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HOW TO GROW WITHOUT DESTROYING GREATNESS.

Key: Institutionalize Obsession, Be Wary of Indexes.

How important are founders?

Ben Narasin of Triple Point Ventures and Michael Abbott of Kleiner Perkins (2015) examined 1.195 transactions between 1994 and 2014. These transactions involved private equity-backed companies going through exits: initial public offerings or being acquired. The authors gave the company "1" if the CEO at the time of the transaction was the founder or one of the founders and "0" the CEO was not.

Founder CEOs raised more capital than professional managers.

They produced higher valuations when it came time to exit.

Founders generate more value for owners than “professional” CEOs.

In their excellent book *The Founder's Mentality*, Chris Zook and James Allen of Bain Consulting examined the same issue with a different database. Instead of private equity-backed companies seeking exits, they examined the world’s largest public companies.

Their conclusions were the same: owners are better off with founders than without them.

“Lessons for Boards: Keep Your Founders?

Not really…..

Using archival data from 126 private equity investments in the United States between 1990 and 2006, Gong & Wu documented a CEO turnover rate of 51% within two years of the transaction (2011). According to the authors, these removals are usually related to CEOs having failed to retain the confidence of the private equity dominated board of directors. They are not often related to the company having outgrown the CEO.

Zook and Allen agree. According to their data only one of every three founders is fired because the founder cannot or will not grow the business.

The Founder's Mentality addresses the three critical values founders bring to the enterprise:

> Founders consider themselves industry insurgents. They are waging war on the status quo or are creating a new industry entirely. An “us against the establishment” attitude creates deep culture and pride. Think of Apple under Steve Jobs.

They are obsessed with the details of their business and focus on the front line of the business.

They have an owners' mindset and foster an owner's mindset among employees through equity and insistence that "we are different."

As a company grows, Boards often find founders sloppy, inefficient, and self-centered. Trust between Boards and CEO/Founders starts eroding. The founder is eventually replaced with a "professional" CEO.

"Professional" CEOs focus on growing by focusing on key metrics and being obsessed about those metrics.

"We are different" as a culture is replaced by "We are top tier in our class. We are the standard competitors use."

The problem is that these professionals forget the Founders Mentality.

In time, entrepreneurial oriented people are pushed out to be replaced by professionals who are obsessed with their careers. The company begins to look inward rather than outward.

Growth is achieved at the price of greatness. Growth without greatness is short lived.

Below are three Apple television ads to illustrate the changes in Apple culture.

Apple's 1984 ad introducing the Macintosh:

https://www.youtube.com/watch?v=2zfqw8nhUwA

Apple's classic ad, "Here's to the Crazy Ones:"

https://www.youtube.com/watch?v=oECI8Sc2NB8

Notice the insurgency message in both ads? ‘We challenge what is acceptable.”

Now compare those early ads with a more recent Apple ad:

https://www.youtube.com/watch?v=jZGzXEExZcc

Notice the absence of an insurgency message. In its place is an index: more people take photos with Iphones than with any other camera. The message is we don’t challenge the standards. We ARE the standard competitors aspire to meet.

The Case of Two CEOs:

The Board of Directors of a resort company retained us to provide leadership coaching for the founder/CEO. When the founder visited resorts, he would ask local management questions like “why are those red flowers here when the blue flowers are more consistent with the surroundings?” or “I was reviewing the customer satisfaction ratings. On November 12, one customer complained that a waiter had forgotten to bring water and had to be reminded. Why did you allow that to happen?” Through the founders incessant, obsessive, detailed questions about customer experience, local managers got the message: the founder was obsessive about customer experience, you had better be obsessive about it as well.

The Board eventually replaced the founder with a CEO who had been President of a Fortune 500 consumer products company. This individual got an MBA from a leading business school. Once again, we were retained to work with the CEO. We accompanied him on visits to the same resorts as the founder.

The resorts were the same but the questions could not be more different.

His first question to local managers was, “What is the occupancy rate this quarter?”

Resort managers learned that occupancy rate was the obsession. That made life easier for resort managers. They knew how to boost quarterly occupancy rate so that they kept their jobs for at least the next quarter. Unfortunately one can meet the financial index in the short term by reducing the guest experience.

The Case of Home Depot:

Home Depot was founded by Arthur Blank and Bernie Marcus. Their mantra was "whatever it takes." The two founders would show their obsession with customer experience by tutoring new store employees in customer service. Employees were hired because they were experienced trades people. Home Depot leveraged their construction knowledge to help customers manage do it yourself projects.

From 1978 until 2000 Home Depot eclipsed its 20% annual earnings growth targets.

In 2000, the company missed an earnings target and the Board brought got rid of its two founders. It hired Robert Nardelli, as CEO. He was a senior executive from General Electric and new the ways of big, financially driven companies.

Instead of making customer relationships the top priority, Nardelli replaced full time employees with part time workers. Yes, they lacked trade experience but they reduced overhead costs.

"Whatever it takes" as a culture was replaced by "command and control." It creates greater operational efficiencies.

By 2006 the University of Michigan released its annual American customer satisfaction index. Home Depot was dead last among U.S. retailers. It was eleven points behind Lowes.

It had four years of declining foot traffic and market value declined by 55%

Eventually the company replaced Nardelli with Frank Blake who tapped into the power of the original Founders' Mentality.

Growing Without Destroying Greatness:

How can leaders grow without destroying greatness?

A good example of scaling up without destroying the founders mentality would be Sweden's Ikea International Group. With 300 stores in 40 countries, the original idea was one of insurgency within the home furnishing market: focus on the young, urban consumer who only wants furniture for "now" and not "forever." (Zook & Allen, 2013).

Ikea has kept its strategic focus on this core customer as it grows. It does not alter strategy in response to a dynamic business environment. It does not "reinvent" itself. It keeps focus and replicates its business model.

The Founder's Mentality causes us to appreciate the brilliance of an Ikea and to take practical steps to keep the Founder's Mentality at the forefront of the way we define strategy, the way we hire front line people, and the way we design compensation systems.

Another example of growing without destroying greatness comes from the Ritz Carlton. It's culture could not be more simple: "ladies and gentlemen serving ladies and gentlemen."

And it is obsessive about the customer experience. That comes before the financial measures. It will (politely) invite guests to stay at another hotel if they do not behave like ladies and gentlemen in public. It will only hire people who know how to behave like ladies and gentlemen under stressful conditions. It replaces "command and control" with "do the right thing."

Leaders: keep your eyes on the ball. The ball is in the front lines where the customers are. Be wary about obsession with indexes at the expense of the customer experience.

In his classic and inspiring Stanford University commencement speech, Steve Jobs put forth the key dilemma for managing sustained growth: how to grow while keeping your culture "hungry and foolish." Here are Jobs' closing words (Stanford, 2005):

> "(I read) several issues of *The Whole Earth Catalog*, and then when it had run its course, they (the founders) put out a final issue. It was the mid-1970s, and I was your age. On the back cover of their final issue was a photograph of an early morning country road, the kind you might find yourself hitchhiking on if you were so adventurous. Beneath it were the words: "Stay Hungry. Stay Foolish." It was their farewell message as they signed off.
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> "Stay Hungry. Stay Foolish.
>
> "I have always wished that for myself.
>
> "I wish that for you."

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Maryanne Peabody and Larry Stybel are co-founders of Boston-based Stybel Peabody Associates, Inc., an Arbora Global Company. Clients include 21% of the one hundred companies named “Best Employers in the United States.” Its mission is “Leadership and Career Success:” retained search, coaching, and outplacement for senior leaders.

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