Great by Choice

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Authors’ Bios:
Jim Collins studies and teaches how great companies endure, specifically – how they grow, how they attain superior performance, and how good companies can become great companies. Having invested nearly a quarter of a century of research into the topic, Jim has authored and co-authored six books that have sold more than ten million copies worldwide. The books include: the classic Built to Last, a fixture on the Business Week bestseller list for more than six years; the international bestseller Good to Great, translated into 35 languages; and How the Mighty Fall, a New York Times bestseller that examines how some great companies destroyed themselves.

Morton T. Hansen is a management professor at the University of California, Berkeley (School of Information), and at INSEAD. Formerly a professor at Harvard Business School, Morten holds a PhD. from Stanford Graduate School of Business where he was a Fulbright scholar. He is the author of Collaboration and the winner of the Administrative Science Quarterly Award for exceptional contributions to the field of organization studies. Previously a manager with the Boston Consulting Group, Morten consults and gives talks for companies worldwide.

Authors’ Big Thought: Ten years after the worldwide bestseller Good to Great, Jim Collins returns with another groundbreaking work, this time to find out: Why do some companies thrive in uncertainty, even chaos, and others do not? Based on nine years of research, buttressed by rigorous analysis and infused with engaging stories, Collins and his colleague, Morten Hansen, enumerate the principles for building a truly great enterprise in unpredictable, tumultuous, and fast-moving times. Great by Choice distinguishes itself from Collins’s prior work by its focus not just on performance, but also on the type of unstable environments faced by leaders today.
Chapter Notes
Chapter 1: Thriving on Uncertainty

- We cannot predict the future. But we can create it. We can be astonished, confounded, shocked, stunned, delighted, or terrified, but rarely prescient.
- The task remains: how to master our own fate, even so.
- Why do some companies thrive in uncertainty, even chaos, and others do not?
- What distinguishes those who perform exceptionally well from those who underperform or perform worse?
- To get at the question of how, the author and his research team set out to find companies that started from a position of vulnerability, rose to become great companies with spectacular performance, and did so in unstable environments characterized by big forces, uncontrollability, fast moving, uncertain, and potentially harmful.
- They then compared these companies to a control group of companies that failed to become great in the same extreme environments, using the contrast between winners and also-rans to uncover the distinguishing factors that allowed some to thrive in uncertainty.
- The high-performing study cases were labeled with the moniker “10X”. Every 10X case beat its industry index by at least 10 times.
- Studying leaders in an extreme environment is like conducting a behavioral-science experiment, or using a laboratory centrifuge: throw leaders into an extreme environment, and it will separate the stark differences between greatness and mediocrity. This study looks at how the truly great differed from the merely good in environments that exposed and amplified those differences.
- They developed the concepts in this work from the data gathered, building a framework from the ground up. They followed an iterative approach, generating ideas inspired by the data, testing those ideas against the evidence, watching them bend and buckle under the weight of evidence, replacing them with new ideas, revising, testing, and revising yet again, until all the concepts squared with the evidence.
Chapter 2: 10Xers

Key Points

- The researchers named the winning protagonists in their research “10Xers” (pronounced “ten-EX-ers”) because they built enterprises that beat their industry’s averages by at least 10 times.
- The contrast between Amundsen and Scott in their epic race to the South Pole is an ideal analogy for their research question, and a remarkably good illustration of the differences between 10Xers and their comparison companies.
- Clear-eyed and stoic, 10Xers accept, without complaint, that they face forces beyond their control, that they cannot accurately predict events, and that nothing is certain; yet they utterly reject the idea that luck, chaos, or any other external factor will determine whether they succeed or fail.
- 10Xers display three core behaviors that, in combination, distinguish them from the leaders of the less successful comparison companies:
  - **Fanatic discipline**: 10Xers display extreme consistency of action-consistency with values, goals, performance standards, and methods. They are utterly relentless, monomaniacal, unbending in their focus on their quests.
Empirical creativity: When faced with uncertainty, 10Xers do not look primarily to other people, conventional wisdom, authority figures, or peers for direction; they look primarily to empirical evidence. They rely upon direct observation, practical experimentation, and direct engagement with tangible evidence. They make their bold, creative moves from a sound empirical base.

Productive paranoia: 10Xers maintain hypervigilance, staying highly attuned to threats and changes in their environment. Even when – especially when – all is going well. They assume conditions will turn against them, at perhaps the worst possible moment. They channel their fear and worry into action – preparing, developing contingency plans, building buffers, and maintaining large margins of safety.

- Underlying the three core 10Xer behaviors is a motivating force: passion and ambition for a cause or company larger than themselves. They have egos, but their egos are channeled into their companies and their purposes, not personal aggrandizement.

Unexpected Findings
- Fanatic discipline is not the same as regimentation, measurement, obedience to authority, adherence to social stricture, or compliance with bureaucratic rules. True discipline requires mental independence, and an ability to remain consistent in the face of herd instinct and social pressures. Fanatic discipline often means being a nonconformist.
- Empirical creativity gives 10Xers a level of confidence that to outsiders can look like foolhardy boldness; in fact, empirical validation allows them to simultaneously make bold moves and bound their risk. Being empirical doesn’t mean being indecisive. 10Xers don’t favor analysis over action; they favor empiricism as the foundation for decisive action.
- Productive paranoia enables creative action. By presuming worst-case scenarios and preparing for them, 10Xers minimize the chances that a disruptive event or huge piece of bad luck will stop them from their creative work.

Chapter 3: 20 Mile March – Fanatic Discipline

Key Points
- The 20 Mile March was a distinguishing factor, to an overwhelming degree, between the 10X companies and the comparison companies in the research.
- To 20 Mile March requires hitting specified performance markers with great consistency over a long period of time. It requires two distinct types of discomfort, delivering high performance in difficult times and holding back in good times. Good 20 Mile March has the following seven characteristics:
  1. Clear performance markers. They must be challenging, but not impossible to achieve, at difficult times.
  2. Self-imposed constraints.
  3. Appropriate to the specific enterprise.
  4. Largely within the company’s control to achieve.
  5. Proper timeframe – long enough to manage, yet short enough to have teeth.
6. Imposed by the company upon itself, not from the outside or blindly copied from others.
7. Achieved with high consistency.

- A 20 Mile March needn’t be financial. You can have a creative march, a learning march, a service-improvement march, or any other type of march, as long as it has the primary characteristics of a good 20 Mile March.

- The 20 Mile March builds confidence. By adhering to a 20 Mile March no matter what challenges and unexpected shocks you encounter, you prove to yourself and your enterprise that performance is not determined by your conditions but largely by your own actions.

- Failing in a 20 Mile March leaves an organization more exposed to turbulent events. Every comparison case had at least one episode of slamming into a difficult time without having the discipline of a 20 Mile March in place, which resulted in a major setback or catastrophe.

- The 20 Mile March helps you exert self-control in an out-of-control environment.

- 10X winners set their own 20 Mile March, appropriate to their own enterprise; they don’t let outside pressures define it for them.

- A company can always adopt 20 Mile March discipline even if it hasn’t had such discipline earlier in its history, as Genentech did under Levinson.

**Unexpected Findings**

- 20 Mile Marchers have an edge in volatile environments; the more turbulent the world, the more you need to be a 20 Mile Marcher.

- There’s an inverse correlation between pursuit of maximum growth and 10X success. Comparison-company leaders often pressed for maximum growth in robust times, thereby exposing their enterprises to calamity in an unexpected downturn. 10X winners left growth on the table, always assuming that something bad lurked just around the corner, thereby ensuring they wouldn’t be caught overextended.

- 20 Mile Marching wasn’t a luxury afforded to the 10X cases by their success; they had 20 Mile Marches in place long before they were big successes, which helped them to become successful in the first place.

**Chapter 4: Fire Bullets, Then Cannonballs – Empirical Creativity**

**Key Findings**

- A “fire bullets, then cannonballs” approach better explains the success of 10X companies than big-leap innovations and predictive genius.

- A bullet is a low-cost, low-risk, and low-distraction test or experiment. 10Xers use bullets to empirically validate what will actually work. Based on that empirical validation, they then concentrate their resources to fire a cannonball, enabling large returns from concentrated bets.

- The 10X cases fired a significant number of bullets that never hit anything. They didn’t know ahead of time which bullets would hit or be successful.

- There are two types of cannonballs, calibrated and uncalibrated. A calibrated cannonball has confirmation based on actual experience – empirical validation – that a big bet will likely prove
successful. Launching an uncalibrated cannonball means placing a big bet without empirical validation.

- Uncalibrated cannonballs can lead to calamity. The companies in the research paid a huge price when big, disruptive events coincided with their firing uncalibrated cannonballs, leaving them exposed. Comparison cases had a much greater tendency to fire uncalibrated cannonballs than the 10X cases.
- 10Xers periodically made the mistake of firing an uncalibrated cannonball, but they tended to self-correct quickly. The comparison cases, in contrast, were more likely to try to fix their mistakes by firing yet another uncalibrated cannonball, compounding their problems.
- Failure to fire cannonballs, once calibrated, leads to mediocre results. The idea is not to choose between bullets or cannonballs but to fire bullets first, and then fire cannonballs.
- Acquisitions can be bullets, if they remain low risk, low cost, and relatively low distraction.
- The difficult task is to marry relentless discipline with creativity, neither letting discipline inhibit creativity nor letting creativity erode discipline.

Unexpected Findings

- The 10X winners were not always more innovative than the comparison cases. In some matched pairs, the 10X cases proved to be less innovative than their comparison cases.
- We concluded that each environment has a threshold level of innovation, defined as a minimum level of innovation required even to be a contender in the game. For some industries, the innovation threshold is low, whereas for other industries, the threshold is very high. However, once the innovation threshold is exceeded, being more innovative doesn’t seem to matter very much.
- 10Xers appear to have no better ability to predict impending changes and events than the comparisons. They aren’t visionary geniuses; they’re empiricists.
- The combination of creativity and discipline, translated into the ability to scale innovation with great consistency, better explains some of the greatest success stories—from Intel to Southwest Airlines, from Amgen’s early years to Apple’s resurgence under Steve Jobs—than the mythology of big-hit, single-step breakthroughs.

Chapter 5: Reading above the Death Line — Productive Paranoia

Key Findings

- This chapter explores three key dimensions of productive paranoia:
  1. Build cash reserves and buffers — oxygen canisters — to prepare for unexpected events and bad luck before they happen.
  3. Zoom out, then zoom in, remaining hypervigilant to sense changing conditions and respond effectively.
- 10Xers understand that they cannot reliably and consistently predict future events, so they prepare obsessively — ahead of time, all the time — for what they cannot possibly predict. They
assume that a series of bad events can wallop them in quick succession, unexpectedly and at any time.

- It’s what you do before the storm hits – the decisions and disciplines and buffers and shock absorbers already in place – that matters most in determining whether your enterprise pulls ahead falls behind, or dies when the storm hits.
- 10Xers build buffers and shock absorbers far beyond the norm of what others do. The 10X companies under study carried 3 to 10 times the ratio of cash to assets relative to the median of what most companies carry and maintained more conservative balance sheets than the comparison companies throughout their histories – even when they were small enterprises.
- 10x cases are extremely prudent in how they approach and manage risk, paying special attention to three categories of risk:
  1. Death Line risk (which can kill or severely damage the enterprise)
  2. Symmetric risk (in which the downside dwarfs the upside)
  3. Uncontrollable risk (which cannot be controlled or managed)
- 10Xers zoom out, and then zoom in. They focus on their objectives and sense changes in their environment; they push for perfect execution and adjust to changing conditions. When they sense danger, they immediately zoom out to consider how quickly a threat is approaching and whether it calls for a change in plans. Then they zoom in, refocusing their energies into executing objectives.
- Rapid change does not call for abandoning disciplined thought and disciplined action. Rather, it calls for upping the intensity to zoom out for fast yet rigorous decision-making and zoom in for fast yet superb execution.

**Unexpected Findings**

- The 10X cases took less risk than the comparison cases yet produced vastly superior results.
- Contrary to the image of brazen, self-confident, risk-taking entrepreneurs who see only upside potential, 10X leaders exercise productive paranoia, obsessing about what can go wrong. They ask questions like: What is the worst-case scenario? What are the consequences of the worst-case scenario? Do we have contingencies in place for the worst-case scenario? What’s the upside and what’s the downside of this decision? What’s out of our control? How can we minimize our exposure to forces we can’t control? What if? What if? What if?
- The 10X cases didn’t have a greater bias for speed than the comparison companies. Taking the time available before the risk profile changes, whether short or long, to make a rigorous and deliberate decision produces a better outcome than rushing a decision.

**Chapter 6: SMaC**

**Key Findings**

- SMaC stands for Specific, Methodical, and Consistent. The more uncertain, fast-changing, and unforgiving your environment, the more SMaC you need to be.
- A SMaC recipe is a set of durable operating practices that create a replicable and consistent success formula; it is clear and concrete, enabling the entire enterprise to unify and organize its efforts, giving clear guidance regarding what to do and what not to do. A SMaC recipe reflects
empirical validation and insight about what actually works and why. Howard Putnam’s 10 points at Southwest Airlines perfectly illustrates the idea.

- Developing a SMaC recipe, adhering to it, and amending it (rarely) when conditions merit correlate with 10X success. This requires the three 10Xer behaviors: empirical creativity (for developing and evolving it), fanatic discipline (for sticking to it), and productive paranoia (for sensing necessary changes).
- All but one of the comparison cases also had solid recipes during their best years, yet they lacked the discipline to implement them with creative consistency, often making reactionary lurches in response to turbulent times.
- Amendments to a SMaC recipe can be made to one element or ingredient while leaving the rest of the recipe intact. Like making amendments to an enduring constitution, this approach allows you to facilitate dramatic change and maintain extraordinary consistency. Managing the tension between consistency and change is one of the great challenges for any human enterprise.
- There are two healthy approaches to amending the SMaC recipe: (1) exercising empirical creativity, which is more internally driven (fire bullets, then cannonballs), and (2) exercising productive paranoia (zoom out, then zoom in), which is more externally focused.

Unexpected Findings

- It is possible to develop specific, concrete practices that can endure for decades—SMaC practices.
- Once they had their SMaC recipes, the 10X cases changed them only by an average of 15 percent (compared to 60 percent for the comparison cases) over their respective eras of analysis. And any given element of a 10X recipe lasted on average for more than two decades. This is a stunning finding, given that all the companies in the study, 10X cases and comparisons alike, faced rapid change and unrelenting uncertainty.
- Far more difficult than implementing change is figuring out what works, understanding why it works, grasping when to change, and knowing when not to.

Chapter 7: Return on Luck

Key Findings

- The researchers defined a luck event as one that meets three tests: (1) some significant aspect of the event occurs largely or entirely independent of the actions of the key actors in the enterprise, (2) the event has a potentially significant consequence (good or bad), and (3) the event has some element of unpredictability.
- Luck happens, a lot, both good luck and bad luck. Every company in the research experienced significant luck events in the era of analysis. Yet the 10X cases were not generally luckier than the comparison cases.
  - The 10X companies did not generally get more good luck than the comparisons.
  - The 10X companies did not generally get less bad luck than the comparisons.
  - The 10X companies did not get their good luck earlier than the comparisons.
  - The 10X companies cannot be explained by a single giant-luck spike.
- They encountered two extreme views on the topic of luck. One extreme holds that luck is the primary cause of 10X success; the other extreme holds that luck plays no role in 10X success. Both views are not supported by the evidence from the research. The critical question is not “Are you lucky?” but “Do you get a high return on luck?”
There are four possible ROL scenarios:
- Great return on good luck
- Poor return on good luck
- Great return on bad luck
- Poor return on bad luck

They observed an asymmetry between good luck and bad. A single stroke of good fortune, no matter how big, cannot by itself make a great company. But a single stroke of extremely bad luck, or an extended sequence of bad-luck events that create a catastrophic outcome, can terminate the quest. There’s only one truly definitive form of luck, and that’s the luck that ends the game. 10Xers assume they’ll get a spate of bad luck and prepare ahead of time.

The leadership concepts in this hook – fanatic discipline; empirical creativity; productive paranoia; Level 5 ambition; 20 Mile March; fire bullets, then cannonballs; leading above the Death Line; and SMaC-all contribute directly to earning a great ROL.

10Xers credit good luck as a contributor to their success despite the undeniable fact that others also experienced good luck, but they never blame bad luck for setbacks or failures.

Unexpected Findings
- Some of the comparison companies had extraordinarily good luck, better luck even than the 10X winners, yet failed because they squandered it.
- 10X cases got a substantial amount of bad luck yet managed to get a great ROL. This is when 10Xers really shine, exemplifying the philosophy, “What does not kill me, makes me stronger.”
- ROL might be an even more important concept than return on assets (ROA), return on equity (ROE), return on sales (ROS), or return on investment (ROI).
- “Who Luck” – the luck of finding the right mentor, partner, teammate, leader, friend – is one of the most important types of luck. The best way to find a strong current of good luck is to swim with great people, and to build deep and enduring relationships with people for whom you’d risk your life and who’d risk their lives for you.

Epilogue: Great by Choice
- This work began with the premise that most of what we face lies beyond our control, that life is uncertain and the future unknown. And as we wrote in Chapter 7, luck plays a role for everyone, both good luck and bad luck. But if one company becomes great while another in similar circumstances and with comparable luck does not, the root cause of why one becomes great and the other does not simply cannot be circumstance or luck.
- If there’s one overarching message it would be this: greatness is not primarily a matter of circumstance; greatness is first and foremost a matter of conscious choice and discipline.
- The factors that determine whether or not a company becomes truly great, even in a chaotic and uncertain world, lie largely within the hands of its people. It is not mainly a matter of what happens to them but a matter of what they create, what they do, and how well they do it.
- It’s always possible that game-ending events and unbendable forces will subvert our strongest and most disciplined efforts. Still, we must act.
- The greatest leaders studied throughout all their research cared as much about values as victory, as much about purpose as profit and as much about being useful as being successful. Their drive and standards are ultimately internal, rising from somewhere deep inside.
• We are not imprisoned by our circumstances, the luck we get or the inherent unfairness of life. We are not imprisoned by crushing setbacks, self-inflicted mistakes, or our past successes. We are not imprisoned by the times in which we live, by the number of hours in a day, or even the number of hours we’re granted in our very short lives. In the end, we can control only a tiny sliver of what happens to us. But even so, we are free to choose, free to become great by choice.

Recommendation: Don’t miss buying this book – the summary is only a taste of the research the book delivers. The stories of great explorers and great companies are well worth reading and thinking about for days after. These are powerful lessons you can apply in your own companies or those you serve.

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Frumi has a passion for inspiring leaders to look to the future, take decisive action and maintain momentum to build profitable and sustainable companies. In a customized immersion format Frumi accelerates the creation of strategic initiatives and an action plan to implement them. She is the Trusted Advisor to call for facilitation needs.

Frumi is inspired by two colleagues – Simon Sinek, author of Start With Why and John Strelecky author of The Why Café. She can guide you to align your company’s “Why” with that of your company leaders and employees so that everyone understands the clarity of WHY you do what you do, the discipline of HOW you do what you do and the consistency of WHAT you do.

Dr. Frumi is the author of A CEO’s Secret Weapon: How to Accelerate Success available on Amazon in both Kindle and paperback formats.

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