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How to Control Your Company's Destiny

Review by Chris Murray

GREAT BY CHOICE

by Jim Collins and Morten T. Hansen

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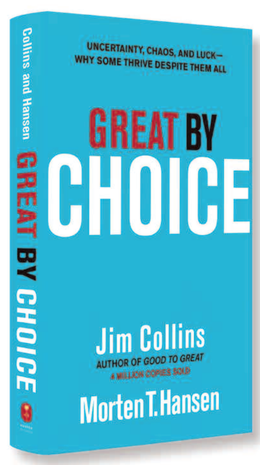
A new title by Jim Collins is always cause for excitement and anticipation for business readers who have been informed and guided by the insights of his previous best-sellers, notably *Built to Last* and *Good to Great*. In many ways, his new book, *Great by Choice,* does not disappoint. Collins offers new metaphors with compelling imagery, such as "fire bullets, then cannonballs." He presents revealing comparative stories of companies that succeeded and those that failed — describing, for example, how Southwest Airlines copied the revolutionary business plan of Pacific Southwest Airlines (PSA), then somehow used that business plan to become the only consistently successful airline of the past two decades while PSA declined and eventually disappeared. And he explodes common myths, such as the importance of innovation in the success of a company.



Collins also stays true to his groundbreaking methodology: develop an ambitious research question, translate the question into a set of statistical criteria, then use the criteria to identify two sets of companies: one set of companies that meets the criteria, and one set of comparative companies — companies operating under the same constraints and advantages as the first set of companies but that have clearly failed to meet the criteria of success. An in-depth study of the histories of the two sets of companies then reveals what the successful companies did right and what the unsuccessful companies did wrong.

In *Great by Choice*, the core question is: Why do some companies thrive in uncertainty, even chaos, and others do not? Collins and his co-author Morten T. Hansen note that the companies featured in the book were not chosen simply for their performance, but for their performance in "unstable environments." They call these companies "10X" companies because they performed at least 10 times better than the industry average in the stock market.

The Race to the Pole

The authors set up the comparison between success and failure with a description of the race to the South Pole between Roald Amundsen and Robert Falcon Scott. Amundsen succeeded brilliantly, not only reaching the South Pole first, but also getting his men back to safety after doing so. In contrast, Scott struggled painfully to reach the South Pole. He arrived after Amundsen had come and gone, and then tried unsuccessfully to get home. He and his four companions died on the return journey.

As the authors point out, the two men faced similar conditions and similar hardships. Neither was "luckier" than the other. Likewise, the unsuccessful set of companies in the book faced the same conditions and same constraints with which the successful companies had to battle; yet the unsuccessful comparative companies were as doomed to failure as Scott.

How does one survive and thrive in the Antarctic business world of the 21st century? Collins and Hansen offer three 10X behaviors — fanatic discipline, empirical creativity and productive paranoia — to which companies and their leaders must adhere if they are to survive.

Fanatic Discipline

According to Collins and Hansen, discipline refers not to the hierarchical discipline of rigidly following orders or staying in line, but to the self-discipline of being unwaveringly consistent. As the authors explain: "Discipline, in essence, is *consistency of action* — consistency with values, consistency with long-term goals, consistency with performance standards, consistency of method, consistency over time."

Collins' analogy for discipline is the 20-mile march — marching forward every day without fail 20 miles toward your destination. If the conditions are bad, your goal should still be to march 20 miles. If the conditions are good, you should *not* increase your goal. Even if the weather is nice, the roads are clear, you're well rested or whatever else might improve the conditions, you should still only aim to march 20 miles.

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In business, the 20-mile goal is translated into a performance measure. It doesn't matter what that measure might be, only that there is a consistent, unchanging goal. For Southwest Airlines, for example, the goal was simply to make a profit — every year, no matter what the conditions of the airline industry that year. But just as important to Southwest's success, according to the authors, was the company's refusal to overreach. In 1996, when 100 cities clamored for Southwest Airlines' service, the airline restrained its expansion to four cities.

Empirical Creativity

Collins and Hansen use the analogy of bullets and cannonballs to explain empirical creativity, the second of the three 10X behaviors. Imagine that you're on an 18th century warship about to be attacked, and you only have a limited amount of gunpowder. You have two choices. The first choice is to use all your gunpowder to shoot a cannonball into the side of the enemy ship. You take the shot … and miss. Now you're out of gunpowder. The second option is to use some of the gunpowder to make bullets. You shoot the bullet and miss. You recalibrate, shoot the bullet, miss again, but this time you were closer. After two more bullet shots, you have the gun calibrated correctly to make a direct hit. Now, you put the rest of the gunpowder into the cannonball and blow a hole in the side of the ship.

Translated to the world of business, "Fire bullets, then cannonballs" means that you try out something on a small scale first, make adjustments (recalibrate) and then, when you're sure you're going to have a hit, spend significant resources and time on that initiative.

It's generally at this point in a business book that some readers will question whether or not the principle described is applicable to their own companies. While Collins and Hansen provide case studies featuring companies from a number of industries, they do an excellent job of keeping the core of their message applicable to any business.

In reference to empirical creativity, the authors write about the 10X company Amgen. The firm was launched to create a product around the latest recombinant-DNA technology. According to Collins and Hansen, Amgen fired 12 bullets — experimenting with 12 applications for recombinant-DNA technology. The applications included everything from a Hepatitis-B vaccine to an epidermal growth factor for wound healing to bioengineered indigo for dyeing denim jeans.

Out of the dozen bullets fired, the protein called erythropoietin (EPO) showed the most promise. After clinical trials and securing a patent, Amgen, in the terms of the authors, "fired a cannonball" by building a testing facility and allocating capital to manufacturing and assembly. "EPO became the first super-blockbuster bioengineered product in history," the authors write.

For companies that aren't trying to build a better blue jean, the principle of taking measured steps before pouring resources into a potential growth opportunity is still a necessary concept to successfully navigate today's economy.

Productive Paranoia

Productive paranoia is the last of the three 10X behaviors. Under the umbrella concept of productive paranoia, Collins and Hansen offer three different "core sets of practices." The first two are to prepare for the worst, and to manage risk carefully. One of the best ways to prepare for the worst is to maintain significant cash reserves, according to the authors. "Compared to the median cash-to-assets ration for 87,117 companies analyzed in *The Journal of Financial Economics*, the 10X companies carried three to 10 times the ratio of cash to assets."

In their discussion on risk, the authors introduce three types of risks: death line risk, which is the type of risk that can kill an enterprise; asymmetric risk, in which the downside is larger than the upside; and uncontrollable risk, in which the action taken exposes the company to threats or conditions outside of their control. A statistical analysis of the actions of the 10X companies and comparison companies showed that comparison companies took a greater number of each type of risks.

The third set of practices is to be vigilant about changing conditions, and when change is on the horizon, to take action in response. The authors refer to this as "zoom out then zoom in" — zoom out to see what is happening or about to happen in the environment of your business, then zoom in and respond with a specific action.

Surprising Insights and Familiar Themes

Readers of Collins' earlier books will find *Great by Choice* to be a combination of surprising insights and familiar themes. Two of the more surprising insights involve innovation and luck. According to Collins and Hansen, companies in any industry must meet an innovation threshold — their products or services must offer a certain level of innovation for the company to even be "in the game." The threshold can be low or high depending on the industry. For example biotechnology has a high innovation threshold — innovations in this industry take the form of highly expensive-to-develop new drugs and scientific breakthroughs. By contrast, new insurance products have a low innovation threshold — they are rather easy to create.

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Once the threshold is met, however, further innovation is not the key to success, write Collins and Hansen. Discipline and consistency are key. For example, American Memory Systems was the first to break the 1,000-bit memory chip barrier in 1970. A small competitor, Intel, was able to come back from the overwhelming disadvantage of being second to market because, according to the authors, it focused obsessively on manufacturing, delivery and scale. Within three years, Intel chips were the best-selling semiconductor components in the world.

Luck Is Overrated

Another important insight, and one to which the authors dedicate an entire chapter, is to debunk the role that luck plays in success. Here, the rigorous methodology of the authors is particularly valuable since they are able to prove statistically that successful companies do not have any better luck than companies that fail and vice-versa. The difference is what the authors call "return on luck" — how companies handle the luck and turn it into sustainable success. That IBM asked Microsoft to develop an operating system for its personal computer may seem to be extremely lucky. The fact that IBM went to *another* company first is all but forgotten — yet it was that other company, Digital Research, which had been "luckier" than Microsoft.

While *Great by Choice* offers some interesting insights, there are also familiar themes that are starting to represent a common thread between the various works of Collins. Discipline and will are emphasized over and over again: the discipline to march forward every day 20 miles, no more, no less; the discipline to try out ideas on a small scale before launching the "cannonballs"; or the discipline to prepare for the worst before the worst happens and to take manageable risks. The authors also dedicate an entire chapter to the SMaC (Specific, Methodical and Consistent) recipe concept. In short, a SMaC recipe is a set of practices and strategies — what to do and what not to do — from which companies never waver. The authors found that 10X companies never abandoned any of the elements in their SMaC recipe. The less successful comparison companies, on the other hand, would make wholesale changes to the recipe. They were less disciplined.

Collins placed an equal amount of emphasis on discipline and consistency in his previous books. A "culture of discipline" was one of the key components of Good to Great companies, for instance, but discipline was also an important element in other concepts in *Good to Great*, from the Hedgehog concept to Level 5 Leadership.

The authors do not ignore the overlap of concepts and ideas between *Great by Choice* and previous Collins books. In a "Frequently Asked Questions" chapter, they answer such questions as why "fire bullets, then cannonballs" is different from the *Built to Last* concept of "try a lot of stuff and keep what works" (the answer: Keeping what works is not the same thing as making a big bet). Another question: How are the SMaC recipe and the Hedgehog Concept different? (The answer: The SMaC recipe translates the Hedgehog Concept into specific actions.)

The authors' explanations notwithstanding, readers will get a sense that there is a vaguely familiar current to the ideas in this book. There is a good reason: *Great by Choice* is essentially addressing the same issue as the previous Collins books. The differentiating factor in this book

— companies that survive and thrive in chaos — is not totally convincing. The advice in this book should be followed whether or not a company is trying to operate in the business equivalent of the frozen Antarctica. You shouldn't prepare for the worst because the worst is on the horizon. You should prepare for the worst, period. Also, the advice in previous books, such as get the right people on the bus, should be equally followed, irrespective of the environment. And finally, it can be argued (and in fact, the authors themselves allude to this issue at times) that the world of business is *always* a threatening, turbulent and dangerous environment.

In sum, while the parameters of the turbulent environment might have led to a new set of companies, the prescriptions in *Great by Choice* essentially apply at all times to all companies, including the companies featured in *Good to Great* and *Built to Last*. Had *Great by Choice* presented a set of radically different prescriptions for success, the credibility of the previous books would be questionable.

In truth, there are bound to be a limited list of factors for sustainable success in business. In his books, Collins and his co-authors have created a set of memorable metaphors and guidelines backed by in-depth research that should stay on the bookshelves of all business leaders, regardless of the size of their company, type of industry and even the state of the environment in which they operate.

Moving forward, however, Collins may want to dive deeper into some of the specifics of his success strategies, rather than try to create an entirely new set of strategies. He did this to some extent with his previous book, *How the Mighty Fall* (some critics questioned the lack of breadth to the book, missing the point entirely). For example, risk is a subject that needs to be further developed. A quantitative analysis featuring the number of risks taken or not taken does not adequately explain *how* to avoid taking risks, how to recognize the various types of risk, or how to rebound from a risk that backfires. The "how" is missing in a number of the concepts introduced in this book — for example, how do you know what bullets to fire? Is there a methodology to identify the "next big thing" as Steve Jobs was able to do with the Napster revolution (understanding that once the next big thing is identified, don't bet the house).

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Answering the Critics

Noting the joy with which some commentators highlight the *Built to Last* companies that have fallen, a *Fast Company* writer perceptively argued that it's easy to criticize Collins because his books are so specific with their examples and recommendations. It's true that one can hardly criticize the specifics of *Who Moved My Cheese?*

Collins is a superstar business writer and deserves to be. His books are consistently insightful, readable and memorable, and will contribute to the success of his readers. Putting some of the unanswered "how" questions aside, this is a book not to be missed. As the authors write in the epilogue: "This book and the three that precede it … are looks into the question of what it takes to build an enduring great organization." For that mission, Collins, in partnership with a new co-author and the support of a tried-and-tested methodology, delivers once again.

The authors: Jim Collins is the author or co-author of six books that have sold more than 10 million copies worldwide, including the bestsellers *Good to Great*, *Built to Last* and *How the Mighty Fall*. He operates a management laboratory in Boulder, Colo., where he conducts research, teaches and consults with executives from the corporate and social sectors.

Morten T. Hansen is a management professor at the University of California, Berkeley. He is the author of *Collaboration* and the winner of the Administrate Science Quarterly Award for exceptional contributions to the field of organization studies.

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