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Jim Collins: How to Thrive in 2009

As part of our 30th-anniversary issue, *Inc.* asked Jim Collins, author of *Good to Great* and *Built to Last*, what we might expect in the next 30 years. His answer: uncertainty, chaos, turbulence, and risk. In other words, it's not a bad time to be an entrepreneur

By Bo Burlingham | Apr 1, 2009

You would be hard pressed to find two individuals more determined to uncover the secrets of business success than Jim Collins and Bo Burlingham. Collins is the author of the best-selling business books *Built to Last* and *Good to Great*, both of which address this simple but vexing question: Why do some companies become great while others flounder? Burlingham, an editor-at-large of *Inc.*, has spent his career pondering the same question. The author of *Small Giants* and co-author of *The Knack* (with *Inc.* columnist Norm Brodsky), as well as two books with open-book-management guru Jack Stack, Burlingham joined the magazine's staff in 1983 and has developed an unmatched ability to get inside some of the nation's most fascinating organizations. For *Inc.*'s 30th anniversary, we decided to bring these two business thinkers together for a conversation that would serve as a kind of state-of-the-entrepreneurial nation -- examining where we have been, where we are, where we are headed, and what it will take to succeed once we get there. Burlingham met with Collins at his research firm, the ChimpWorks, in Boulder, Colorado. An edited transcript of the conversation follows.



Bo Burlingham



Jim Collins

I saw your talk at the last Inc. 500 conference and was struck by your thoughts about the evolution of business over the past 100 years. You believe that every 20 or 30 years, there is a major development that we become aware of only in retrospect.

Yes, that's right. Around the turn of the last century, for example, we began to see the business corporation emerge as a building block of modern society, but if you'd made that observation to people in 1900, they wouldn't have known what you were talking about. Then, in the period of the 1920s to '40s, we saw the emergence of management as a fundamental function and discipline in society. It was Peter Drucker who best articulated that idea. He saw that we were becoming a society in which management would be one of the central, important professions -- like medicine or law. Then came the third big development, which really flourished after the Second World War: the idea that work can be systematically broken down into pieces and reassembled in ways that dramatically increase both performance and humanity.

Where does entrepreneurship fit in?

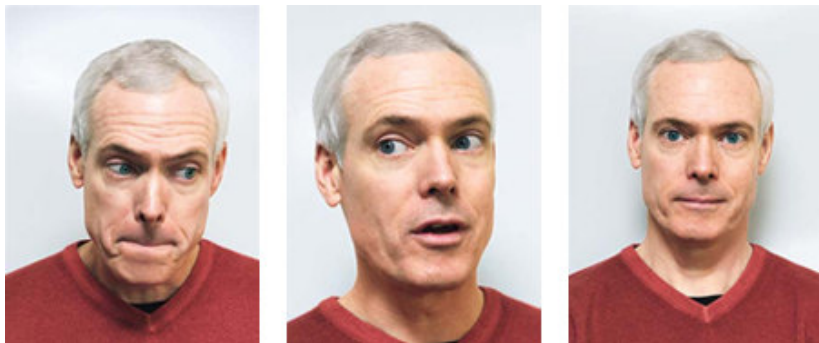
That was the next big development. Up to about 1980 or so, we tended to view entrepreneurship as sort of a weird black art. There were these crazy, creative people who weren't like normal people. They didn't work for other people. They

went off and started their own things. But beginning in the 1980s, there was a huge shift, and I think *Inc.* had a lot to do with it. We began to get the idea that entrepreneurship is a systematic, replicable process. Along with that recognition came a variety of mechanisms -- capital mechanisms, education mechanisms, media mechanisms, and so on. We realized that being an entrepreneur is a choice. It's not about temperament or personality. It's about action.

That's interesting. There were a lot of mavericks at our early conferences, but in the late 1980s, they began giving way to professional entrepreneurs.

I think we saw the best of entrepreneurship in the '80s. I invited Steve Jobs to my entrepreneurship class at Stanford in 1988 or '89. He was doing NeXT at the time. He said, "We aren't creating computers. We are creating bicycles for the mind." That was his phrase. He said the most efficient locomotive vehicle is a bicycle, and you could create a bicycle for the mind. It just happened to be a personal computer. Now, that way of looking at a business is very different from thinking, "We're creating a company so everybody can get rich and retire." If that's how Jobs had seen it, he would have quit a long time ago. Same with Yvon Chouinard at Patagonia. He wanted to make incredible products, but those products would be part of something bigger -- creating a role model for people who wanted to build a sustainable organization. It was a noble vision of entrepreneurship, and a lot of these entrepreneurs shared it.

Some people might be surprised to hear you speak so passionately about entrepreneurship, considering that both *Built to Last* and *Good to Great* focused on giant public companies.



It just seemed to me that the best way to understand how great entrepreneurs become great company builders was to take the greatest companies of the 20th century and then rewind the tape of history to when they were start-ups. So, let's look at what Bill Hewlett and David Packard were doing and what [Sony founders] Akio Morita and Masaru Ibuka were doing and what Sam Walton was doing when he had two stores. There are thousands of start-ups, far fewer successful start-ups, fewer still that become successful companies, even fewer that go from successful company to enduring company, and a tiny handful that become great, enduring companies. I wanted to know how the great, enduring ones got started. So, for me, *Built to Last* was an entrepreneur's book.

How do you define entrepreneurship?

I take a broad view of it. The traditional definition -- founding an entity designed to make money -- is too narrow for me. I see entrepreneurship as more of a life concept. We all make choices about how we live our lives. You can take a paint-by-numbers approach, or you can start with a blank canvas. When you paint by numbers, the end result is guaranteed. You know what it's going to be, and it might be good, but it will never be a masterpiece. Starting with a blank canvas is the only way to get a masterpiece, but you could also blow up. So, are you going to pick the paint-by-numbers kit or the blank canvas? That's a life question, not a business question.

It has to do with your ability to handle risk, no?

Not risk. Ambiguity. People confuse the two. My students used to come to me at Stanford and say, "I'd really like to do something on my own, but I'm just not ready to take that much risk. So I took the job with IBM." And I would say, "You're not ready for risk? What's the first thing you learn about investing? Never put all your eggs in one basket. You've just put all your eggs in one basket that is held by somebody else." As an entrepreneur, you know what the risks are. You see them. You understand them. You manage them. If you join someone else's company, you may not know those risks, and not because they don't exist. You just can't see them, and so you can't manage them. That's a much more exposed position than the entrepreneur faces. But there's lower ambiguity on the paint-by-numbers path: very clear but more risky. The entrepreneurial path: very ambiguous but less risk. Of course, the truth is that it's all ambiguous, anyway. If

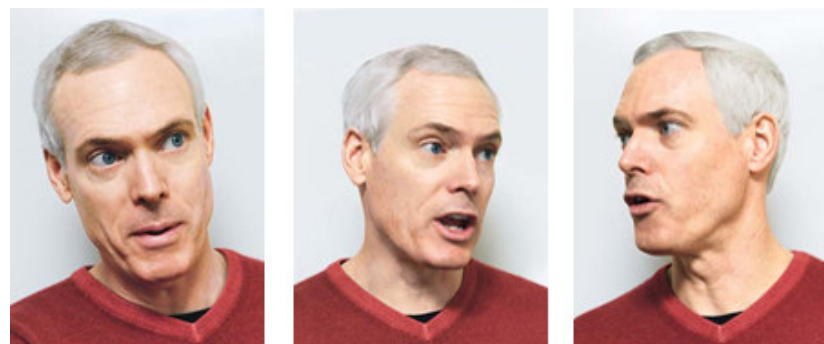
you think you can predict the future, you're crazy.

I don't know many people who feel they can predict the future these days.

We've had a wake-up call. Some people had it sooner than others. After the bubble burst in 2000, I was talking about the ideas in *Good to Great* with some portfolio companies of venture capitalists. They said, "This is all very interesting. But we're running out of cash. The bubble's burst. We're going to die. What does your research have to say to us?" Frankly, I had nothing to say except, "Gee, bummer." But as I thought about it, I realized those technology companies were experiencing something that was going to happen to everybody, only most of us didn't know it yet.

An image popped into my head. It was a climbing analogy. Most people are in the comfort of base camp, and they can go on doing what they're doing even if there is a big storm. But the people who wake up high on that mountain in a howling storm are in grave danger, like the technology people after the bubble burst. It hit me that we're all heading up there, whether we like it or not. We're heading into a world characterized by big events, big forces, massive storms. We're going to be vulnerable little specks high on the mountain when the storm hits out of nowhere. And if we're not prepared, we're going to die up there. Or we're going to be in real serious trouble.

How do you prepare for something you can't see coming?



That was the question. I thought, OK. We need to understand what separates those who do well from those who don't do well when the world spins completely out of our control. How are we going to study this question? This was in 2002. We decided to look at the 50 best-performing IPOs since 1970-72 and see how they did 15 years out. They were small and vulnerable when they came into the world. We'd ask them, "What did you do on that mountain? How did you do so well?" Of course, we found others that didn't do as well. We just finished six years of what we call our turbulence research.

That was a great question to be asking in 2002. It's what everyone is wondering about today.

We are now, I think, having to adjust to dealing with a world that is going to be ferocious. We don't have any practice with that. People like me who grew up in the postwar period are not practiced at the volatilities, the turbulence, the uncertainties of the world that will probably define the second half of my life.

You sound pessimistic.

No. It is only in times like these that you get a chance to show your strength. In the end, I think we need to have absolute faith in our ability to deal with whatever is thrown at us. And we need to have a complete, realistic paranoia that a lot can be thrown at us. It's our ability to put those two contradictory ideas together: We need to be prepared for what we can't predict and, at the same time, have this total, unwavering faith that we will find a way to deal with all of it. And I believe we will. I don't believe the world will treat us well, but we will figure out how to do very well.

What's the source of your optimism?

A lot of it has to do with the young generation. A general at West Point told me, "This is the most inspired and inspiring generation to come through West Point since 1945." I see the same thing with the young people who come to work for me. They have a sense of responsibility and service and a lack of cynicism that is remarkable and wonderful. It's an ethos, and it's collective. That's what's really powerful. It's connected technologically. It's not grandiose, but there is a fundamental assumption of being part of a much larger world and a much larger set of aspirations. The world can be a

really awful, brutal, turbulent place. And yet I'm hopeful precisely because of this generation of kids. I really think we ought to just give them the keys as soon as we can. Let them run it.

Do you see that ethos manifesting itself in the world of entrepreneurship?

Absolutely. I'll give you my entrepreneur for this decade: Wendy Kopp of Teach for America. Her organization is truly an entrepreneurial creation that is out to utterly transform education. It's taking an entrepreneurial, let's-do-something approach to tackling a massive social problem.

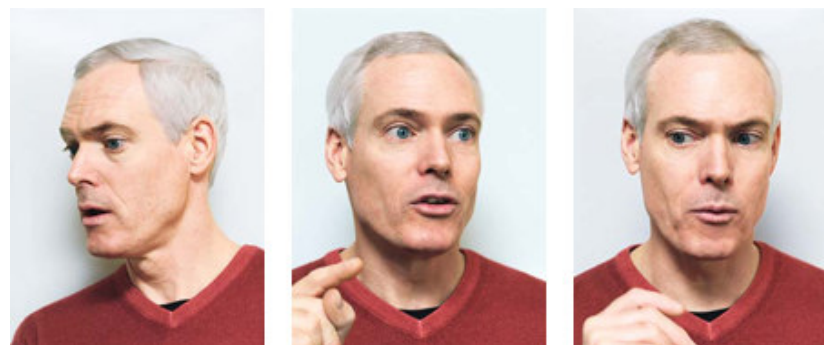
That's interesting. Of course, it's a not-for-profit.

Yes, but think about the leading entrepreneurs of the past three decades: Steve Jobs, Ken Iverson, Herb Kelleher, Anita Roddick, Yvon Chouinard, Howard Schultz, Jeff Bezos. What jumps out at you as being consistent across all those people?

The larger purpose of what they were doing.

Right. They defined success on a very big scale. For Steve Jobs, it was about much more than selling computers. For Yvon Chouinard, more than clothing. For Anita Roddick, more than cosmetics. For Howard Schultz, more than coffee. For Jeff Bezos, more than online retailing. Wendy Kopp fits right in. We're talking big -- millions of kids, transforming society. The ambitions are huge.

Steve Jobs was in the very first issue of *Inc.*, back in April 1979. How have the basic skills required to build a great company changed from then to now?



I would say that the basic principles have largely not changed, but the skills are always changing. For example, nothing would suggest that the importance of the *who* has changed. If anything, our turbulence research reinforces the idea that the most important decisions are always *who* decisions. Whether you're running a business in 1812, 1886, 1925, 1950, 1975, 2000, 2050, I see nothing to contradict the principle that *who* comes first and *what* comes second, for a very simple reason: If you cannot predict the *what*, you have to be able to do a good job with the *who*, because the *what* is going to be constantly shifting.

What exactly do you mean by doing a good job with the *who*?

Do you have a culture of people who A. share a set of values, B. have very clear responsibilities, and C. perform? Those who build a culture around those ideas are building upon something that is largely unchangeable.

But what *has* changed if you're building a business now, as opposed to 10, 20, or 30 years ago?

The skills. You need to be continually learning. For example, if you accept the idea that work is infinite and time is finite, you realize you have to manage your time and not your work. You need a laserlike focus on doing first things first. And that means having a ferocious understanding of what you are not going to do. The question used to be which phone call you wouldn't take. Now, it's the discipline not to have your e-mail on. The skill is knowing how to sift through the blizzard of information that hits you all the time. That's a different skill from what you needed 50 years ago, but the fundamental principles don't change.

I also see huge changes in the environment for entrepreneurship over the past 30 years.

Since 1979, I would suggest, there have been five key evolutions that have helped bring to life the idea of entrepreneurship as a systematic, replicable process. They amplify it. They facilitate it. They reinforce it. Number 1 has to do with capital mechanisms. Venture capital was still a relatively new concept in the 1970s. Now, you have all kinds of venture funds, angel networks, private equity, search funds. There's also the democratization of the stock market, which made it easier for companies to have IPOs. If you compare 1979 with 2009, the evolution of the capital markets has been a big change and a really positive one.

Actually, there are all kinds of resources available to entrepreneurs today that weren't around in 1979 -- including, dare I say, *Inc.*

That's the second evolution: the idea that entrepreneurship is a learnable process and the emergence of various education mechanisms to support it. In 1979, there were almost no entrepreneurship courses in business schools. Now, there are hundreds. You have the rise of resources like *Inc.*, explicitly targeted at entrepreneurs and designed to give them practical guidance as well as inspiration. There is a fairly robust literature in the form of books. These are all premised on the concept that entrepreneurship is learnable -- a big change from 1979.

And meanwhile, *entrepreneur* itself has turned from a bad word into a good word, which is the third evolution. It used to be that entrepreneurs were viewed as exploitative or sleazy. But the popular image of entrepreneurship has undergone a drastic transformation -- from negative to not only socially acceptable but heroic. That draws more and young people into entrepreneurship.

Are you saying that the image of entrepreneurship has changed even though the fundamental nature of entrepreneurship is pretty much the same?

Not exactly. That's the fourth evolution. There has been a big shift away from seeing the essence of entrepreneurship as the creation of a better mousetrap to viewing it as the development of a better process. Did Starbucks have a better mousetrap? Did Home Depot have a better mousetrap? There's always an element of the better mousetrap, but there are lots of really great mousetraps and very few really great processes -- whether it be a process of building a brand, building a culture, rolling your approach out to the world. To me, building a better mousetrap seems a very strange way to think of entrepreneurship. Isn't it much more important to create a better process that will produce many mousetraps over time?

But people who focus on the mousetrap have a different mindset from those who focus on the process. In a sense, you're talking about inventors as opposed to company builders, aren't you?

Sort of. That actually brings me to the fifth evolution, which is related to the one I just mentioned. It has to do with what we might call the stages of entrepreneurship. I can see three stages that seemed to predominate at different times in the past 30 years or so. In Stage One entrepreneurship, you have a great idea. That's fairly primitive, but it's what people thought about entrepreneurship in 1979. Next, we went into Stage Two, in which you build a successful business. Then, in the 1990s, we got to the next stage: building a great company. That is different, because a great company will have, over time, many successful businesses. I think that may be why *Built to Last* spoke to entrepreneurs. It was about the company as the ultimate creation.

And now, I'm thinking we might be on the cusp of a Stage Four. I'm putting a big question mark next to it, but I think we might be in a stage of going from a great company to a great movement.

A movement?

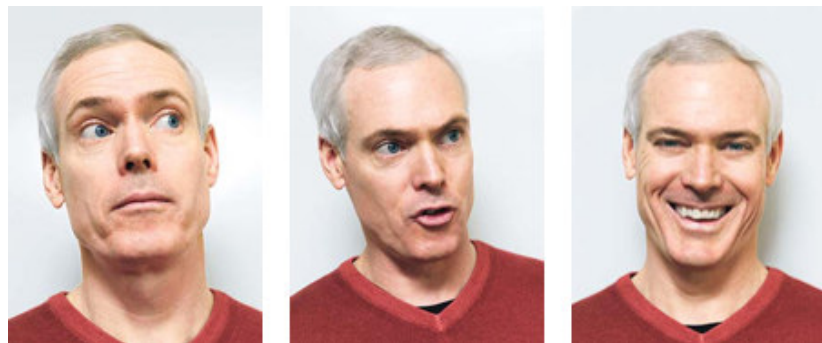
Yes, a movement. Something bigger than the company. Think about the early days of Apple, which went through all of these stages. They started with a great idea: "Gee, we've got this neat little computer. People want it." Then, they built a great business around the Apple II. Next came the conceptual step of saying, "Actually, Apple is a company from which many things will happen." The shift was very clear. And on top of that was the whole notion of a movement -- putting technology in the hands of individuals, giving them a lot more power.

You see that with a lot of Web 2.0 businesses: The customers become part of the company.

Exactly. So, maybe that's what we are seeing now -- idea, business, company, movement. And that's why I have the inclination to see Wendy Kopp as the heroic entrepreneur of the decade. She had a great idea. She proved its worth. She built Teach for America into a great company. But what she is doing goes beyond the company. It's about a process that

will utterly transform people, and they in turn will utterly transform education in this country. That is a movement. And if you think about this and about these Gen-Y kids, they get it coming out of the gate.

In other words, it's not just about having a good idea or building a successful business or even a successful company. The movement is the ultimate expression of the idea.



Well, you can't have a great company if you don't have a successful business, and you can't have a successful business if you don't at least have a workable idea. So, in order to be a Stage Four entrepreneur, you have to have Three, Two, and One. You cannot build a movement without having a strong, strategically sound business underneath, held together by a really effective set of processes and values. Those mechanisms enhance the discipline of what you're doing and therefore enhance the creativity. Creativity and discipline go hand in hand.

I don't know Teach for America well, but I did go to see High Tech High in San Diego, and I was struck by how good a businessperson the CEO, Larry Rosenstock, is. Is that a change from a previous generation of social entrepreneurs?

I don't know if it's a change, but I think that, as time goes along, the line between the social sector and the business sector will become increasingly blurred. We tend to think that the business sector will teach the social sector, that the social sector is the less sophisticated cousin. In that, we are wrong. We may actually have more to learn from your friend at High Tech High and from Wendy Kopp than they have to learn from those of us in the business sector. Obviously, they have fundamentally different economic mechanisms. But leaders of social-sector organizations have to get things done without the same levers of power available to leaders in the business sector. Business owners and chief executives have had a tremendous amount of concentrated power. They don't really have to lead. If I put a gun to your head, I can get you to do a lot of things. It means I have power. It doesn't mean I've led. In business, we largely have power, not leadership. In a social-sector organization, power is diffuse. So, getting things done requires the ability to truly lead. If you want to create a movement, you can't order it or demand it or will it into existence by exerting concentrated power. It just won't work.

I'm curious about what you yourself learn from your studies of great companies. Do you get ideas you can apply to your company?

I know we're developing important things in our research when it changes me. Every study has had an impact on the way I go about doing what I do. What I've learned from the turbulence research has already started to affect my life. I've become a total paranoid, neurotic freak. It has shown me the importance of building in big shock absorbers. I keep a year's operating budget in cash in the bank across the street all the time and run this place so that we could go an entire year without a penny of revenue. I learned that from reading about Bill Gates in the early days of Microsoft. I want to be able to say at any given time, "If we don't get a penny for three years, we'll be fine." So, we can focus on our work.

You're a serious rock climber, and there seems to be something about business and climbing that resonates with people. The metaphors come tumbling out, one after another.

Climbing has had a gigantic influence on how I think about everything. I started climbing at 14, and it was the first time that I was really, really aware of consequences. Kids think they can get away with stuff, but gravity doesn't care if you have an excuse. It will kill you. It's completely indifferent. And I just gravitated to the idea that this is very real. It's also why I have such affection for entrepreneurs.

Do you consider yourself an entrepreneur?

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