BEYOND ENTREPRENEURSHIP

BE 2.0

Turning Your Business Into an Enduring Great Company

JIM COLLINS
BILL LAZIER

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DEDICATION

For our best friends, Joanne and Dorothy

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INTRODUCTION
What is *BE 2.0*?

When Bill Lazier and I co-authored the original edition of *Beyond Entrepreneurship*, based on the course we both taught at the Stanford Graduate School of Business, we set out to create a road map for leaders of small to mid-sized enterprises who want to build enduring great companies.

Bill embodied a rare combination of practical experience and academic reflection, and *Beyond Entrepreneurship* encapsulated much of his accumulated wisdom. And while I'd go on to author or co-author multiple *New York Times* and *Wall Street Journal* best sellers on the topic of what makes great companies tick, many leaders have told me that this very first book remains their favorite. When Reed Hastings, co-founder of Netflix, introduced me at a gathering for KIPP Schools in 2014, he surprised me by saying that when he was a young entrepreneur, he'd read *Beyond Entrepreneurship* six times. When Netflix won the Stanford ENCORE Award for the most entrepreneurial company, Hastings gave a piece of advice to aspiring young CEOs: "Memorize the first eighty-six pages of *Beyond Entrepreneurship*." Through *Beyond Entrepreneurship*, Bill became a mentor to entrepreneurs whom he'd never meet, inspiring them to strive to build truly great companies that can long endure.

But why create a re-release of *Beyond Entrepreneurship*, and why now? I decided to re-release *Beyond Entrepreneurship* as *BE 2.0* for three reasons.

First, I'm still fiercely passionate about entrepreneurs and leaders of small to mid-sized companies, whom I've always seen as the readers I most want to reach. This might surprise readers of my later books in which I'd researched companies that had become huge. But the eventual size of those companies obscures the fact that all the companies studied for books like *Built to Last*, *Good to Great*, and *Great by Choice* were once small start-ups, and I researched their entire histories all the way back to their beginnings. I devoted much of my curiosity to understanding why some *early-stage* companies *became* great and lasting, and why others didn't.

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Second, I had substantial new material that could be directly useful to today's entrepreneurs and leaders of small to mid-sized companies. This new material, about people decisions, leadership, vision, strategy, luck, and more, found the right home in a re-release of *Beyond Entrepreneurship*. As you move through this book, think of it like a classic old home that has had a major addition. The new material appears in entirely new chapters and "insert essays" spread throughout the book, which are called out with the header "Jim's View from 2020." Nearly half of the text that follows is entirely new to the 2020 edition. I have, however, left the text of the original chapters fully intact as Bill and I wrote them in 1992 (with only a few corrections and minor adjustments). The original text appears throughout with a shaded backdrop.

Third, and most important, this re-release is meant to honor and extend the legacy of my co-author, the greatest mentor in my life, Bill Lazier. Without his shaping hand, I would not be who I am, and my life would not be what it is. When Bill passed away in 2004, I wanted to write something about him and the profound impact he had on people. Immediately following this introduction to *BE 2.0*, I share the story of Bill and what I learned from this wise and generous soul, a man who altered the lives of thousands of young people.

I hope *BE 2.0* helps you create an iconic company. Even more, I hope some of Bill's mentorship carries from these pages to live on through you and those you lead.

Jim Collins
Boulder, Colorado
March 2, 2020

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Chapter 1

BILL AND ME

Bill Lazier was the closest thing to a father I ever had. My own father died when I was twenty-three, and he never took the time to teach me anything about the difference between right and wrong, about core values, about character. I came of age in the late 1970s in the post-Vietnam, post-Watergate era that felt devoid of any grand sense of cause or direction or purpose. By the time I graduated from college in 1980, I'd never had a conversation with any of my classmates about commitment to service as one possible theme for our lives, and we rarely discussed the idea that living to a set of core values should guide our careers. By my early twenties, I had this gnawing feeling that I'd missed something essential, something I couldn't quite put my finger on.

Then I met Bill.

Shortly before my twenty-fifth birthday, during my second year of study at the Stanford Graduate School of Business, I got hit with a lightning bolt of "who luck," the type of luck that comes as a chance meeting with a person who changes your life. The academic dean had offered Bill, a successful entrepreneur and company-builder in his fifties, the opportunity to join the faculty

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and teach an elective course. Bill had accepted the Stanford position to share his practical wisdom, shifting his energies from building young companies to building young leaders. I'd sought a spot in a different elective course, but the random lottery system that apportioned class assignments put me in Bill's first-ever class offering. I asked my classmates, "Anyone know anything about this Professor Lazier?" Everyone shook their heads no. "Well, I guess I'll just go to the first couple of sessions and see what he's like."

It's a good thing I did. Had the course-sorting mechanism randomly assigned me to a different class, or if I'd dropped the course, it's extremely unlikely that I'd have launched myself down the path I've taken with my life's work. This book would not exist. Nor would any of my other authored or co-authored books, not *Built to Last*, not *Good to Great*, not *How the Mighty Fall*, not *Great by Choice*. None of the research and resulting books that I've had the privilege to write would have happened. And my very character—indeed, my deepest core values—would have been different.

Bill somehow took an interest in me. I think he sensed that I was a high-energy propulsion machine with no clear guiding purpose. He regularly invited my wife, Joanne, and me to his home for dinner with him and his wife, Dorothy. And he kept doing so after graduation, pushing me to think hard about how best to deploy my talents and make a distinctive contribution. He did this in a kind but persistent way, inspiring me to commit to a life of research, writing, and teaching.

Then in 1988, when I had just turned thirty, Bill made a truly gutsy move on my behalf, and my life changed for good. The Stanford Graduate School of Business suddenly and unexpectedly lost a star professor who'd been teaching a popular secondary offering of the course on entrepreneurship and small business that Bill taught. The academic deans asked Bill if he knew anyone who could take over the teaching spot for the coming year while they looked for a "real" replacement. Bill suggested me.

The academic dean expressed skepticism, but Bill fought for me. "I believe in him," said Bill. "And I'll take responsibility to coach him, since he'll be teaching the same course as me, just a different section."

Having no other alternative, the deans relented, hoping that Bill would make sure I didn't mess up too badly.

Imagine you're a young pitcher way down in the minor leagues, and one day the bus carrying the pitchers for a major league team breaks down on the way to Yankee Stadium. The game is about to start, and the managers are scrambling to get someone out on the mound to throw, and you just happen to be standing there. Then someone steps in on your behalf and says, "Hey,

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kid—grab a glove and ball, and go out there and pitch!" That's the way I felt stepping into the Stanford MBA classroom, filling in for a star professor.

Bill placed upon me a huge burden of responsibility—*he trusted me, he believed in me*—and I didn't want to let him down. He also gave me the lecture about performing best when it counts the most. It's as if we were in the dugout before my chance-of-a-lifetime game, with coach Bill telling me: "This is your shot. If you pitch a near-perfect game, they'll let you pitch again, and this can change your whole life. Now, go out there and throw!"

I threw in the "Yankee Stadium" of Stanford Business School for the next seven seasons.

Life Lessons from a Magnificent Mentor

Bill's greatness lay not in the fact of his success. To be sure, he was successful, by almost any measure. He was a successful entrepreneur whose privately held companies created jobs and generated wealth long after his own life expired. He was a successful teacher and scholar whose reputation earned him an endowed academic chair as the inaugural Nancy and Charles Munger Professor of Business at Stanford Law School (where Bill finished out his teaching career). Bill had such a deep impact on students at the law school that they honored him by naming the outdoor centerpiece of the Munger Graduate Residence the Lazier Courtyard. He was also a successful servant, giving time and money to a variety of social enterprises, including six years as board chair of Grinnell College.

But most of all, Bill was a mentor. Not just to me, but to hundreds of young people. So, before moving on to the more business-focused lessons of this book, I'd like to share a set of life lessons I gleaned from Bill. It's fitting to put these lessons up front in *BE 2.0*, for Bill exemplified that there's no true success without being successful in how you live your life.

Never Stifle a Generous Impulse

One day, two large wooden crates appeared on our front porch, the address labels indicating they'd been shipped by Bill. Upon opening the crates, Joanne and I found a few dozen bottles of spectacularly good wine, French and Italian and Californian. I called Bill and asked what had prompted this much appreciated gift. "Dorothy and I had an inventory problem in our wine cellar, and we needed to make room for some new bottles. We thought you could help us out by taking some of it off our hands."

Bill had mastered the art of getting people to accept his generosity, somehow framing it as though you were actually doing *him* a favor. Bill had a huge

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wine cellar, and we doubted that he actually had an inventory problem. Joanne and I had commented at dinner with him one evening how much we enjoyed his selections of wine. At the time, we couldn't have afforded to stock wine of such quality ourselves. So, Bill simply decided to share, leaving us with the happy problem of how to fit dozens of bottles in a small standing rack in our tiny basement.

Of all the great well-known business leaders, Bill most reminded me of William R. Hewlett, co-founder of the Hewlett-Packard Company (HP). Hewlett believed that a company had a responsibility to everyone it touched and that the people who worked hard to make the company successful deserved to share in the wealth that they helped create. Well ahead of his time, Hewlett embodied these values way back in the 1940s, long before they became fashionable in corporate America. HP became one of the first technology companies to institute significant profit sharing and stock ownership for all long-term employees, and Hewlett became one of the first tech titans to commit to giving a vast chunk of his fortune away. In building his company and living his life, Hewlett adhered to a simple motto that he oft repeated: "Never stifle a generous impulse."

Bill and I were both inspired by Hewlett, and Bill fully embraced Hewlett's generosity maxim. Bill believed that the American Dream is not just about doing well for yourself; it is even more about the opportunity to do useful work and to freely give of yourself to others. You might give with money. Or with time. Or with service to cause or country. Or by teaching and mentoring the next generation. Or by putting yourself at risk for something you believe in. In Bill's case, he did *all* these and more. Bill's generosity did not deplete his energy; rather, it had the opposite effect. Because he was so generous and gave so much to other people, it came right back to him, increasing his gratitude, which he turned right back around into giving, which further increased his energy—round and round the generosity-energy flywheel turned, building ever greater momentum throughout his life.

Know When to Make the Irreversible Leap

Bill started his professional career as a CPA at a prestigious accounting firm. His star rising, Bill knew that he was right on the cusp of being named a partner.

Bill's response to his impending promotion to partnership?

He resigned.

"I always had a big dream to take the entrepreneurial leap to build my own company," he told me of this moment. "And I felt that becoming partner

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might tie me too much to a comfortable and prestigious position, and that comfort might make it more difficult to make the leap." So, just before they were about to elevate Bill to partner, he jettisoned the comfort and safety that would suffocate his entrepreneurial dream and launched himself out over the chasm.

Keep in mind, this was in an earlier era, when people craved prestige and upper-middle-class security, when entrepreneurship was viewed as a strange and exotic career choice for crazy risk-takers, when recently married professionals with young children rarely exchanged well-trodden paths to success for uncertainty and risk. But to make near-impossible dreams come true, there come moments when you have to go all in, fully committed, with no easy path to retreat. Bill believed that most people fail to achieve their audacious big dreams because they don't fully commit at the crucial moment.

To be clear, Bill didn't advocate making rash, all-in leaps to any random path, blindly chosen. He chose carefully in making bold, irreversible commitments. Still, the point remains: yes, it's risky to throw everything into the pursuit of a low-odds dream, *but if at the critical moment you don't go all in, the odds of achieving the dream go from low to zero*.

For Bill, staying at the accounting firm would have been the paint-by-numbers-kit approach to life, where everything is laid out for you, and as long as you stay within the lines, you're more or less guaranteed to have a nice picture at the end. But there's another choice, the choice that Bill made. You can forgo the certainty of making your life a pretty little painting, one that looks like a whole lot of other people's pretty little paintings, and instead start with a blank canvas where you just might paint a masterpiece.

Later, I had my own gulp moment. About five years into my teaching career, I faced a fundamental life choice. I could take the road well-traveled. I could pursue a traditional academic career, do a PhD followed by years of climbing the professorial-tenure ladder. Or I could forge my own way outside the academy, betting big on my own research and writing.

Over the years, some of my students had asked me about the inherent contradiction in the notion of being a "professor of entrepreneurship." After all, what does the structure and security of academic tenure have to do with the risk and ambiguity of entrepreneurship? So, I thought, "Why not invert the words? Instead of becoming a professor of entrepreneurship, why not become an *entrepreneurial professor*?"

When I told Bill that I wanted to "become a self-employed professor, endow my own chair, and grant myself tenure," he thought that sounded strange and improbable. He believed that I was made to be a teacher, researcher,

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writer, and professor, and he initially counseled me to build a more traditional and stable academic platform. When I told Bill that I was still going to be a teacher, researcher, writer, and professor—just without the university—he shook his head at the unfounded audacity.

Then I reminded Bill of his own moment of full commitment, when he resigned just before being promoted to partner. "What would have become of your life if you'd listened to those who worried about your decision to abandon partnership for an entrepreneurial path?" I noticed an evanescent smile, and he didn't answer. In retrospect, I think Bill was testing me, probing to see if I believed enough in the "self-employed professor" idea to make the commitment required. He also cared about me enough to challenge my thinking.

Joanne and I did make the irreversible leap, no turning back, in what we call our "Thelma and Louise moment," invoking the classic movie that ends with Thelma and Louise driving a convertible full speed, hands clasped together, hurtling out over a yawning desert canyon. (Although, unlike Thelma and Louise, we actually wanted to land on the other side.) We almost didn't make it, feeling at one point like we were going to smash into the cliffside when our cash reserves ran nearly dry. But if we'd kept open an easy-retreat option back to the comfort of Stanford, my behavior would have been different, less committed. And the odds of success would have dropped from remote to zero.

If you spend your life keeping your options open, that's exactly what you'll do . . . spend your life keeping your options open.

Make the Trust Wager

After leaving Stanford's cloistered cells and collegial culture, I made a number of bad people decisions, having misplaced my trust. I told Bill about the experiences and asked, "Bill, have people ever abused your trust?"

"Sure," he said, "It's just part of life."

"Have you become more distrustful, more self-protective?" I asked, continuing, "These experiences make me want to be much more wary of people."

"Jim, this is one of the big forks in the road of life. On one path, you first assume that someone is trustworthy and you hold that view until you have incontrovertible evidence to the contrary; on the other path, you first assume that someone isn't trustworthy until he or she proves to you that trust is merited. You have to choose which path you want to walk and stick with it."

Knowing that Bill seemed to trust people, I asked, "But what about the fact that people are *not* always trustworthy?"

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"I choose to assume the best in people and accept that they sometimes disappoint."

"So, you haven't been burned much?" I challenged.

"Of course, I've been burned!" he snapped. "Quite a few times. But far more often, I find that people rise to what you believe of them. If you trust them, they feel responsible to merit that trust. Have you ever considered the possibility, Jim, that by trusting people you actually help them to be more trustworthy?"

"But some people will just take advantage of that," I pushed back. "And they can hurt you."

Bill then described a situation in which he'd lost "enough money that it hurt" when someone abused his trust. It was nothing catastrophic. ("Never leave yourself open to catastrophe; keep your eyes on the cash flow," he also counseled.) But it stung, especially as it came from someone he'd known for a long time.

Bill put it in terms of upside and downside. Suppose you trust someone, and he or she merits that trust. That's a huge upside. Trustworthy people feel validated and motivated by being trusted. What's the downside if you're wrong? As long as you don't expose yourself to unacceptable loss, you'll feel pain and disappointment. Consider the other side: What's the upside to mistrust? You minimize pain and disappointment. What's the downside to mistrust? This, Bill counseled, is the clincher: if you assume people are not trustworthy, you will demotivate and drive away the very best people. This was Bill's "Trust Wager"—a hardheaded belief that there is more upside and less downside to an opening bid of trust than an opening bid of mistrust.

"So, what do you do, then, if you discover someone truly has abused your trust?" I asked.

"First, you've got to make sure that it's not just a misunderstanding. Or incompetence."

"Incompetence?"

"Sure," Bill said. "There are two types of lost trust. The first is losing confidence in someone's abilities because you discover the person is a well-intentioned incompetent. The second is losing faith in someone's character. You might be able to help someone who is incompetent to become competent, but if you discover someone deliberately and repeatedly took advantage of your trust, you never fully trust them again."

Bill's trust and belief in others acted like a magnet, pulling people up to a higher standard of performance and character simply because they didn't

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want to let him down. The disappointments never stopped him from believing in people. He bet big on people, over and over again. And when some of those people proved worth the bet, they remained committed and loyal to Bill for the rest of his life.

Build a Meaningful Life by Building Relationships

"You can go at life as a series of transactions, or you can go at life building relationships," Bill once told me. "Transactions can give you success, but only relationships make for a great life."

"How do you know if you have a great relationship?" I asked.

Bill thought about it for a moment, then answered, "If you were to ask each person in the relationship who benefits more from the relationship, both would answer, 'I do.'"

"Isn't that a bit of a selfish way to look at it?" I puzzled.

"No, the whole idea is that each person contributes so much to the relationship that both feel enriched," Bill explained. "Let me ask you, Jim, who do you feel benefits more from our relationship?"

"Oh, that's easy . . . I do! You've given so much to me."

"Ah, that's my point," Bill smiled. "See, I'd answer that I benefit more than you do."

Bill's approach works only when both people invest in the relationship, not primarily for what they'll "get" from it, but for what they can give to it.

Bill was a particularly generous mentor. In the last quarter century of his life, Bill crossed paths with many hundreds of young people who got a slice of his mentorship. I was curious to watch whom Bill chose to mentor, and whom he continued to mentor. Those whom Bill invested in understood that being mentored isn't about "making connections" or "networking" or "getting a mentor to open doors." Mentorship—being a mentor and being mentored—is a *relationship*, not a transaction.

Despite Bill's gracious statement about how much he benefited from our enduring friendship, I always felt that I'd gained so much more from his mentorship than I was able to repay to him. And others touched by Bill's mentorship have told me they felt the same way. But Bill had an unspoken request for all of us. He expected the people he mentored to participate in a virtuous cycle, whereby mentees become mentors of the next generation, who in turn keep the cycle going. And in that way, mentorship becomes not just a two-way relationship, but an expanding web of relationships that extends far beyond the life span of both mentor and mentee.

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Start with Values, Always Values

Bill loved teaching the L.L.Bean case. He especially relished engaging with students about its founder, Leon Bean, and how Bean made decisions based more on core values than on maximizing growth and income. In contradiction to a common MBA mindset that more money is the goal, Leon Bean left money on the table in favor of taking care of customers like friends, cultivating a culture to be proud of, and spending time in the outdoors. In Bill's view, entrepreneurial success shouldn't be primarily about what you do but about who you are. Just as a great painting or piece of music reflects the inner values of the artist, so, too, a great company reflects the core values of its entrepreneurial leaders.

Using Bean as a catalytic example, Bill would challenge his students to develop a clear guiding philosophy for life, one not defined by money. One of Bill's favorite case quotes (which you will encounter later in the main text of *Beyond Entrepreneurship*) was Leon Bean's response to people who thought he should grow more rapidly in order to make more money: "I'm already eating three meals a day, and couldn't eat a fourth."

For Bill, money was never the primary scorecard of life. He could have made more money, much more, if he'd spent the last two decades of his life focused on maximizing his business success. He chose instead to teach. Bill taught me a fundamental lesson, both in words and by his example: If you define success by money, you always lose. The real scorecard in life is how well you build meaningful relationships and how well you live to your core values. This means that values come before goals, before strategy, before tactics, before products, before market choices, before financing, before business plans, before every decision. I gleaned from Bill the idea that a company should start not so much with a business plan, but almost with a Declaration of Independence that begins with a statement of values: *We hold these truths to be self-evident*. Values come first, and all else follows—in business, in career, in life.

Bill taught that core values aren't the "soft stuff." Living to core values is the hard stuff.

One core value that Bill instilled in me is the sacred nature of *commitments*. "Be very careful what you commit to," Bill advised. "Because there's no honorable way to fail a commitment freely made."

In 2005, I committed to delivering a closing keynote presentation to a gathering near Fort Lauderdale, Florida, on October 25. I was scheduled to fly in on October 24, the very day that Hurricane Wilma blasted right into

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southern Florida. Six million people lost power. Airports closed. Hangar doors sheared off. I expected to get a call from those to whom I'd committed, absolving me of my commitment. But the conference had already begun before the hurricane hit, and it was the conference organizer's career-farewell event. He wanted me to come anyway and speak to all the attendees who, after all, were trapped in southern Florida.

What to do?

My team and I debated whether I should cancel. Then I asked a simple question inspired by Bill, "Is it impossible to honor my commitment, I mean truly *impossible*?"

There was, in fact, a remote possibility. I could fly into Orlando, which was still accepting aircraft, and arrive late in the evening. Then I could travel by car, four or five hours through the middle of the night, hoping to avoid hitting downed power lines, trees, and twisted road signs. If the roads were at all passable, I could arrive early in the morning. So, that's what I did, arranging a flight into Orlando about midnight, navigating utterly desolate highways through the night, arriving to no power and people lined up outside supermarkets for water and food, to deliver the closing keynote by gas-powered generator, right on time.

Bill imbued me with the idea that living to core values is often inconvenient, sometimes costly, and always demanding. It is indeed the hard stuff. I remain imperfect in living to all of my core values all the time. But I behave much more consistently with my values because of Bill's teaching and example. He taught me that you must continually self-correct, like a ship at sea being guided by a constellation of stars—sometimes you get a bit off, but you resight on your values and tack back on course. And you do this forever, across the entirety of any life well lived.

Put the Butter on Your Waffles

In 1991, as I began to struggle with drafting the manuscript of what would become *Beyond Entrepreneurship*, I complained to Bill that I felt like I was on a dark journey of despair, trying to make the words work. *Beyond Entrepreneurship* was my first book-sized effort, and I felt terribly inadequate to the task, a feeling reinforced every day when I'd read my text from the day before and think, "I spent six hours to produce something worthy of the wastebasket."

I expected Bill to give me a lecture about the need for discipline to push through the pain, like struggling through the final miles of a marathon. I was starting to understand a truth about the inherent suffering required to get the

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words right. Writing is like running: If you run your best, it will always hurt. It never gets easier; you only get better.

But instead, I got a lecture on fun. "Well, Jim, if you don't love doing it, you won't stay with it long enough to ever really get good at it." Then he added, "Life is just too short not to enjoy what you're doing. *If we can't make this fun, we should stop doing it!*"

The day after turning in the manuscript for *Beyond Entrepreneurship* to the publisher, Bill suffered a heart attack and had quintuple-bypass surgery. A few months after the surgery, Bill and I met for one of our frequent Saturday-morning waffle-fests at the Peninsula Creamery in Palo Alto, California. When his waffle arrived, Bill put a nice slice of butter right on top.

"Bill!" I exclaimed. "What are you doing? Didn't they tell you to stop eating butter, given your heart?"

Bill calmly poured some warm syrup on the waffle, watching the butter and syrup swirling together in a sugar-fat mixture of yum.

"When I was being wheeled into the operating room," Bill began to explain, "I bet they saw a smile on my face. I realized that if this was to be the end of my life, well, so be it. Dorothy and I had had a fabulous run, a wonderful life. To know that—I mean, to really *feel* it—while heading into the operating room . . . that's the moment I knew I'd had a great life."

"But what does that have to do with butter on the waffles?" I asked.

"I've already had a great life. Everything from here is just a bonus. So, I'm putting butter on my waffles."

Bill never confused a great life with a long life. I walked away reflecting that I couldn't determine the length of my life; all of us are short-lived creatures, vulnerable to being struck down by disease or accident at any time. Forty years, fifty years, sixty years, one hundred years, even one hundred ten years—these are all tiny numbers in the grand sweep of time.

And time *accelerates*. One day while driving to campus with Bill, I asked him if he noticed time going faster as he got older.

"What do you mean?" he asked.

"I'm noticing that weekly garbage days, when I need to put the trash out for pickup, seem to sneak up on me faster and faster," I said, adding, "I know it's still the same seven days it's always been, but it sure feels like a shorter seven days than a decade ago."

"Ah!" laughed Bill. "Wait until you're my age, and you feel like Christmases are coming around as fast as garbage days!"

So, if life is short—even if you live one hundred years—the main question isn't how to extend life as long as possible but how to live a life worth living all

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the way along, to live a life that you'd feel good about whenever it gets taken away.

The point here isn't really about the butter on the waffles . . . especially if you don't like butter or waffles. The point is a lesson that I wish I better embraced: the sheer value of having fun and enjoying yourself, of loving what you do, of living with the paradoxical assumption that you have decades of life left and that it might come to an end tomorrow.

On December 23, 2004, Bill awoke from a nap and, walking across the room, fell dead from congestive heart failure. Dorothy later told me he had a smile on his face, looking like he died happy with the life he'd led. A couple of hours after Bill died, I received a call with the news. I hung up the phone and turned to Joanne, "Bill's dead." When my father died, I cried only for what I'd never had. But when Bill died, I cried for what I'd lost.

At Bill's memorial service in Stanford's spacious Memorial Church, more than a thousand people gathered, the vast majority of them having been uplifted by his example and his teaching. I sat there and pictured every person like a vector moving through time and space, each with an altered trajectory because Bill had had an impact on their values and choices. If one indicator of a life well led is that you have changed the lives of others—that some people's lives are different and better because of you—it would be hard to have a better life than Bill's.

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Chapter 2

GREAT VISION WITHOUT GREAT PEOPLE IS IRRELEVANT

Take our 20 best people away and I tell you that Microsoft would become an unimportant company.

BILL GATES

In October 2007, I received a call from Steve Jobs to discuss his idea to create Apple University as part of his goal to make Apple an enduring great company, one that could continue to deliver superior results and make a distinctive impact long after he was gone. He wanted Apple to soar far above the dispiriting descent that befalls many successful companies as they age beyond their founders, that of becoming just another big company that the world could do without.

Partway into the conversation, I couldn't resist unleashing my curiosity to ask what it was like in the dark days of 1997 when he'd returned to save Apple. Keep in mind, at that time few people thought Apple could survive as an independent company, much less regain greatness. There was no iPod, no iPhone, no iPad, no iTunes. And even if there were glimmers of these world-changing products as nascent ideas, the actual products lay years in the future. (Apple didn't release the iPhone until nearly a decade after Jobs's return.) Microsoft Windows had largely won the personal computer–standards war. One of the greatest start-ups of all time, Apple had fallen to the very edge of

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capitulation to irrelevance by 1997. So, I asked, "What did you first build upon to emerge from the darkness? What gave you hope?"

I had perhaps the greatest product visionary of our time on the other end of the line, and I expected him to talk about object-oriented operating systems or the remaining potential in the Macintosh computer or perhaps some other "insanely great" product ideas he had on his mind at the time. But no, that's not the answer he gave at all.

Instead, he talked about *people*. Jobs told me he'd found, hidden in the woodwork, some of the right people with whom to build his turnaround—people who still had a burning passion for the change-the-world vision that had marked the company's early days, people who still shared Jobs's passionate dedication to making exquisite products, people who still got excited by making "bicycles for the mind" that could amplify individual creativity. He spoke of them almost like the remnants of the scattered Jedi, hiding away below the radar screen of the Empire, ready to rise again at the right time. Apple's values lived within those people—hidden, dormant, atrophied, but alive—and he began rebuilding first by finding the right passionate believers.

We associate Jobs's spectacular turnaround with the iPod and the iPhone. Not that he ever lost his drive to create the right products, but he'd learned that the only way to build an enduring great company that makes great products is to have the right people working in the right culture. Jobs, the visionary entrepreneur who had led Apple in the early years with a "genius with a thousand helpers" leadership style, became obsessed with building Apple into a company that could be visionary without him. After Jobs's return, Apple became the first American company to cross a $1 trillion market capitalization. And how much of that market capitalization came *after* Jobs stepped down in the final year of his life? More than $600 billion.

As I sat down to upgrade *Beyond Entrepreneurship* into *BE 2.0*, I asked myself, "Is there anything Bill and I left out of the original edition that's so significant that it deserves its own entirely new chapter?" Yes. We should have included a chapter on people decisions, and we should have put it right up front as the very first chapter. Reflecting on more than a quarter century of rigorous research into what makes great companies tick, I've come to see "first who" as the one principle above all others that you must not get wrong. First in importance, *above every other activity*, is the imperative to get the right people on the bus. My research team and I identified the "first who" principle (*first* get the right people on the bus and *then* figure out where to drive it) in *Good to Great*. In this entirely new chapter, I'm not going to repeat what I wrote in that book. Rather, I'm going to expand on the idea, sharing some

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lessons I've learned about the "first who" principle since *Good to Great*, especially as it pertains to the readers of *BE 2.0*.

You need the right people far more than you need the right business idea, especially since any specific business idea is likely to fail anyway. If you have people who are unsuited to anything except the specific idea or business strategy you have in mind, what happens when that idea fails and you need to move on to the next idea and the next one after that? Alternatively, what if your first idea succeeds, but then you generate an even bigger or better idea that you want to pursue (such as when Apple moved from personal computers to iPods and iPhones)? If you've hired people for only a specific strategy, you've created higher odds of failure right from the start. Even if you're an uber-visionary, perhaps even the next Steve Jobs, the single most important skill for building a great company is making superb people decisions. Without the right people, you simply cannot build a great company, period.

Ed Catmull, co-founder of Pixar Animation Studios and a close colleague of Jobs, believed you can even start with a bad idea and end up with a great result if you have the right people. "Early on, *all* of our movies suck," wrote Catmull in his book *Creativity, Inc.* (which I warmly recommend), adding that "all the movies we now think of as brilliant were, at one time, terrible." Sometimes the Pixar team would even discover that the original story concept had to be jettisoned entirely. *Monsters, Inc.*, for example, began as a story about a man dealing with monsters showing up and following him around, each monster representing an unresolved fear, and it just didn't work. So, the director and his team reworked the story, over and over, iteration after iteration, until they found just the right formula. Catmull built Pixar on the idea that the first question is not "What are the great stories to bet on?" The first question should be "*Who* are the great people to bet on?" Catmull understood that a visionary idea with the wrong people makes a bad film, but great people with the wrong story will change the story to make an excellent film. Despite the fact that nearly every Pixar movie endured episodes of crisis, Catmull's "first who" strategy led to fourteen number one movies in a row.

"History is the study of surprises." This line from history professor Edward T. O'Donnell captures the world in which we live. We're living history, surprise after surprise after surprise. And just when we think we've had all the big surprises for a while, along comes another one. If the first two decades of the twenty-first century have taught us anything, it's that uncertainty is chronic; instability is permanent; disruption is common; and we can neither predict nor govern events. There will be no "new normal"; there will only be a continuous series of "not normal" episodes, defying prediction and

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unforeseen by most of us until they happen. And that means doubling down on the "first who" principle. If you're going to climb a big, scary mountain that's never been climbed before, your best hedge against unexpected obstacles is making sure you have the right partners on the other end of the rope, people who can adapt to whatever you encounter on the mountain. Even the most visionary among us cannot always predict which ideas will work. And no one can reliably predict what the future will throw at us or even what's coming just around the corner.

Track the Number One Metric

When you have your weekly or monthly or quarterly management team meetings, what's the number one, first-priority metric you look at? Is it sales? Or profitability? Or cash flow? Or something about products or service levels? Or some other metric? Whatever your answer, there's one metric that towers above all others, one metric to track with obsession, one metric upon which the greatness of the entire enterprise hinges. And yet, ironically, for most companies, it's rarely the metric first discussed—if it's discussed at all. However, to build a truly great and lasting company, it must rise to the top.

And what's that metric? *The percentage of key seats on the bus filled with the right people for those seats*. Stop and think: What percentage of your key seats do you have filled with the right people? If your answer is less than 90 percent, you've just identified your number one priority. To build a truly great company, you'll need to strive for having 90 percent of your key seats filled with the right people.

Why not 100 percent of your key seats filled with the right people? At any given moment, there's a very high likelihood that at least some key seats will be temporarily unfilled. It could also be that you've only recently moved someone into a key seat, and you don't yet know how well that person will perform in that seat. And in some cases, the demands of a key seat have grown faster than the capabilities of the person in that seat.

What makes for a key seat? Any seat meeting *any one* of the following three conditions qualifies as key:

1. The person in that seat *has the power to make significant people decisions*.
2. Failure in the seat *could expose the entire enterprise to significant risk or potential catastrophe.*
3. Success in the seat would have a significantly *outsized impact on the company's success.*

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The question of whom to put in key seats becomes crucial when you cannot easily get people off your bus. This might be because of family dynamics, quasi-tenured employees, internal politics, or even simple loyalty to some of the people who contributed early on to the company's success. But whatever the constraints—and whatever the reasons—you still have the task to get your key seats filled with the right people.

Know When to Shift from "Develop" to "Replace"

Consider the following scenario: You have a person in a key seat who's doing a good but not great job. You like this person. You really want this person to succeed. You've invested time and energy in this person. But the fact is that you're not yet seeing the A-level performance you need in the seat. When facing this situation, which way do you tilt—toward investing more to *develop* the person or toward acting decisively to *replace* the person? (Note: Replacing the person doesn't necessarily mean kicking him or her off the bus; you might move the person to a different seat.)

There's no single right answer. Looking across the best leaders we've studied, we see about a 50/50 split between those who tilted toward develop and those who tilted toward replace. For example, here are ten of the best corporate leaders in history, five of whom tilted toward developing people and five of whom tilted toward replacing people when they were struggling to deliver superior performance in key seats:

Tilted toward Develop

Anne Mulcahy, Xerox
Bill Hewlett, HP
Herb Kelleher, Southwest Airlines
J. W. Marriott, Marriott
William McKnight, 3M

Tilted toward Replace

Katharine Graham, *The Washington Post*
Andy Grove, Intel
Ken Iverson, Nucor
Peter Lewis, Progressive Insurance
George Rathmann, Amgen

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But even those who tilt toward develop have a demarcation line, a point when they confront the brutal fact that they need to replace someone in a key seat. I've asked multitudes of gatherings of executives this question: "Which of the following two categories of mistakes have you more frequently made? Category 1: In retrospect, you waited too long before you acted to move the person out of the key seat. Category 2: In retrospect, you acted too quickly and you should have been more patient. Stop and think: Which mistake do you make more frequently?" In response to this question, the vast majority of hands go up for Category 1, waiting too long before taking decisive action.

To be fair, it's easier to know when you've made a Category 1 mistake than when you've made a Category 2 mistake, especially if the Category 2 mistakes leave the company. Still, the fact remains that every organization struggles with the tension between developing people and replacing people in key seats. And no leader gets it right every single time. Sometimes they invest too long in developing someone and sometimes they act too quickly to replace someone. There's no algorithm to apply, no flow chart to follow, no equation to run to get a perfect hit rate on the decision to develop or replace. The best executives care deeply about their people, and that's why they often wait too long. But they also improve their judgment over time.

Which brings us to a crucial question: *How do you know when you've crossed the demarcation line, when it's time to make the shift from "develop" to "replace" for a key seat?* I've come to believe the best approach is to ask considered questions and let those questions guide you to an answer. I've distilled years of reflection down to seven questions that I offer here to stimulate your thinking when you face the "develop or replace" conundrum. To be clear, these aren't a prescription; you might come up with only one concern and decide to replace, or you might come up with six concerns and decide to develop.

1. *Are you beginning to lose other people by keeping this person in the seat?* The best people want to work with the best people, and if they sense chronic tolerance for mediocre performance in key seats, they might begin to vote with their feet. Worse, if you tolerate high-performing people who behave contrary to your stated core values, the true believers will begin to lose heart and become cynical, and some will leave. There's no better way to destroy a great culture than to retain people in key seats who fail to perform or run roughshod over the company's core values.

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2. *Do you have a values problem, a will problem, or a skills problem?*
If someone in a key seat behaves consistently or flagrantly contrary to the core values of the enterprise, the best leaders replace them. If someone passionately embraces the core values of the enterprise and also has the indomitable will to do whatever it takes to master his or her seat, you can be more patient before reaching a decision to replace them in that seat. The hardest call comes with the question of *will*. Does the person lack (or has the person lost) the will to develop to meet the demands of the seat? If not, can you ignite their will? Great leaders never underestimate how much people can grow, but they also know that growth depends on the humility and relentless will to improve. (Credit for the values-will-skills framework goes to the late Dale Gifford of Hewitt Associates, who taught it to me.)
3. *What's the person's relationship to the window and the mirror?*
The right people in key seats display window-and-mirror maturity. When things go well, the right people point out the window, giving credit to factors other than themselves; they shine a light on other people who contributed to the success and take little credit themselves. And when things go awry, they don't blame circumstances or other people for setbacks and failures; they point in the mirror and say, "I am responsible." People who look in the mirror—who always ask, "What could I have done better? What did I miss?"—will grow. People who always point out the window to explain away problems or affix blame elsewhere will be stunted in their growth.
4. *Does the person see work as a job or a responsibility?*
The right people in key seats understand that they don't have "jobs"; they have *responsibilities*. They grasp the difference between their task list and their true responsibilities. A great doctor doesn't merely have the "job" of performing procedures but embraces responsibility for the health of the patient. A great coach doesn't merely have the "job" of preparing workouts but embraces responsibility for building his or her players into better people. A great teacher doesn't merely have the "job" of being in the classroom from 8 A.M. to 3 P.M. but embraces responsibility for every child's learning. Every person in a key seat has a broader responsibility than a task list, and the right people never hide behind "I got the tasks done" as an excuse for failing to deliver on the broader responsibility.
5. *Has your confidence in the person gone up or down in the past year?*
Just as a company's stock price rises or falls as investors gain or lose confidence in the company's growth and performance, confidence in a person

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also rises or falls based on his or her growth and performance. The critical variable is the *trajectory* of that confidence over time. When someone says, "Got it!" do you increasingly set your worries aside or do you increasingly feel the need to follow up?

6. *Do you have a bus problem or a seat problem?*
   Sometimes you might have a right person on the bus but in the wrong seat. You might have put the person in a seat misaligned with his or her capabilities or temperament. Or perhaps—and this happens frequently in high-growth companies—the demands of a seat might have grown to outstrip the capabilities of the person in that seat.
7. *How would you feel if the person quit?*
   If secretly relieved, then you might have already concluded that he or she is a wrong person on the bus. If genuinely distraught, then you might well believe that he or she is still a right person on the bus.

When you've reached the demarcation line and have decided to replace someone in a key seat, keep in mind an essential distinction: *Be rigorous, not ruthless*. Rigor means applying self-honesty and confronting head-on the need to remove someone from a key seat. But being rigorous in decision making doesn't mean being ruthless in how you go about making the change. To be rigorous, not ruthless, requires a blend of courage and compassion. The courage comes in being direct and straightforward, not hiding behind made-up reasons or delegating the hard task to someone else. If you don't have the guts to take personal responsibility for making the decision and delivering the news, then you don't have the right to lead. The compassion comes via tone and respect. Are you handling the change in such a manner that you'd feel comfortable calling this person on his or her birthday next year, and years down the road? And would the person warmly welcome the call?

If You Want to Grow Your People, First Grow Yourself

Anne Bakar didn't expect to become CEO of Telecare, certainly not at age twenty-nine. When her father died from an adverse reaction to a medical treatment, Bakar had thrust upon her responsibility for figuring out what to do with the small psychiatric-services business her father had co-founded. I first met Bakar just as Bill and I were finalizing the manuscript of the original edition of *Beyond Entrepreneurship*. "I loved my father dearly. I want to honor what he built, and I want to make Telecare great and enduring," she said. We gave her a copy of the manuscript and she gathered twenty-four members of

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her team at the Claremont Hotel in Berkeley to lay the foundations of Telecare as a great company. Bakar and her team latched on to the vision framework laid out in the original vision chapter of *Beyond Entrepreneurship* (the very same vision chapter reproduced in this edition) to capture core values and establish an enduring purpose for the company: *to help people with mental impairments realize their full potential*.

It was a huge ambition for a small company led by a young CEO in the vast world of healthcare and treating mental illness. But Bakar felt passionately about the purpose, inspired by her father's belief that people with mental impairments could make significant recovery. She also had strategic acumen, honed by working at Montgomery Securities, where she had to make investments based on incisive analyses of companies. And she had the courage to place well-chosen big bets, based on empirical validation.

Yet to make Telecare into a great company, Bakar needed to grow into a great leader, to scale her own capabilities right alongside the growth and scale of the company. Anne Bakar 1.0 was smart and strategic, fueled by youthful passion, with just enough leadership instinct to get Telecare moving in the right direction. But that wasn't enough. She had to grow into Anne Bakar 2.0, then Anne Bakar 3.0.

She *learned* how to hire great people and meld them into a cohesive team. She *learned* that culture does not merely support strategy, but that culture *is* strategy. She *learned* how to hire for values and temperament, not just smarts and experience. She *learned* how and when to delegate, and when not to. She *learned* how to hold her unit leaders accountable for keeping the culture vibrant at the front line. She *learned* how to make wise decisions that reduce short-term profits for the sake of long-term greatness. She *learned* how to stay calm and mitigate her impulse to take control from her people when things went wrong. She *learned* how to confront existential threats by moving outside the company to cultivate mentors she could learn from both intellectually and emotionally. "When I confronted organizational crises, I traversed out instead of inward, relentless in seeking out the best advice I could from as many experts as possible," she later reflected. "Although the default impulse may be to retrench when there is uncertainty or chaos, I consciously did the reverse, and that was pivotal to my learning and growth." And her growth didn't stop. As I write these words, Bakar is working on Anne Bakar 3.0, and after 3.0, there will be Anne Bakar 4.0. Bakar's greatest strength is her commitment to grow into the leader Telecare needs, every step of the way.

In 2015, Telecare celebrated its fiftieth anniversary, having grown under Bakar to offering eighty-five programs in eight states and serving tens of

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thousands of people. Along the way, growth in the value of the employee ESOP (employee stock ownership plan) trounced the S&P 500. And in 2017, Bakar was inducted into the San Francisco Bay Area Business Hall of Fame, a rarified recognition previously conferred upon founders, CEOs, and chairs of companies like Cisco, Salesforce, Intel, Apple, HP, and Charles Schwab.

Most great leaders don't begin as great leaders. Sure, there are a few weird freaks of nature that seem to be born for leadership, who are fascinating to look at, like some sort of exotic bug. They're also largely irrelevant; you simply can't do anything about whether you're born as one of those weird, freaky bugs. And—this is the crucial point—most exceptional leaders grow into their capabilities. Not because they want to "be" a great leader, but because they're trying to be worthy of the people they lead. If you want the people with whom you work to improve their performance, first improve your own. If you want others to expand their capabilities, first expand your own.

What was Dwight Eisenhower doing in early 1936? He was a relatively undistinguished major, serving as an assistant to General Douglas MacArthur in the Philippines. Eight years later he was Supreme Commander of Allied forces. At West Point, he'd shown middling promise. No one said, "Look, there goes the future-great General Eisenhower, and someday they'll name Eisenhower Hall after him." Eisenhower didn't start as *Eisenhower* as we know him today; he *became* that Eisenhower. Of course, it took General George C. Marshall, chief of staff of the Army, to recognize Eisenhower's gifts and help him move more quickly into a position of significant responsibility. As you build and lead your own organization, you might want to be asking, "Who's my hidden Eisenhower?"

Steve Jobs in his twenties couldn't have led Apple's resurgence in the early 2000s. The young Jobs was notorious for temperamental, demeaning outbursts, seen as an immature genius utterly intolerant of anyone who didn't advance his peculiar vision. But he didn't remain stuck in his entrepreneurial immaturity. Young leaders would do well to absorb the book *Becoming Steve Jobs* by Brent Schlender and Rick Tetzeli, which captures Jobs's journey and maturation. Don't confuse Steve Jobs's behavior in his twenties with his leadership effectiveness in his fifties; don't confuse the harsh "genius with a thousand helpers" with the driven, reflective man who sought to build an enduring great company that could outlast him; don't confuse Steve Jobs 1.0 with Steve Jobs 2.0. To understand the message of Steve Jobs's life is to see it not as a success story, but as a *growth* story.

One of the most destructive myths is that a founder-entrepreneur or small-business leader will almost inevitably hit his or her managerial limit and

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