Great By Choice

Jim Collins & MT Hansen

Recently, Professors Collins and Hansen, along with their business graduate students at Stanford University and University of California, Berkeley, studied a number of large US companies to determine how a few became very successful. He called these companies 10X companies because, between 1972 and 2002, they out-gained in shareholder value their comparison companies by at least 10 times. For example, one of the companies that made this list, Southwest Airlines, which had survived the worst downturn in aviation usage after 9/11 since the Great Depression, was 550X better in that 30 year stretch. If you had bought 1,000 of their shares in 1972, they would be worth 12 million dollars today. TOO BAD. Most of us had never heard of this 3-plane commuter company in Texas that was being vigorously attacked by all the other larger airlines in Texas who saw them as a crushable upstart.

Who were the final 7 that met the criteria and made the cut to be a 10Xers?

- *Amgen – 77x better than their industry*
- *Biomet – 11x*
- *Intel – 46x*
- *Microsoft – 119x*
- *Progressive Insurance – 11x*
- *Southwest Airlines – 550x*
- *Stryker – 11x*

How did they do it? Was it their radical innovation, strategic risk taking, visionary products and services, ambitiousness above and beyond all others? Or maybe they were faster, leaner or just had better luck. What was it?

Well, the research reported in this book says it was none of the above - much to the surprise of business analysts and pundits who often cite these processes as the real difference makers. **So what really made the difference and what were the keys to their outstanding success?** Were all of these things myths that Collins challenged with new concepts of success taken from the rigorous scrutiny of his 10X companies that made the short list? The answer is YES…and here they are in abbreviated form for us to digest.

Professors Collins and Hansen break it down to 4 significant processes that they all shared:

1. Fanatical Discipline
2. Empirical Creativity
3. Productive Paranoia, and
4. Incredible Ambition and Drive.

I am going to simplify this to the **4 Ds**: Discipline, Data-Driven Decision Making, Doubt, and Drive.

Discipline

This is a form of action that is consistent with the company's values and performance standards. It was using methods that were not rigid or just following strict rules. Rather, it is built on self-discipline to be conscientious and to hold oneself accountable to these values and standards. It was very principle-driven, not knee-jerk reactions to market conditions or demands outside of the company and the CEO's vision. It was staying the course in the face of very pressing pressures to conform and follow the masses. It is described by the authors as "a perseverance to be really good at their business by a focused intensity to succeed while enjoying the process… and life in general". And part of this discipline was to collect and find the correct data to make decisions based on facts and evidence.

Data-Driven Decision Making

These companies had an overarching strategy of not making wild guesses about their business or decisions based on just a majority opinion. They would face the uncertainty that every business age and industry faces and the disagreement in their own ranks on what to do by empirical evidence. This was especially true where significant consequences were at stake. The CEO and other leaders did not turn to the opinions of peers, even conventional wisdom and intuition, or authority figures. Rather, they built a commitment to collecting and researching data that could shed light on the decision in a rational and analytical manner. This included recording what clients were saying, direct observation of clients' behavior in response to changes, practical experiments to test a market's response before launching a large and costly initiative, etc. They plodded at times when competitors were leaping to new opportunities and technology. They particularly took notice of what their competitors were doing and put together plans to better respond to changing market conditions and where there were gaps in service. This on occasion, led to some business anxiety and fear of the future and negative possibilities.

Doubt: Doubting With a Healthy Dose of Skepticism

Almost all of the CEOs in question, particularly Bill Gates and Steve Ballmer at Microsoft, considered failure as a real possibility even when their companies were skyrocketing to the best-in-class in their field. At the height of share value, when Gates was worth billions, he sent out paranoid memos regularly to his managers to be on the lookout for competitors that could crush or re-invent Windows with some real examples. When one particular memo was leaked to the press, Microsoft's stock plunged for several days until it was revealed that this was not unusual times, but par for the course with Bill. These CEO's turned their imagination frequently to "what could happen if..." there was a blowup in the economy, a radical technological breakthrough, a smart new software engineer that revolutionized their industry and they were not first to capitalize. They asked, 'how could our company spring a leak that could drain away our business, clients and corporate intelligence before we discovered it?' They often built catastrophic scenarios and hypothetically solved the issues or made a response that was in-line with company procedures and values. They were among the first to do disaster planning before the IT world claimed the words. They had systems backups, reserve cash on hand and held spending to very tight controls during down times. They were prepared when it happened and many did have uncontrollable events occur that they had planned for.

Drive and Level 5 Ambition

The CEOs, unlike the Level 5 leaders in Collins' other book, *Good to Great*, were fanatics. Initially, Collins labeled them in jest, his "PNFers"- Paranoid, Neurotic and Freaks because they were such non-conformists. Take Herb Kelleher of SouthWest. He would wear various costumes like dresses with purple boas and go to the maintenance hangers to lighten up the staff and to show his mechanics he knew they were working well into the night to get planes ready. Or Peter Lewis of Progressive Insurance, who always wore a fanatical Halloween costume like the Lone Ranger entering the building with guns blazing to the William Tell Overture. The stories go on and on. What was this quality that drove such antics? It was reasoned by the authors as a willingness to do anything to wake up staff and show employees the importance of having a good time while they worked their B**** off.

In addition, the pay and compensation records of these CEOs were remarkable. There were 7 CEOs listed in the book who brought the most value to their companies (compensation divided into Shareholder value). Dane Miller of Biomet was always #1 on the list. The reason was simple yet profound. During the great stock options payout of the 90's, when salaries were extravagant, Miller took no stock options and made sure all the employees received their fair share. His employees would have bled for him as they knew he was not greedy and was sharing the glory of the profits. Stories like this go on and on and built cultures in the 10X companies of leaders with small egos, but huge hearts and vision to make their companies successful. They had a great mixture of humility and personal drive that shaped the culture to sacrifice for the good of the company and not take the goodies and run. Sure, they had a flair for the theatrical, but they also had a ferocious willpower to see things through and could easily step aside when others more qualified were present. They wanted the company to succeed more than their personal wealth. However, in the end they all became financially successful as their equity grew.

In Retrospect

How is your company doing and how do you stack up against these success principles? Are you disciplined, sticking to your commitments and guns in the face of adversity? Are you collecting and finding data to solve your business challenges? Do you have a backup plan to avoid business crises beyond your control? Do you care enough about your company to be a little fanatical, crazy and determined in your drive to succeed in spite of personal gains? Are you willing to make the sacrifices necessary to have an impact in the business world as outlined in your original vision, to make a contribution to your industry, and to run a company that you can be proud to have built? What can you do to emulate these success stories and principles that will help you turn the corner and drive up your shareholder value? I leave you with these ideas to contemplate, to implement, and to evaluate as you move forward for the next 10 years.

If adding more selection science and improving your quality of hires is part of your strategic planning (a key component of Data-Driven Decision Making discussed above), contact us today to speak to Martin or Jason at 1-877-Hire-PHD (447-3743) or e-mail info@phdassessments.com.