on effort, not winning.

Learn

- Wooden taught the Bruins to learn by listening and experimenting.
- Making mistakes.
- Listening to their mistakes.

Walk the Talk

- Teach by being a living example.
- Walking the talk by demonstration is a leader's daily task.

Let Go

- Have faith in your teaching – letting them go to be the best they can be.
- His father's creed internalized and summarized in Wooden's own words:

"I am an ordinary man who is true to his beliefs."

Earl Bakken – Ready, Fire, Aim

- North Hawaii Community Hospital (NHCH), another dream come true for Bakken, brings Eastern and Western medicine together.

Early Influence

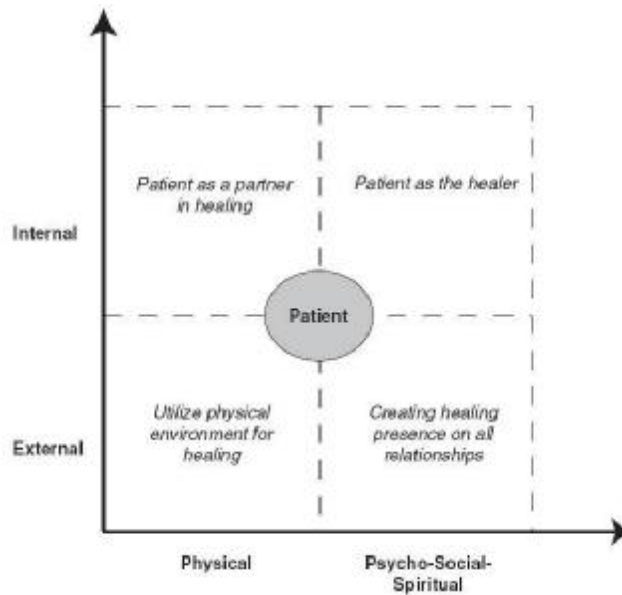
- Bakken's mother supported and encouraged his interests.
- Pastor, Dr. Christofer Hagen, told Bakken that he had a responsibility to help, not hurt with his scientific career.

Dare to Dream

- Bakken's dream come true, NHCH, displays the dream of becoming the most healing hospital in the world proudly, in a huge mural, on its entrance hall wall.
- Always communicating the Mission of the company is important.
- Exposing yourself to new ideas and technology all the time.

Create a Roadmap for the Future

- A Patient-Centered Model for Healing at NHCH



Recruit Great People

- People are the most important asset a company has.
- Listening to them is one of the best management techniques.

Customer First

Individual employees must allow themselves to touch and be touched by customers.

Ready, Fire, Aim!

- Ready – VPNs
- Fire – Action
- Aim – Persistence

- Bakken’s Application of His Philosophy to the North Hawaii Community Hospital

Need (Ready)	Resources (Fire)	Purpose (Aim)
Resource Center	Friends of the Future/Tutu's House Health Maps™	Encouraging community members to learn about and take responsibility for their own health and well being.
Healthcare & Research	NHCH, Holistic Cancer Center, Holistic Diabetes Center	Providing quality integrated holistic healthcare and state-of-the-art technology and research.
Economic Vitality Jobs & Careers	Five Mountains Hawaii	Promoting, guiding, and supporting collaborative initiatives to realize the Healing Island vision for the Island of Hawaii.
Stimulation, Inspiration, and Mentoring	Friends of the Future/Tutu's House Earl's Garage Makali'i Voyaging Program	Creating educational and cultural exploratory opportunities and incentives for children and youth.
Care Reimbursement	Medical Savings Accounts	Developing methods of healthcare financing that encourage prevention and enhance self-management of care.
Measurement	North Hawaii Outcomes Project	Gauging the effectiveness of community initiatives to assure that they improve the health-related quality of life.
Education & Research (K through Graduate)	The Kohala Center	Sustaining the natural environment, strengthening the social fabric, and developing the economy of Hawaii Island through innovations in research and education.

Herb Kelleher – Making a Difference While Having Fun

Kelleher is a legend in the worlds of aviation and business.

Early Influence

- Kelleher was raised by his mother after losing three brothers and his father in World War II.
- Kelleher is an American CEO without ego.
- He has never been concerned about position or title.

Humility

- Treat people without regard to their position and as sacred individuals.
- Humility is another trademark of leadership.

Unwavering Resolve to Succeed

- 1999 – Kelleher was diagnosed with cancer and “...kicked its ass.”
- When SWA’s Board was ready to close the doors, Kelleher offered to finance their legal expenses.

Passion

- Bill Bradley vs James Street
- Passion: Longevity vs 6 month deal.
- Herb Kelleher – God made him a friendly guy.

Walk the Talk

- Kelleher has been consistent over many years in his adherence to extraordinary ethical conduct and fair dealing.

- Herb Kelleher – WYSIWYG

Confidence

- Kelleher has the confidence to support his workers.
- Confidence to respond quickly and decisively to industry pressure.

Focus

- Total ability to make a person feel like they are the only one in the world.
- Although flamboyant in marketing ploys, Kelleher's communication to fellow workers is sincere and down to earth.
- Kelleher understands that demeanor is also a form of communication.

Be Quick But Stay Balanced

Ready, fire and if you have to, re-aim!

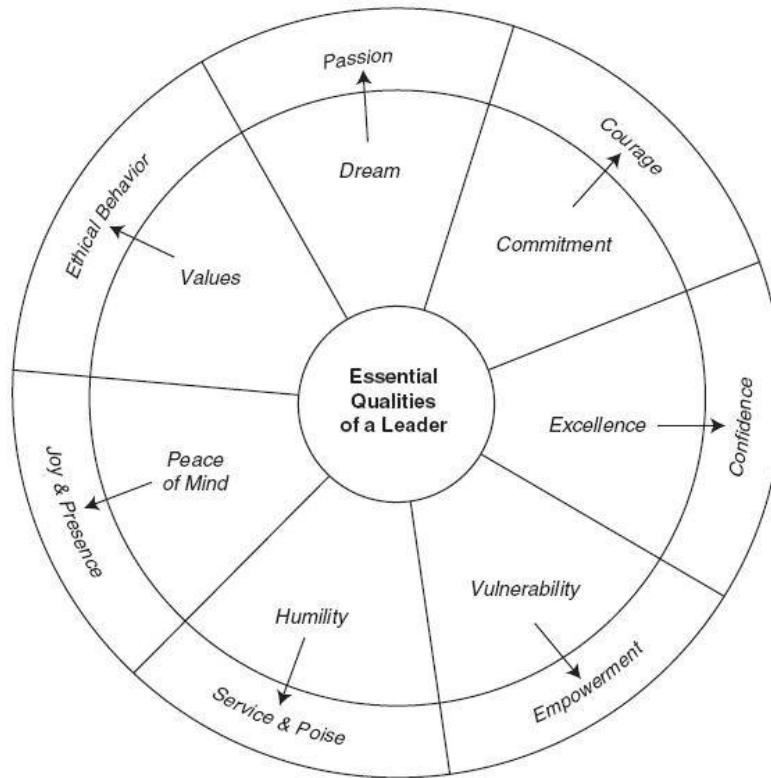
Make a Difference While Having Fun

- Being good to others and being happy about it.
- Having your own needs meant by meeting the needs of others.
- Kelleher's exuberant personality has guided SWA to real enjoyment in "making a difference."

Essential Qualities of Leadership

- **Values** – Leaders must walk their talk, period.
"Ethical behavior is an expression of how a leader upholds his or her values."
- **Dream** – Leaders subjugate their personal aims to the higher purpose of making a difference.
"Passion is an expression of a leader's dream."
- **Commitment** – *"Never give up, never give up. Never, never, never,"* Churchill.
 - Forbearance – Struggle through defeats without giving up.
 - Self-discipline – Use self-discipline to create consistency in behavior.
 - Courage – Courage, the result of commitment, becomes infectious.
"Courage is the ultimate expression of commitment."
- **Excellence** – Leaders must let go of fear and achieve confidence in their quest for excellence and Mastery.
"Confidence and a bias for action are expressions of excellence."
- **Vulnerability** – Leaders must trust their people, the diversity in each and the unique gift each one brings, to empower them to realize their own highest potential.
"Empowerment is an expression of vulnerability."
- **Humility** – Leaders that let go of their ego are able to reflect on the whole organizational picture, giving insights to better service.
"Service and poise are expressions of humility."
- **Peace of Mind** – Leaders with peace of mind owing to an inner journey, do not force their will on others and are present in the moment.
"Presence and joy are expressions of having peace of mind."

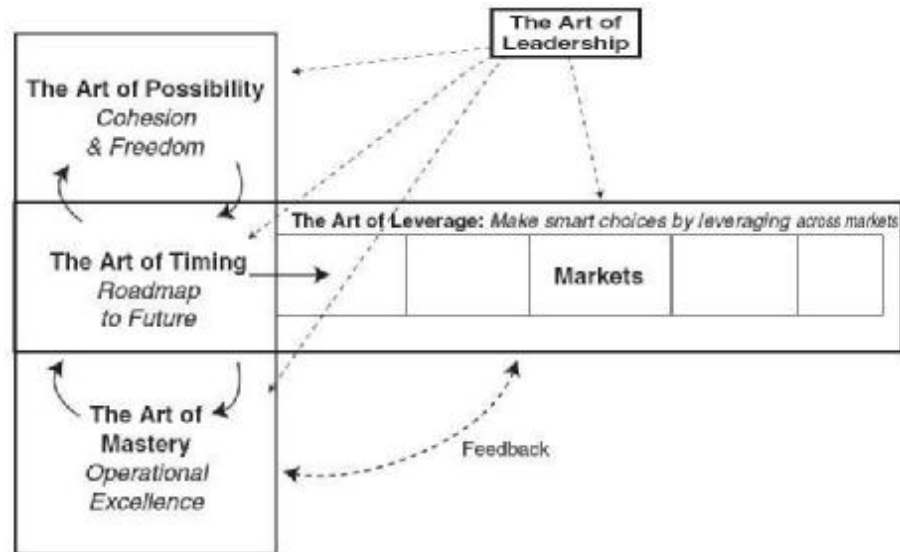
- Expressions of Leadership Qualities



Chapter 6

In the Footsteps of Giants

- The Kaufman House is a visual of the business characteristics discussed in this book.
- Businesses are living organisms, malleable with the five strategies presented here.
- Flows are the links between harmonious, mutually beneficial relationships and the always changing business environment.
- The T-Strategy
 - Art of Possibility allows the organization to find its soul or Tao.
 - Art of Timing helps the organization stay aligned with its destiny.
 - Art of Leverage allows entry into specific chosen markets.
 - Art of Mastery maintains operational excellence.
- Interrelationships Among the Five Strategic Arts



- To successfully practice these Arts one must look inside to understand and know their personal purpose. Armed with this knowledge, leaders can successfully use the five arts to:
 - Mobilize people around a shared future (Possibility).
 - Adapt rapidly to changing conditions (Timing, Leverage, Mastery).
 - Innovate constantly using the ingenuity of a company of leaders (Leadership).

Epilogue

- To define your personal path answer these questions:
 - Am I true to my beliefs?
 - How committed am I to my path?
 - Do I see and utilize the gifts each person brings?
 - Do I have time to think whole?
 - Do I put my best effort into whatever I do?
 - Am I providing joy?
 - Am I making a difference?

We leave you with this quote from Nelson Mandela's inaugural speech:

***And as we let our light shine,
We unconsciously give other people permission to do the same.
As we are liberated from our own fear,
Our presence automatically liberates others.”***