

Kindermusik

Kindermusik International is a program of music and movement education for children ages one through eight. The company is the world's leading provider of instructional curricula for parents and teachers; more than 5,000 teachers use the program in the U.S. and abroad. Kindermusik is not a competitive program; instead, it is based on research about how music and movement can help develop a child's "cognitive, social, and language" skills. Another part of the business, Do-Re-Me & You focuses on organizing home parties where "consultants" sell music products and instruments designed for young children. Kindermusik also takes an innovative approach to ownership and management. It is 100% owned by an ESOP for its 65 employees and practices one of the most extensive systems of open-book management we have seen.

Becoming an ESOP

Kindermusik was started in the 1960s by a group of music educators in West Germany. It became so popular that in the 1970s, materials were translated for the U.S. and eventually made available worldwide. Headquarters were moved to Greensboro, NC. By the 1990s, the company had 96 investors. In early 2002, the company set up an ESOP to purchase 100% of the stock and became an S corporation. The leveraged ESOP financed the purchase by extending notes receivable to selling shareholders payable over 10 years. Repayment will be funded through operating cash flow.

Open-Book Management

Kindermusik is an avid practitioner of open-book management. The process revolves around a "planning pyramid organizer." At the bottom is a set of carefully defined and detailed core values, which in turn inform corporate purposes. To ensure the company's core values are incorporated into each employee-owner's daily routine, the CEO meets with each new employee-owner

and teaches these values; all employee-owners are encouraged to have the core values posted in their office for easy reference. Next up the pyramid are the targets for the next three to five years, defined by specific, measurable goals. These are translated into annual goals, quarterly actions, a weekly schedule, and a daily accountability assessment. A monthly three-hour meeting of the CEO Council (the chairman and vice presidents of the company) who were involved in the strategic process checks alignment versus the pyramid and tackles one or two major issues. The Leadership Team (consisting of 20 employee-owners, team leaders and above) were also involved in the strategic process and meet once monthly for a two-hour leadership training meeting that provides educational opportunities to discuss corporate issues.

Every morning, there is a daily huddle, starting with the CEO Council (the top leadership) from 9:05-9:20, intermediate levels from 9:21-9:36, and team meetings for all employees from 9:36-9:51. Each of these meetings discusses a "hot item," a problem, and progress toward critical numbers. These critical numbers are generally not drawn from the balance sheet or income statement, but instead are measurements that can be readily connected to specific jobs, such as average sales at a party, product velocity, party attendance, and average sales per employee. That's just the start, though. Each employee has a very specific daily "line of sight" task. It might be to "create irresistible, whimsical product on time and within budget," "welcome new consultants and energize them to party planning mode," or "pack and ship orders within 48 hours." Each year, there is an overall goal, tracked daily. This year the goal revolves around new parties to generate additional sales.

At weekly "own zone" meetings, all employee-owners gather to review the critical numbers, build the income and cash flow statements, and provide up-

dates and recognition. Each department has responsibility for specific numbers in building these statements. A "wheel of opportunity" is spun, and whoever gets picked tells about what they did to help meet a critical number. Weekly, monthly, and bi-annual management meetings look at more difficult and long-range issues. An annual all-employee meeting announces the stock allocation, celebrates success, and discusses direction. A second holiday gathering in December is a more social event.

To help keep everyone on track during all this, the "planning pyramid organizer" provides each employee-owner with a series of charts listing core values, purposes, targets, goals, actions, themes, initiatives, individual accountability, and other issues. Employees fill out the charts to track progress, with different parts needing change daily, weekly, monthly, or some longer period.

To keep the meetings moving, there is a defined "meeting rhythm." To keep people on their feet they are, literally, kept on their feet—all except the long meetings are held standing up.

Training

All of this obviously requires a lot of education and training. Kindermusik handles this primarily through performance coaching by leaders for team members. Each employee signs an ownership contract listing the specific ways in which the employee can help the company meet its critical numbers through their own line-of-sight responsibilities. The managers fill out a list of achievements and areas for improvement; both the employee and manager sign the document. Every employee-owner receives 60 minutes of coaching every month. This is not a performance review; it is a discussion of progress and challenges. The opportunity to be coached is the number one recruitment attraction, according to new employees.

All this effort seems to be working. By 2004, Kindermusik's ESOP was worth \$18 million, an impressive total for 65 participants in a plan only two years old.

NCEO