

“What the Best CEOs Know”

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Notes by Dave Kraft

For example, one of the hallmarks of exceptional CEOs is their willingness to implement within their own organizations the *very best ideas out there*, regardless of where those ideas originated. (12) Herb Kelleher, Southwest Airlines...told his people not to worry about profits. Instead, he said incessantly, *worry about service*, and everything else will fall into place. (31) Six characteristics and/or traits describe and connect the seven CEOs in this book:

1. The best CEOs start with a view of the marketplace and instill an “outside-in” perspective into the company. (32)
2. Many exceptional CEOs have an “evangelical leadership gene.” Management theorist Peter Drucker feels that effective leadership has little to do with charisma. Drucker wrote, “Effective leadership doesn’t depend on charisma. Dwight Eisenhower, George Marshall and Harry Truman were singularly effective leaders, yet none possessed more charisma than a dead mackerel.” (35) This evangelical trait has little to do with personal magnetism and everything to do with devotion or commitment to a cause or idea. (36) In particular, Welch displayed great enthusiasm for GE’s growth initiatives. When describing why he would show such excitement over a companywide program like Six Sigma (the statistically based quality program he implemented in 1996), he replied, “One cannot be tentative” about things like this. One has to be on the “lunatic fringe,”... (38) Welch said that the best leaders are those who can articulate a vision and get others to execute it. In Welch’s Authentic Leadership Model, which was a precursor (39) to the four Es, he includes the following success traits: “a good communicator,” “a team builder,” “energizes others,” “has infectious enthusiasm,” and “has fun doing it.”
3. The most effective business leaders understand the critical role of culture, and how difficult it is to bring about meaningful cultural change. (40)
4. These CEOs create or adapt “Next-Generation” products, processes, or solutions. (43) His brother Bud once said that Sam (Walton) “never stopped trying to do something different.” (46)
5. These leaders implemented the *best ideas*, regardless of their origin. (48) Leaders like Walton and Welch couldn’t have cared less about whose idea it was. They cared about how quickly, and how effectively, that idea got embraced. (49)
6. Exceptional CEOs advance the leadership body of knowledge in some meaningful fashion. (49) When asked what was the difference that made Southwest a profitable airline for three straight decades, he would answer unhesitatingly: his people. (50)

It is not knowledge, cautions Drucker, but *actions* that will ultimately determine a company’s success. (73)

Jack Welch, former CEO of General Electric: “Our behavior is driven by a fundamental core belief: the desire, and the ability, of an organization to continuously learn from any source, anywhere; and to rapidly convert this learning into action is its ultimate competitive advantage.” (79) Welch debunked many of the most common myths of management—for example, that the command-and-control model is the best way to run a large company. But his ultimate legacy is that he created a learning culture within a mammoth corporation... He felt that the organizations that would ultimately achieve a sustainable competitive advantage were those that continuously learned, and then translated that learning into action. “You need to believe that you are a learning institution,” he once commented, “and to constantly challenge everything you have.” (84) Nothing stifles innovation faster than punishing those who come up with ideas that do not work out. (87) Many of his (Welch) most important initiatives were aimed at removing roadblocks to productivity (“get the people off the people”) in an effort to reach his ultimate goal: a company devoid of bureaucracy and boundaries, in which ideas and intellect would rule. (88) The following steps...represent what Welch did...at GE over a 20-year period...:

Set a definitive strategic direction, and make sure that the vision is articulated throughout the organization. (91)

Make sure that there is a stated set of values to guide the company. Also make sure that there is a mechanism to communicate these values, and a culture in place that reinforces them. (92)

Create a “Boundaryless Organization.” In a Work-Out session, typically lasting 3 days, workers made suggestions to the bosses on how to improve processes and other important work flow issues, and managers had to say “yes,” “no,” or “I’ll get back to you within this specific period of time.” “Every wall is a bad one,” proclaimed Welch, who set his sights on creating an organization characterized by its trust, openness and candor.

Three characteristics of the boundaryless organization are speed, flexibility, and innovation. (94)

In a learning organization, it is the responsibility of every employee to learn and to constantly monitor the environment for new ideas.

Welch described GE as “a high spirited, endlessly curious enterprise,” one that was dedicated to finding the best people and “cultivating in them an insatiable appetite to learn, to stretch, and to find that better idea, that better way, every day.” (96)

Establish processes and an infrastructure for converting learning into results. (97)

Welch worked (99) for years to replace GE’s pervasive bureaucracy with trust, excitement, and informality. (100) Learning must remain a top priority, and the message must be delivered consistently. (101) He spent years establishing an organization that thrived on trust and candor, and valued ideas over rank. (102)

Lou Gerstner, former CEO, IBM:

- Understand that genuine cultural change can take years. Exercise patience when attempting meaningful change. (This is a recurring theme with virtually every one of the companies featured in this book.) (118)
- Do not expect managers and employees to readily accept a shift in strategy. Remember that Gerstner said that the move to services “set off an incredible bomb” within IBM. Any substantial strategic change is likely to be resisted by those who have spent years doing things the old way. (121)

Andy Grove, cofounder and former CEO, Intel: His personal mantra, “only the paranoid survive,”... He once said, “Success breeds complacency. Complacency breeds failure.” (135) Intel had reached what Grove calls a “strategic inflection point”—a point at which a company comes face to face with a massive change, one that is powerful enough to threaten the life of the enterprise. (141) ...the ability to recognize that the winds have shifted and to take appropriate action before you wreck your boat is crucial to the future of an enterprise. (143)

Bill Gates, Chairman and chief software architect, Microsoft: Gates coined the phrase “digital nervous system”... (160) Those companies that are better able to incorporate all of their information into an integrated system, and make all that knowledge accessible to all employees, are the ones that will have the fastest reflexes, and will react most quickly to the lightning-paced changes in the market place. (161) Gates listened to employees who had their ears closer to the street than he did, and were hearing the new ideas that he was not hearing. (163) Gates credits the company’s use of electronic mail—and a supportive company culture—with fostering an environment in which ideas could trump hierarchy: (164) And he (Gates) doesn’t want just the good news—he wants bad news even faster (another Gates principle is, “Bad news must travel fast”). (165)

More Lessons of the CEOs:

1. Make sure that every report—and every other vital document—generated by your company is available in a digital format.
2. Set up a meeting with your direct reports to reinforce your commitment to creating an efficient, fully functioning digital nervous system.
3. Establish a task force to develop your organization’s corporate memory. (171)

Herb Kelleher, Founder and former Chairman, Southwest Airlines: To make sure that passengers are treated to a great experience. Southwest “hires attitudes,” says Kelleher. (179) Southwest looks for people who share its unique mix of enthusiasm, affinity for people, and off-center sense of humor. To do that, the company uses a personality test that ranks candidates—everyone from pilots to mechanics—on seven traits: cheerfulness, optimism, decision-making ability, team spirit, communication, self-confidence, and self-starter skills... (180) *The bigger you get, the harder you must continually fight back the bureaucracy and preserve the entrepreneurial spirit...* (185)

...Kelleher, who strongly urges managers to “hire for attitude,” would have been impressed enough with Sally to hire her. He feels that resumes and experience are not as important as finding managers who fit the company’s unique culture. (192)

Sam Walton: Former Wal-Mart CEO David Glass, who worked with Walton for many years, remembers him as someone who was driven “to improve something every day.” (201) When it came to learning, nothing was off-limits to Walton. “He genuinely believed that all of the best ideas came from the bottom up, not from the top down... (204) *“I (Walton) have always been driven to buck the system, to innovate, to take things beyond where they’ve been...I have always been a maverick who enjoys shaking things up and creating a little anarchy. (206)*