



CONFERENCE BUILDERS UPDATE

How we are preparing people to
THRIVE IN THE CHALLENGE OF CHANGE

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Conference Builder Update # 3: Interview with Jim Collins – AME Conference Keynote

Making the Tough Calls

"Great decisions stem from saying "I don't know."

Jim Collins, Good to Great, & Built to Last

The **Tough Calls** this fall are only beginning for Leaders & companies who are committed to make change happen inside their walls. Few calls are easy in the face of the challenges presented by the 6 revolutions spotlighted at this year's AME conference.

And part of dealing with that challenge – **as well as surviving as a manufacturer** - is getting better and better at making the **Tough Calls**.

A good place to start on this topic would be to review the attached and then hear what **Jim Collins** has to say as he is the man who brought us "**Built to last**" and "**Good To Great**." Jim is the top keynote at the huge AME lean Conference in Dallas October 16-20th – the largest ever presented by AME in 22 years. (www.ameconference.org)

The following is actually an interview Jim did with Jerry Useem of Fortune Magazine back in June of 2005. Jim is a Harvard Professor and avid rock climber. He is constantly quoted from one side of North America to the other relating to making the 'tough calls' that must be made if you are to get the right folks on the bus".

For everyone in operations who must make those "**Tough Calls**" you will find value here. And although he refers to large companies in his answers, think about the common sense - 'True North' - principles behind each of the things he suggests. Here is another golden opportunity to 'steal/learn with pride all you can.

As you listen to what Jim has to say you will pick up his appreciation that sustainable/lasting excellence in corporations seems to **stem less from decisions about strategy than decisions about people.**" Here is the interview.... You will see him in Dallas.

Jerry: What were the surprises when you reexamined your research through the lens of decision-making?

JIM: We tend to think that decisions are very much

about "what." But when I look at my research notes and I look at interview transcripts from the executives we've interviewed, one theme that comes through is that their greatest decisions were not "what" but "who." They were people decisions.

Jerry: Why are people decisions so important?

JIM: Fundamentally, the world is uncertain. Decisions are about the future and your place in the future when that future is uncertain. So what is the key thing you can do to prepare for that uncertainty? You can have the right people with you.

Let's take a non-business case and a business case to illustrate the importance of the people piece: In 1978, Jim Logan and his partner, Mugs Stump, became the first people to climb the Emperor Face of Mount Robson in the Canadian Rockies. And to this day, everybody else who's tried the face has either died or failed on the route. When I asked Logan, "Why were you able to do the Emperor Face?" he said, "Because I made the single most important decision, I picked the right partner."

He told me that there was this one place, the "death zone," and once they went above it, they really couldn't retreat. They were going to either summit or die-no going back. They didn't know what they were going to find beyond that point, and they didn't know what the weather was going to be. And so, therefore, what's your greatest hedge against uncertainty? Having people who can adapt to whatever the mountain throws at you.

Jerry: Give us the business example.

JIM: let's take the story of a company heading into a very uncertain world: Wells Fargo in the late 1970s. Everybody knows the storm of deregulation is going to hit. But nobody knows precisely how it's going to shake out. When is it going to hit? What exact form is it going to take? What impact is it going to have on the banking industry? Dick Cooley, chief executive of Wells Fargo at that time, was very clear with us when we did our



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research. He said, in essence, I did not know what we were going to have to do to prevail through deregulation, because it was an uncertain set of contingencies too many of them. But I did know that if I spent the 1970s building a team of the most capable executives possible, they would figure out what to do when deregulation hit. He couldn't lay down a plan for what was going to happen, because he didn't know what was going to happen. So his decision was actually a bunch of decisions about getting the people who could deal with whatever deregulation turned out to be.

Jerry: Okay, but once you have great people in place; you still have to make decisions.

JIM: Great decisions begin with really great people and a simple statement: I don't know. The research evidence on that is very clear - ***that the leaders who ended up setting things in place that produced extraordinary results over time, and a series of great decisions over time, really were very comfortable saying "I don't know" until they knew.*** And really, they were just being honest. I mean, which is best? Lying - meaning saying you don't know when you've already made up your mind? Or presuming to know when you don't, and therefore lying to yourself? Or speaking the truth? Which is, "I don't yet know, but I know we have to get it right."

Jerry: How do you say that without looking irresolute? Don't people expect leaders to say clearly, "Here's where we're headed"?

JIM: That's the typical thing that happens in companies. The CEO has already made a decision, and his definition of leadership is to get people to participate so that they feel good about the decision he has already made.

Jerry: What's wrong with that?

JIM: For one thing, you're ignoring people who might know a lot that would be useful in making the decision. You're accepting the idea that because you're in the CEO seat, you somehow know more or you're smarter than everyone else. But what you're really doing is cutting yourself off from hearing options or ideas that might be better.

Jerry: How do you create the kind of atmosphere where information flows freely?

"When you have to make a choice and don't make it – that is in itself a choice."

William James.

JIM: You have to recognize that your position can be a hindrance to getting the best information. And so can your personality. My own greatest enemy is *my* personality - I can convince the people on my team of a point of view. I'm older than they are. I've done more research than they have. I know more than they do. I can influence them perhaps too much and therefore not get the best answers. So when we were doing the research for Good to Great, I built a culture that began with disagreements, that set people up to disagree with each other and with me.

I tried to increase what I call *my* questions-to-statements ratio. I learned this from the Good to Great leaders we were studying. They were just marvelous at igniting dialogue and debate with Socratic questions. And I tried to make heroes out of those on my team who identified flaws in my thinking. At the next meeting I might say, "I really want to give Leigh or Brian or Stefanie credit. She really pushed my thinking, and I wasn't looking at this right."

I looked for people with a streak of irreverence and independent thought. One of my favorite researchers is a young man who went to Princeton, majored in medieval literature, and then joined the Marine Corps. Now, that's independent thinking. I wanted him on my team because he's not going to care what I think.

The really critical part came in designing the research so that for every piece of the puzzle - for every case, every analysis - someone on the team knows that piece as well as I do or better. This was a key mechanism to reduce the odds that my authority and strong personality would override the evidence.

Does having that kind of team make it harder to reach consensus? I really want to underscore something. This is not about consensus.

Jerry: You mean it depends on conflict?

JIM: That's the key. What we found in companies that make good decisions is the debate is real. When Colman Mockler at Gillette is trying to decide whether to go with cheaper, disposable plastic razors or more expensive ones, he asks marvelous questions. He's Socratic. He pushes people to defend their points of



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view. He lets the debate rage. And this is, by the way, not an isolated case. We found this process in all the companies we studied, when they made a leap to greatness. The debate is real. It is real, violent debate in search of understanding.

Jerry: And then in the end, the leader makes the call?

JIM: Yes. It's conflict and debate leading to an executive decision. ***No major decision we've studied was ever taken at a point of unanimous agreement.*** There was always some disagreement in the air.

Jerry: Doesn't that make it hard to carry out the decision?

JIM: Our research showed that before a major decision, you would see significant debate. But after the decision, people would unify behind that decision to make it successful. Again, and I can't stress this too much, it all begins with having the right people - those who can debate in search of the best answers but who can then set aside their disagreements and work together for the success of the enterprise.

Jerry: Okay, so creating a debate is crucial. What are some other ingredients of great decisions?

JIM: Most people start with the outside world and try to figure out, how do we adapt to it? Greatness doesn't happen that way. It starts with an internal drive. And there's a really key question with big decisions: What is the truth of this situation? There are three parts to this question. The first *is* internal: What are our real core values and our real aspirations? I mean, what do we really stand for? What do we really want to get done? What is internally driving us? I believe that it is the internal imprint that drives all the action. Everybody harps about "It's all about responding to the outside world." ***But the great companies are internally driven, externally aware.***

So the first question is what is really driving us internally? The second question is, what is the truth about the outside world? And in particular, What is the truth about how it operates and how it is changing? And the third question is, When you intersect our internal drive with external reality, what's the truth about what we can distinctively contribute potentially better than anyone else in the world?

Now, let's look at Boeing's decision to build the 707. [See "Billion-Dollar Bets."] What are the factors? First,

you have the values of Boeing, which had to do with 'We're adventurers, for goodness' sake. We like doing big, adventurous things. We'd rather not be in business than not do that." And second, the aspiration to make Boeing even greater than it was. Those are internal drives. They had nothing to do with adapting to the outside world.

But the second question - What was the truth about the outside world and how it was changing? Well, the war was over. There wasn't going to be as much demand for bombers. And there was a major change in technology, from propellers to jets. And the demand for military aircraft was going to decline relative to demand for commercial aircraft. So that's how the outside world was changing.

On to question No. 3: What could Boeing do better than anyone else in the world? Well, they had jet technology. They'd been building those big strato bombers, the B-47 and the B-52. They had experience, so they knew they could build a large-scale jet. Boeing confronted the truth, internal and external, and grasped that it could make a distinctive impact by bringing the world into the Jet Age and that's when Bill Allen pulled the trigger on the 707.

Jerry: We've been talking about big decisions, but there's a lot more to running a business than making one life-or-death decision, right?

JIM: No decision, no matter how big, is any more than a small fraction of the total outcome. Yes, some decisions are much bigger than others, and some are forks in the road. But as far as what determines outcomes, the big decisions are not like 60 of 100 points. They're more like six of 100 points. And there's a whole bunch of others that are like 0.6, or 0.006. They add up to a cumulative result Business schools have regrettably taught us that it's all about the singular case decision. And when you and I write, we like the dramatic moment of decision.

Right. So-and-so leaned back in his chair, looked out the window, and said, "Should I do X or Y?" But that's not the way life really happens. Yes, there are pivotal decisions, but it's really the stream of decisions over time, brilliantly executed, that accounts for great outcomes.

Jerry: What elements of a leader's psychology, or the company's psychology, affect decision-



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making?

JIM: One big factor is, do you believe that your ultimate outcomes in life are externally determined - "I came from a certain family, I got the right job"? Or do you believe that how your life turns out is ultimately up to you, that despite all the things that happen, you are ultimately responsible for your outcomes?

Consider the airline industry, and think of all the events and factors outside managerial control that have hit it since 1972: fuel shocks, interest rate spikes, deregulation, wars, and 9/11. And yet the No. 1 performing company of all publicly traded companies in terms of return to investors for a 30-year period from 1972 to 2002 is an airline. According to Money magazine's retrospective look in 2002, **Southwest Airlines beat Intel, Wal-Mart, GE-all of them!** Now what would have happened if the folks at Southwest had said, "Hey, we can't do anything great because of our environment"? You could say, "Yeah, the airline industry is terrible. Everyone in it is statistically destined to lose money." **But at Southwest they say, "We are responsible for our own outcomes."**

Jerry: Are you saying that you can control your own destiny with good decisions?

JIM: Not entirely. Luck is still a factor. But overall our research is showing that the primary factors reside more inside your control than outside. Yes, the world throws a lot at us, but the fundamental assumption needs to be like Southwest's-the ultimate responsibility for your destiny lies with you. **The question is not what the world does to you but how you make an impact on the world.** Decision making is ultimately a creative act.

Jerry: So it's hard to make good decisions if you don't really think they're going to make that much difference in the end. What else counts?

JIM: Our research shows one other variable to be vitally important for both the quality of decisions and their implementation. If you look at some of the great decisions in business history, the executives had the discipline to manage for the quarter-century, not the quarter. Look at Andy Grove deciding to abandon memory chips at Intel, Bill Allen and the Boeing 707, Reg Jones choosing Jack Welch to run GE, Darwin Smith selling the mills at Kimberly-Clark, Jim Burke standing firm in the Tylenol crisis, Tom Watson Jr. and the IBM 360. Those leaders were very clear that their

ambition was for the long-term greatness of the company. And where decisions can go awry is when there's ambiguity or confusion about what you are really making decisions for - yourself or the company. Why should people throw their full creative energies into a decision that is ultimately about you?

Jerry: Can you give us a preview of your project?

JIM: My colleague Morten Hansen, formerly a professor at Harvard and now at Insead, and I conceived a simple question: Why do some prevail in brutally turbulent environments, while others do not? How do you retain control over your destiny when you are vulnerable to an environment that seeks to rip that control away from you or where you are statistically destined to fail? Think of it this way: If you wake up at Everest base camp and an unexpected storm hits, you'll probably be fine, but if you're high on the mountain when that storm hits, you just might die. Morten and I believe leaders increasingly feel they are high on the mountain, facing storms they never anticipated. We want to know, How do you build greatness anyway?

Jerry: And the answer is?

JIM: We're early in our research, and we don't yet know. But one thing we're learning is a great relief to me, because I'm so hard on myself. You can make mistakes, even some big mistakes, and still prevail. That's a wonderful thing to know. You don't need a perfect hit rate. You might need to go four out of five on the really big ones, and there are some killer gotcha mistakes from which you can't recover, but you don't have to go five out of five. **And I didn't know that before.**

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