Great by Choice

Uncertainty, Chaos, and Luck – Why Some Thrive Despite Them All

Jim Collins and Morten T. Hansen

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.

1) “10Xers” utterly reject the idea that luck, chaos, or any other external factor will determine whether they succeed or fail.

2) 10Xers (they built enterprises that beat their industry’s averages by at least 10 times) …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.

3) 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.

4) Being empirical doesn’t mean being indecisive. 10Xers don’t favor analysis over action; they favor empiricism as the foundation for decisive action.

5) Productive paranoia enables creative action.

6) The 20 Mile March creates two types of self-imposed discomfort: (1) the discomfort of unwavering commitment to high performance in difficult conditions, and (2) the discomfort of holding back in good conditions.

7) The evidence shows the 10X companies embraced a 20 Mile March early, long before they were big companies. …every comparison company failed to 20 Mile March with anything close to the consistency shown by the 10X cases.

8) A good 20 Mile March uses performance markers that delineate a lower bound of acceptable achievement. These create productive discomfort, much like hard physical training or rigorous mental development, and must be challenging (but not impossible) to achieve in difficult times. A good 20 Mile March has self-imposed constraints.

9) A good 20 Mile March is designed and self-imposed by the enterprise, not imposed from the outside or blindly copied from others… A good 20 Mile March must be achieved with great consistency. Good intentions do not count.

10) Progressive had an unequivocal commitment to the profitable combined ratio, no matter what conditions it faced, how its competitors behaved, or what seductive growth opportunities beckoned.

12) ...in the 1980s, Safeco lost its discipline.

13) The 20 Mile March imposes order amidst disorder, consistency amidst swirling inconsistency. But it works only if you actually achieve your march year after year. If you set a 20 Mile March and then fail to achieve it -- or worse, abandon fanatic discipline altogether -- you may well get crushed by events.

14) Confidence comes not from motivational speeches, charismatic inspiration, wild pep rallies, unfounded optimism, or blind hope.

15) The principals at the Arizona beat-the-odds schools understood that grasping for the next “silver bullet” reform -- lurching from one program to the next, this year’s fad to next year’s fad -- destroys motivation and erodes confidence.

16) ...picking a good program; instilling the fanatic discipline to make relentless, iterative progress; and staying with the program long enough to generate sustained results. They gained confidence by the very fact of increasing achievement. If you beat the odds, you then gain confidence that you can beat the odds again, which then builds confidence that you can beat the odds again, and again, and again.

17) In a setting characterized by unpredictability, full of immense threat and opportunity, you cannot afford to leave yourself exposed to unforeseen events.

18) If you’re climbing in the Himalayas or journeying to the South Pole, going too far can have much more severe consequences from which you might never recover.

19) ...weak and undisciplined, and therefore exposed when unstable times come. And they will always come.

20) Amundsen clocked in at the South Pole right on pace, having averaged 15.5 miles per day... Having a clear 20 Mile March focuses the mind; because everyone on the team knows the markers and their importance, they can stay on track. ...Financial markets are out of your control. Customers are out of your control. Earthquakes are out of your control. Global competition is out of your control. Technological change is out of your control. Most everything is ultimately out of your control. But when you 20 Mile March, you have a tangible point of focus that keeps you and your team moving forward, despite confusion, uncertainty, and even chaos.

21) “In the past, I think we’ve suffered from five-year plans that represent a scenario of, ‘Gee, this is what the world would look like if everything were wonderful.’ And we didn’t rigorously use the long-range plan as a way to manage the business. The only way we’re going to get to where we want to be in five years is to make incremental progress year by year...We’ve got to get 20% of the way there every year. We can’t do 2% in year one, two, three and four, and 92% of it in year five. It will never happen that way.”

22) First, 20 Mile Marching can help you turn underachievement into superior achievement; so long as you stay alive and in the game, it’s never too late to start the march. Second, searching for—and even finding—the Next Big Thing does not in itself make a great company.
Launching an uncalibrated cannonball means placing a big bet without empirical validation.

23) We live in a modern culture that reveres the Next Big Thing... If you always search for the Next Big Thing, that's largely what you'll end up doing—always searching for the Next Big Thing.

24) 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.

25) The 20 Mile March builds confidence... Failing to 20 Mile March leaves an organization more exposed to turbulent events.

26) 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.

27) 20 Mile Marchers have an edge in volatile environments; they had 20 Mile Marches in place long before they were big successes, which helped them to become successful in the first place.

28) 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.

29) Our 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.

30) Launching an uncalibrated cannonball means placing a big bet without empirical validation.

31) 10Xers periodically made the mistake of firing an uncalibrated cannonball, but they tended to self-correct quickly.

32) 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, then fire cannonballs.

33) The difficult task is to marry relentless discipline with creativity, neither letting discipline inhibit creativity nor letting creativity erode discipline.

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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.

34) The 10X winners were not always more innovative than the 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 above the innovation threshold, being more innovative doesn't seem to matter very much.

35) 10Xers appear to have no better ability to predict impending changes and events than the comparisons. They aren’t visionary geniuses; they’re empiricists.

36) 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.

37) From a 10X perspective, the most important decisions were made before the teams even got to the mountain, months before, when Breashears sat in Boston planning and preparing. Breashears turned around and went down on May 8 because he could go down, wait for a better day, and still have reserves for another bid. Rob Hall’s team, in contrast, brought enough oxygen for only one summit bid.

38) The 10X winners in our research always assumed that conditions can—and often do—unexpectedly change, violently and fast. They were hypersensitive to changing conditions, continually asking, “What if?” By preparing ahead of time, building reserves, maintaining “irrationally” large margins of safety, bounding their risk, and honing their disciplines in good times and bad, they handled disruptions from a position of strength and flexibility.

39) They understood, deeply: the only mistakes you can learn from are the ones you survive. If you ever hit the Death Line, you end the journey—game over! ...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.

40) 10Xers build buffers and shock absorbers far beyond the norm of what others do. The 10X companies we studied 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.

41) 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.

42) 10X leaders exercise productive paranoia, obsessing about what can go wrong. They ask questions like: What is the worst-case scenario?

43) Keep it simple.
44) Howard Putnam didn’t issue some bland, generic “Southwest Airlines will be a leading low-cost airline” vacuous statement. He specified two-hour segments. He specified 737s. He specified 10-minute turns. He specified no air freight or mail. He specified no food service. He specified no interlining. He specified no seat selection. He specified cash-register receipts. Putnam’s 10 points are easy to grasp, articulate, follow, and understand what to do and what not to do. Putnam laid out a clear, simple, and concrete framework for decisions and action. Putnam’s 10 points reflect insight, based upon empirical validation about what works.

45) In total, the elements on the Putnam list changed only about 20 percent in a quarter of a century.... 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.

46) Far more difficult than implementing change is figuring out what works, understanding why it works, grasping when to change, and knowing when not to.

47) Keep in mind the original premise of the study: life is uncertain, full of big, consequential forces that we can neither predict nor control. Luck is uncertain, uncontrollable, and consequential. Indeed, we could reframe the entire study around luck and how to get a great ROL.

48) BONUS QUESTION: Who is your best luck?

49) “One should...be able to see that things are hopeless and yet be determined to make them otherwise.” —F. Scott Fitzgerald

50) We sense a dangerous disease infecting our modern culture and eroding hope: an increasingly prevalent view that greatness owes more to circumstance, even luck, than to action and discipline—that what happens to us matters more than what we do. Do we want to build a society and culture that encourage us to believe that we aren’t responsible for our choices and accountable for our performance?

51) 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.

52) We always have more to learn. And life offers no guarantees.

53) …greatness is not primarily a matter of circumstance; greatness is first and foremost a matter of conscious choice and discipline.

54) When the moment comes—when we’re afraid, exhausted, or tempted—what choice do we make? Do we abandon our values? Do we give in? Do we accept average performance because that’s what most everyone else accepts? Do we capitulate to the pressure of the moment? Do we give up on our dreams when we’ve been slammed by brutal facts?

55) 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.

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Uncertainty, Chaos, and Luck – Why Some Thrive Despite Them All
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A short Great by Choice Glossary:
1) 10Xers – beat their industry, over the long haul, by at least 10 times
2) 20 Mile March – a set, pre-decided “advance,” on schedule
   (Learned from the daily goal of Roald Admunden’s team,
   which trekked a set, pre-determined distance every day, on
   their way to the South Pole)
3) SMaC – Specific; Methodical; and Consistent
4) Bullets and Cannonballs – Bullets – an empirical test aimed at
   learning what works, it meets three criteria: low cost; low risk;
   low distraction. Cannonballs: big cost, big risk, big
   focus/energy/distraction.
   Two kinds: Callibrated (based on empirical validation)
   vs. Uncallibrated (you don’t want many of these!)
5) The Death Line – the end, with no coming back.
   (you don’t want this – “duh!”)
6) Luck – there’s good luck, there’s bad luck. And it is in the
   response to bad luck that the tale is told… ROL – Return on Luck.

The book:
• The 10X Companies, (through 2002): Amgen (24.0X) – compare to
   Genentech; Biomet (18.1X) -- compare to Kirschner; Intel (20.7X) --
   compare to AMD; Microsoft (56.0) -- compare to Apple; Progressive
   Insurance (14.6) -- compare to Safeco; Southwest Airlines (63.4) --
   compare to PSA; Stryker (28.0X) -- compare to United States Surgical
   Corporation, USSC)

• And – note: “Regarding the selection of Apple as a comparison case,
   we’re aware that as of this writing in 2011, Apple stands as one of the
   most impressive comeback stories of all time. Our research lens for the
   Microsoft-versus-Apple contest focused on the 1980s and 1990s, when
   Microsoft won big and Apple nearly killed itself. Companies can indeed
   change over time, from comparison to 10X, and vice versa. It is always
   possible to go from good to great.”

The chapters:
1) Thriving in Uncertainty
2) 10Xers
3) 20 Mile March
4) Leading Above the Death Line
5) SMaC
6) Return on Luck

It is the decisions, the choices, made by companies, led by leaders who are crystal clear about what they intend, that set some companies above the others.

Companies are not great by accident – they are great by choice.
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.

The major lessons:

1) 10Xers exemplify **fanatic discipline** (utterly relentless, monomaniacal, unbending in their focus on their quests)

2) 10Xers exemplify **empirical creativity** (direct observation, practical experimentation, and direct engagement with tangible evidence)

3) 10Xers exemplify **productive paranoia** (channeling their fear and worry into action, preparing, developing contingency plans, building buffers, and maintaining large margins of safety).

• About 20 Mile Marches -- 20 Mile Marching helps turn the odds in your favor for three reasons:
  1. It builds confidence in your ability to perform well in adverse circumstances.
  2. It reduces the likelihood of catastrophe when you’re hit by turbulent disruption.
  3. It helps you exert self-control in an out-of-control environment.

• A good 20 Mile March has the following seven characteristics:
  2. Self-imposed constraints.
  3. Appropriate to the specific enterprise.
  4. Largely within the company’s control to achieve.
  5. A proper timeframe—long enough to manage, yet short enough to have teeth.
  6. Imposed by the company upon itself.
  7. Achieved with high consistency.

What is your 20 Mile March?

• **Productive Paranoia**
  1. Build cash reserves and buffers—oxygen canisters—to prepare for unexpected events and bad luck before they happen.
  2. Bound risk -- Death Line risk, asymmetric risk, and uncontrollable risk -- and manage time-based risk.
  3. Zoom out, then zoom in, remaining hypervigilant to sense changing conditions and respond effectively.

• **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. Asymmetric risk (in which the downside dwarfs the upside)
  3. Uncontrollable risk (which cannot be controlled or managed)...
     they push for perfect execution and adjust to changing conditions.

• 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.

Developing a SMaC recipe, adhering to it, and amending it (rarely)...

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...greatness is not primarily a matter of circumstance; greatness is first and foremost a matter of conscious choice and discipline.

From the review by Bob Morris (on our blog):

In the Epilogue, Collins and his associates acknowledge their sense that “a dangerous disease” is infecting today’s culture, one that incorrectly suggests that greatness “owes more to circumstance, even luck, than to action and discipline.” Yes, they agree, good or bad luck plays a role for everyone, including 10Xers and Level Fivers. However, they offer an eloquent reassurance that many of us need to hear: “The greatest leaders we’ve studied throughout all our research cared as much about values as victory, as much about purpose as profit. As much about being useful as being successful. Their drive and stamina are ultimately internal, rising from deep inside.”

Some Takeaways...

1) **Cultivate productive paranoia. Assume!** that the worst can happen (the worst outside of your control). Prepare for it! (Remember that we function in a VUCA world: Volatile; Uncertain; Complex; Ambiguous – and the greatest of these is **uncertain**…)

2) **Set your 20 Mile March regimen/routine.** Plot it out, do it, stick to it, no matter what! – The long haul, and only the long haul, reveals who is serious, and who will prevail…

3) **Store up plenty of cash...**

4) **Be creative **enough**; innovate **enough**.** And that’s enough. Do the other stuff, with enough innovation, and you will endure.

5) **And... not in the book, but modeled throughout the book – read widely. Not just a lot – but widely.** Read about business, and companies; but also read philosophy, and read about mountain climbers and explorers... Learn from a vast array of sources.