Twitter Thread by Money Theory

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The Ballad of Paul O'Neill:

Get a cup of coffee.

Today, I will talk about one of the brilliant management stories I have ever read. Let's get started.



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It was the year 1987, where a bunch of analysts and investors have teamed up to meet the new CEO of Alcoa.

Alcoa is one of the largest aluminum manufacturing firms where employees work in a dangerous environment. Millions have invested in the stock.

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Recently management has made missteps letting competitors take away profits and market share.

It was a sign of relief when investors heard about a management change.

The new CEO is Paul O Neill, who is a former Govt bureaucrat.

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AGM has started. Paul entered the stage. His only emphasis is *worker safety* He aimed to bring down worker injuries to zero.

He talked nothing about firm profits, capital ratios, taxes.

The investors were confused. They thought he is crazy and sold their shares.

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But to their surprise, the firm market value has increased from $ 3 billion in 1986 to $ 27.53 billion in 2000 while net income improved from $ 200 million to $ 1.484 billion.

What's more, all the growth occurred while Alcoa becoming one of the safest firms in the world.

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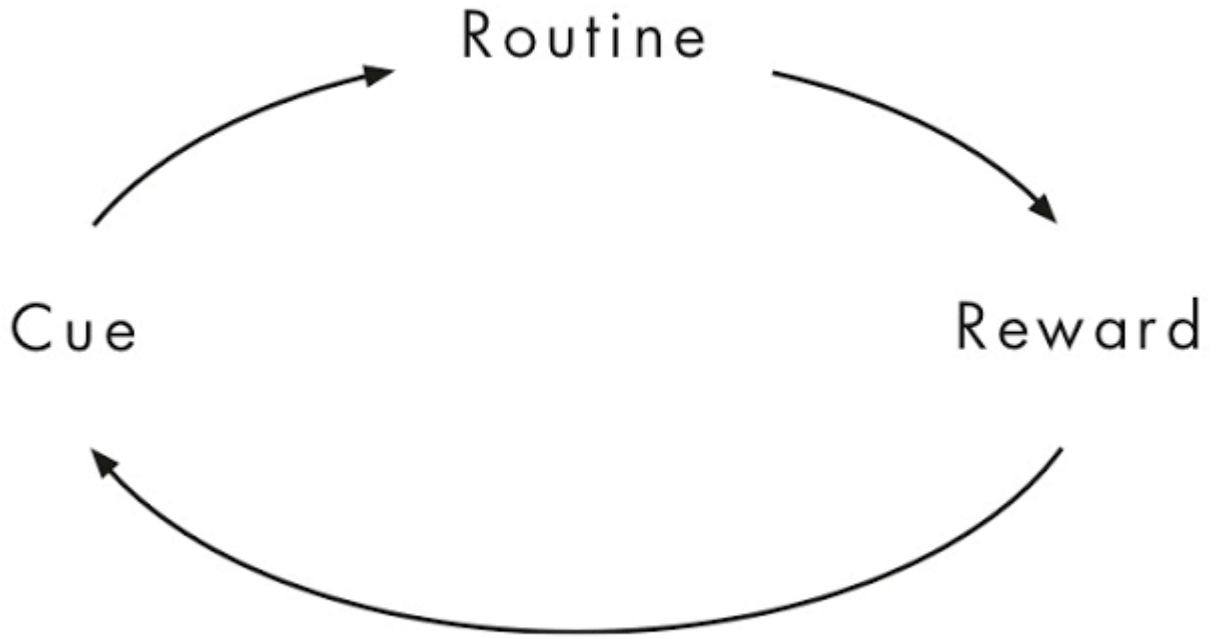
How did Paul manage to turn a dangerous firm into a profitable and a safe one?

The answer lies in understanding keystone habits.

The loop of a habit is Cue, routine, reward.

You see ice cream (cue), buy and eat it (routine), Feel happy (reward)



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We are not talking about habits in detail though. That is a topic for another day.

Keystone habits are habits that have the power to create a chain reaction and change the entirety of the form.

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For instance, take this, you exercise ➡■eat a good diet ➡■ be productive at work ➡■ create healthy relationships ➡■ improve your life.

This is what exactly Paul has done. He attacked a single habit *Worker safety* and watched it bring changes across the organization.

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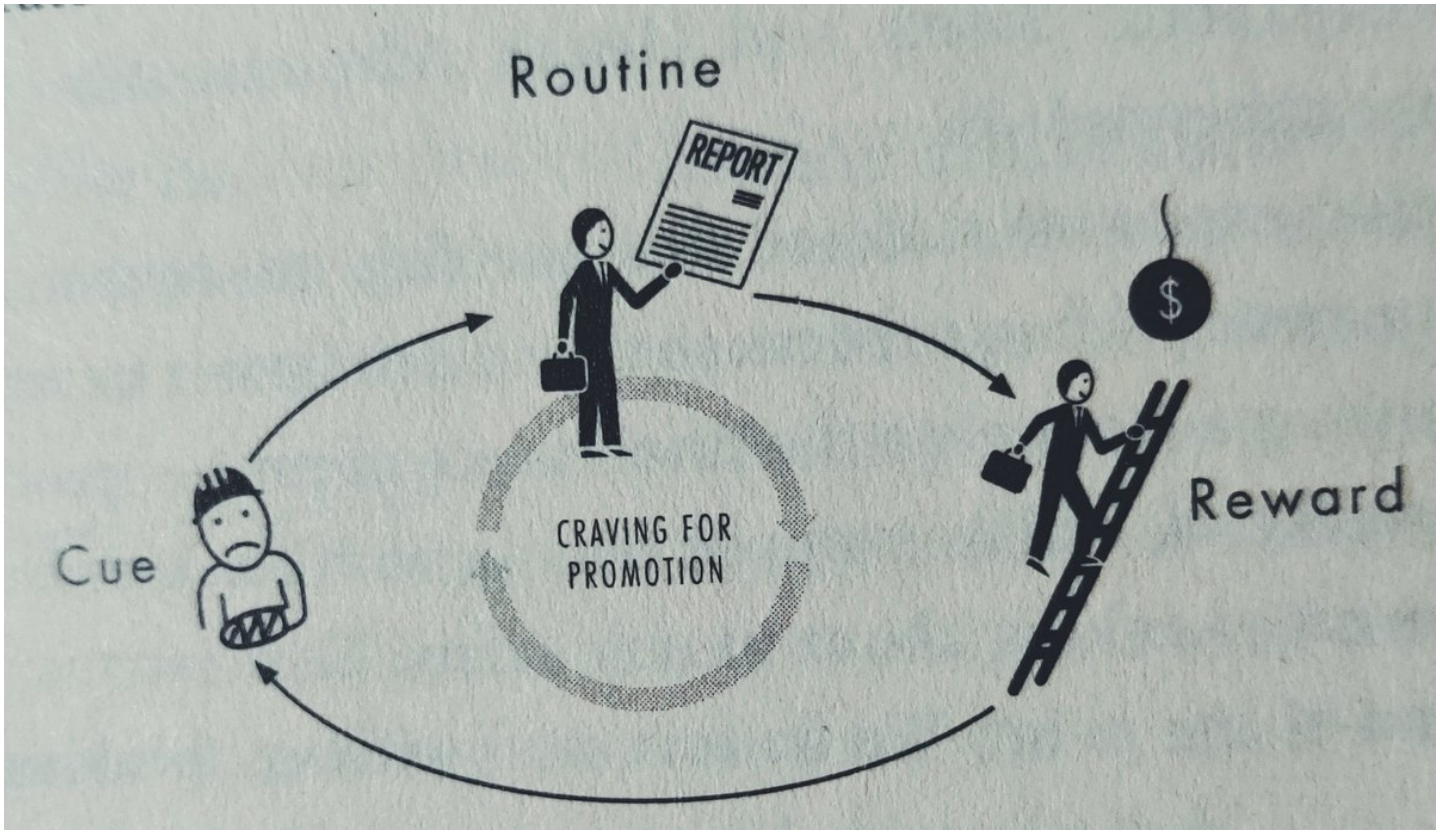
Paul identified a simple cue: worker injury.

He developed a routine: Anytime someone was injured, the unit president had to report to Paul within 24 hours.

The reward is the people who report on time get a promotion.



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The unit presidents are busy people. To report on time, they need vice presidents to be alert.

Vice presidents have to follow up with floor managers. And the managers with employees.

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As soon as, an injury happened, Paul got an alert from unit presidents. He understood why it happened.

He took corrective action to ensure from not happening of the same mistake.

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For instance, if molten metal was injuring workers when it splashed, then the pouring system was replaced.

If a machine kept breaking down, it was replaced.

This improved production and adoption of new technology improved firm efficiency.

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The second big thing Paul has done is he linked up Alcoa's offices across the world with electronic networks.

The premise is simple. To get to know about worker injuries as quickly as possible.

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At first, people have used the network to discuss safety issues. Then as email habits became more comfortable, they started posting info on other topics such as local mkt conditions, sales quotas, and business problems.

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"I would send in my accident report, and I knew everyone else read it, so I figured, why not send pricing info or intelligence on other firms," a manager said.

"It was like we had discovered a secret weapon and the competition couldn't figure out how we were doing it"

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In 2000, Paul has retired from Alcoa. Companies across America have embraced the idea of using keystone habits to remake workplaces.

For instance, At IBM, Lou Gerstner rebuilt the firm by concentrating on one keystone habit: Research and selling routines.

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I thank you for reading the full thread. I think reading is your Keystone habit and keep reading.

The entire story is from the book 'The Power of Habit' written by Charles Duhigg. I recommend reading this wonderful book. Have a great day.