HOW TO OVERCOME THE PREDICTABLE CRISES OF GROWTH

THE FOUNDER'S MENTALITY

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The Founder's Mentality:
How to Overcome the Predictable Crises of Growth

Chris Zook and James Allen

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Introduction: The Paradox of Growth

Growth creates complexity, and complexity is the silent killer of growth. This paradox explains why only about one company in nine[1] has sustained more than a minimum level of profitable growth during the past decade, and why 85 percent of executives[2] blame internal factors for their shortfall, not external ones beyond their control. The roots of sustained performance start deep inside—and they are predictable.

If you look carefully, you can always find two intertwining plot lines in the story of any business success or failure. The first, and the most visible, is the external story. This is the narrative that plays out in the marketplace, in the form of quarterly earnings, returns to shareholders, market share shifts, and profitable growth. This is the story that is easiest to track, and it's the one that most people—boards of directors, investors, the press, the public—choose to follow. It's a story about how a company wins on the outside by serving the customer better than its competitors.

The second story plays out *inside* a company. It's much less visible. It's the story of building the business, expanding and retaining a quality workforce, strengthening the culture, upgrading the systems, learning from experience, adapting the business model, holding down costs, and mobilizing the people to carry it all out perfectly again and again.

Some companies excel externally but are troubled internally; others are troubled internally but excel externally. Ultimately, though, companies have to excel in both arenas if they want to succeed. The plot lines have to converge. You can't sustain profitable growth in a competitive market if you're a disaster internally, and you can't maintain a high-performance culture internally for long if you're failing in the marketplace.

We've written four books about how to win the external strategy game, starting with *Profit from the Core*. This book is different. It's about the inside game of strategy. It's about how companies, both young and mature, can avoid what we've identified as the three internal crises of growth.

The Predictable Crises of Growth

Each of the three crises we've identified occurs at a different phase in a company's life.

The first crisis, *overload*, refers to the internal dysfunction and loss of external momentum that management teams of young, fast-growing companies experience as they try rapidly to scale their businesses.

The second crisis, *stall-out*, refers to the sudden slowdown that many successful companies suffer as their rapid growth gives rise to layers of organizational complexity and a dilution of the clear mission that once gave the company its focus and energy. Stall-out is a disorienting time for a company: the accelerator pedal of growth no longer

responds as it used to, and faster, younger competitors are starting to gain ground. Most companies that stall out never fully recover.

The third crisis, *free fall*, is the most existentially threatening. A company in free fall has completely stopped growing in its core market, and its business model, until recently the reason for its success, suddenly no longer seems viable. Time feels scarce for a company in free fall. The management team often feels it has lost control. It can't identify the root causes of the crisis, and it doesn't know what levers to pull to escape it.

These three crises represent the riskiest and most stressful periods for businesses that have made it successfully through their start-up and early-growth phases. The good news is these crises are predictable—and often avoidable. The killers of growth that these crises contain can be anticipated and even turned into a constructive reason for change.

The Founder's Mentality

Our insights in this book are based on two simple but profound truths. The first is this: despite their many differences, most companies that achieve sustainable growth share a common set of motivating attitudes and behaviors that can usually be traced back to a bold, ambitious founder who "got it right" the first time around. The companies that have grown profitably to scale, while maintaining the internal traits of the founder's mentality that got them there in the first place, often consider themselves insurgents, waging war on their industry and its standards on behalf of an underserved customer, or creating an entirely new industry altogether. Such companies possess a clear sense of mission and focus that everyone in the company can understand and relate to (in contrast with the average company, where only two employees in five say they have any idea what the company stands for).[3] Companies run in this way have the special ability to foster deep feelings of personal

responsibility in employees (in contrast with the average company, where a recent Gallup survey shows that only 13% of employees say they are emotionally engaged with their company).[4] They abhor complexity, bureaucracy, and anything that gets in the way of the clean execution of strategy. They are obsessed with the details of the business and celebrate the employees at the front line, who deal directly with customers. Together, these attitudes and behaviors constitute a frame of mind that is one of the great and most undervalued secrets of business success.

We call it *the founder's mentality.*

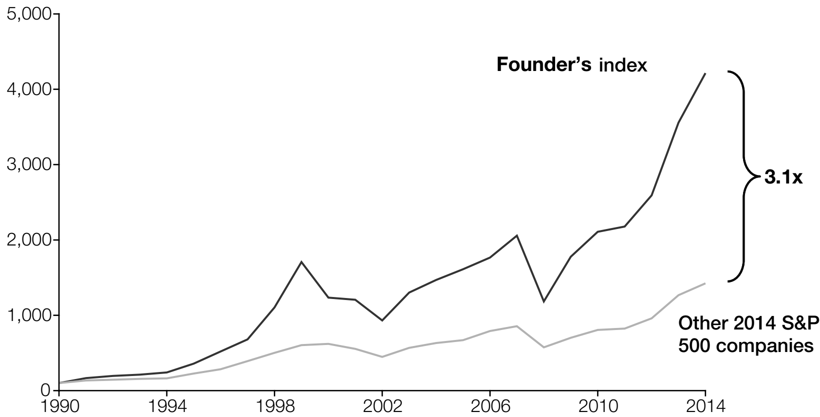
The founder's mentality constitutes a key source of competitive advantage for younger companies going up against larger, better-endowed incumbents, and it consists of three main traits—an insurgent's mission, an owner's mindset, and obsession with the front line. In their purest expression, these traits can be found in companies that are founder-led, or where the clear influence of the founder still remains in the principles, norms, and values that guide employees' day-to-day decisions and behaviors.

In our analyses, surveys, and interviews (see the sidebar about the research on which this book is based), we've found a consistently strong relationship between the traits of the founder's mentality in companies of all kinds—not just start-ups—and their ability to sustain performance in the marketplace, in the stock market, and against their peers. Since 1990, we've found that the returns to shareholders in public companies where the founder is still involved are three times higher than in other companies (Figure I-1).[5] The most consistent high-performers exhibit the attributes of the founder's mentality four to five times more than the worst performers.[6] Furthermore, we've determined that of the roughly one in ten companies that achieve a decade of sustained and profitable growth, nearly two in three are governed by the founder's mentality. These are all remarkable numbers.

All too often, however, companies lose the founder's mentality as they become larger. The pursuit of growth and scale adds organizational complexity, piles on processes and systems, dilutes

FIGURE I-1

Founder-led companies outperform the rest

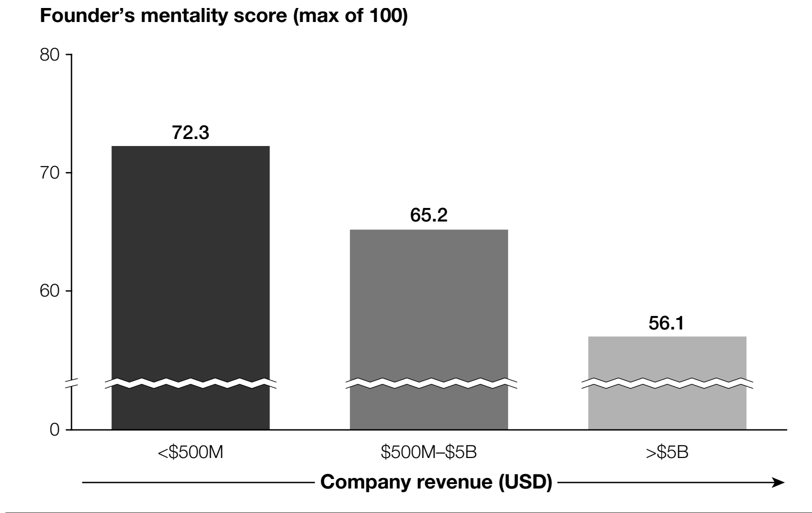


the sense of insurgency, and creates challenges in maintaining the original level of talent. These sorts of deep, subtle internal problems, in turn, lead to deterioration on the outside. Figure I-2, based on a global survey we have conducted of 325 executives, shows the decreasing degree to which company leaders perceive the founder's mentality at work in their own company, depending up on its size.

How else to explain the disappointments of companies that once dominated their business and seemed to have everything—growing markets, massive investable funds, proprietary technologies, best-known brands, leadership in their channels? In the 1990s, for example, Nokia rocketed to the top of the handset market. During that decade, we estimate, the company captured more than 90 percent of the market's global profits and seemed poised to maintain its leadership for years to come. It even was putting in place many of the elements for next-generation smart phones: it had developed some of the earliest small-touchscreen technology, was the global leader in selling tiny cameras, had learned how to distribute music, and was

FIGURE I-2

Executives perceive a decline in the founder's mentality with size



one of the first companies to offer free email on its phones. Yet somehow, overloaded by its own growth and blinded by its burgeoning organizational complexity, the company failed to capitalize on its advantages and take the lead in developing next-generation phones—despite calls from some of its own engineers to do just that.

None of this stemmed from a lack of resources or opportunity. Nokia sat on top of one of the biggest growth markets the world had ever seen, and on top of one of the biggest piles of cash in history. But instead of thinking like an insurgent and investing in the future, it gave out 40 percent dividends and used its cash to buy back large quantities of its own stock. Within just a few years, Apple, Samsung, and Google had seized the smart-phone market, and Nokia, once a model of innovation and insurgent-style thinking, was in steep decline. A board member, when interviewed about what happened, pointed to internal factors, not competitive moves, and concluded simply, "We were too slow to act."[7]

How We Did the Research

We've put years of research and analysis into this book. We began with the observation that profitable growth globally was becoming more challenging and more fleeting, and that barely one in ten achieved it over a decade. We confirmed this observation by developing a database at Bain & Company of all public companies in the global stock markets, tracked during the past 25 years. We then looked at the list of companies that were the most successful at maintaining profitable growth over the long term and found that they were disproportionately companies with a superior ability to both stay focused on the opportunities in and around their core business and to seek new growth primarily by adapting and extending their core. When we looked closely at this list of super adaptors, we found that they were most often companies where the founder was still running the business (Like Oracle, Haier, or LBrands), was still involved on the Board of Directors (like Nike) or, most importantly, where the focus and principles of how to operate that the founder once put in place still endured, because he or she had gotten it nearly "right" the first time (like IKEA or Enterprise). We calculated the returns to shareholders in companies with these founder connections, and analyzed the attributes of the most enduring successes, and discovered that this hypothesis was born out in spades. To find out why, we went into the field.

We first spoke to over 100 executives around the world about the barriers to growth they perceived, and at the same time launched an initiative at Bain called the DM100. The initiative focused on young companies in developing markets that generally had attained well over $200 million in size and had promising long-term-growth prospects. Most of the executives we talked to in our travels, and in our DM100 workshops, told us that the root causes of their failure to grow were internal, not external.

We then invested in several surveys of global executives to confirm and understand these barriers to growth. One survey involved 325 executives in a cross section of businesses; another involved our DM100 executives and their teams, across 56 companies. Each produced similar results: the executives we talked to identified internal barriers as the root cause of many of their growth challenges, though where they put the most emphasis naturally varied by age and stage of development.

We then went in pursuit of the success factors that make up the founder's mentality. We did this through a series of interviews around the world with executives and founders, and through a database we built of 200 companies, their performance, and their dominant practices, as

assessed by an expert who knew each company well. Three sets of hard-edged practices and underlying attitudes, tracing often back to the way the founder set up the company, emerged consistently. We confirmed and discussed these further in our DM100 workshops, in discussions with our industry specialists at Bain & Company, and through dozens of more formal interviews with senior executives and especially founders. People everywhere were very generous with their time and all keenly interested in the topic. This allowed us to define the elements of the founder's mentality and begin to understand their practical use in companies facing the three most-pressing crises of growth.

Finally, we conducted a range of deeper case studies, focusing on companies that seemed to maintain the founder's mentality over a long time, companies that had lost and regained it, and companies that had never really had it. We chose examples spanning geographies, industries, and maturity in search of the "how" behind the "what." We dug deep into public data, got privileged access to all sorts of executives, and, above all, intimately familiarized ourselves with the stories of a set of remarkable founders, who continue to amaze and inspire us.

In our studies of growth crises, we've come across a plethora of companies like Nokia—companies that seemed on the outside to have everything (market position, brand, technology, customer base, enormous financial resources) but ultimately lost it all in shocking fashion, because how they failed to play the internal game. But we've also encountered many remarkable and inspiring stories of the opposite nature (several that you will meet in this book)—companies that seemed on the outside to have no hope but that were revived by leaders who virtually re-founded the company from the inside.

One such company is DaVita, which has transformed itself since 1999 from a company that seemed headed for bankruptcy into one of the best-performing healthcare companies in country today, with a stock price that has increased by twenty times and a market value that has grown from almost zero to $15 billion. The company's present

CEO, Kent Thiry, engineered this transformation by reenergizing the company on the inside with the founder's mentality—and later in this book we'll explore in detail how.

Why This Book Now

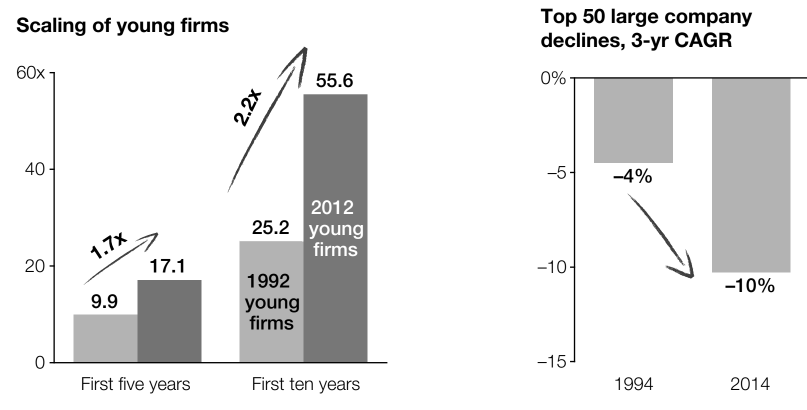
Overload, stall-out, and free fall may all be predictable crises, but here's the second truth that we've based this book on: good solutions exist for overcoming these crises. And overcoming them is vital: on average, more than 80 percent of the major swings in value in companies' lives can be traced to the decisions and actions taken—or not taken—at these three moments of crisis.[8]

Not only is overcoming these crises vital, it has also never been more urgent. That's because business life cycles—and the metabolisms of whole industries—have been speeding up dramatically. Consider this: on average, new companies that reach *Fortune* 500 scale today are doing so more than two times faster than just two decades ago, and the fastest—the world-record holders for scaling—are exceeding prior records by a wide margin.[9] Another indicator that young companies are achieving market power sooner: in 40 percent of the competitive arenas, the strongest company—that is, the company with the biggest share of industry profits, and thus the greatest ability to reinvest—is no longer the largest.[10] Advances in technology, and the increasing shift in value towards services and software where scale is less important, are eroding the advantages of size. As a result, young insurgents are becoming a threat to incumbents earlier than ever. And here's the other part of the story: once these insurgents themselves become incumbents, they are stalling out more often, and more suddenly, and are having a harder time recovering than ever before.[11]

This double-whammy of faster growth early in life and faster stall-out later in life (see figure I-3) has resulted in a more rapid reordering

FIGURE I-3

Increasing speed of scaling and declining



of strategic positions in many industries, and has caused leaders and followers in many markets to change places with frightening speed. Take the airline industry: a well-established, capital-intensive industry with high barriers to entry and no totally disruptive technology. This is not the kind of industry in which, traditionally, you would expect to witness a major strategic reordering. But that's precisely what has happened in the past couple of decades. If you look at a list of the top 20 airlines by value in 1999, and then compare that with today's list, you find that the industry leaders have churned by more than half, that bankruptcies have been common, and that roughly half of the companies that were on the list 15 years ago are not even independent companies today. The airlines that are the most valuable in the world, such as Air China, didn't even make the top twenty in 1999. And this phenomenon is by no means unique to the airlines. Well over half of executives from across all industries say that their main competitor in five years will be a different company than it is today.[12] It is a testament to the speed at which young companies can grow and become forces in their industries.

What You Will Get From This Book

We've written this book with a very practical goal in mind: to help companies achieve sustainable success by navigating a safe passage through the internal crises of growth. We believe that there are three types of readers who will benefit the most from the insights and ideas in this book. The first are members of leadership teams, including founders themselves, who are grappling directly with the challenges of achieving their growth targets. This includes all those in the organization who report into the senior team, those aspiring to greater leadership roles in the companies, and those in the middle layers of the organization who are responsible for implementing strategy and managing communication between upper and lower levels of the organization. The second type is the investor who is trying to assess a company's growth prospects and the difficulty level of the challenges it will face on the way. The third is the board member who is concerned about the growth momentum or prospects of a company and wants a research-based means of asking the tough questions about preparedness for future challenges and barriers. All three types of readers—the leaders, the investors, and the board members—will find value in our research, our conclusions, and the stories we use to illustrate them.

This book is about how best to scale a business that has moved successfully beyond the start-up period while also maintaining the energy, focus, and obsessive attention to the customer that were the reasons for its initial success. It is different, in other words, from the recent tsunami of literature on the secrets of start-ups. For that, we refer readers to books such as *The Lean Start-up*, by Eric Ries or *Zero to One*, by Peter Thiel. This book is also different from those that focus on the early start-up dynamics of founder- and family-led companies. Readers interested in that topic should start with *The Founder's Dilemma*, by Noam Wasserman, which is perhaps the definitive work on this topic, and go from there.

We have devoted our careers to helping leaders of businesses find their next wave of profitable growth. Sometimes we've helped young companies as they struggle with an overload of growth opportunities, sometimes we've helped mature companies find ways to avoid stall-out, and sometimes we've helped companies in free fall completely redefine their business model. We look back on these experiences with enormous respect for the leaders in the center of the arena who must personally confront these challenges. We offer the ideas in this book with great humility but also confidence and optimism. They don't represent an elixir. But they're based on lessons we've learned from carefully studying some of the best-performing companies and leaders in the world, and we strongly believe that most companies facing growth crises can apply the principles of the founder's mentality, as we define it in this book, to greatly improve their odds of success.

How This Book Is Organized

This book is built around the attributes of the founder's mentality, and how they each can help management teams of all sorts understand and address the three predictable crises of growth.

In Chapter 1, we'll define the founder's mentality, show how it interacts with the process of scaling, and introduce the three predictable crises of growth. In Chapter 2, we'll explore the forces that trigger these crises and will demonstrate their role in creating or destroying value through the life of a company. We'll then devote a chapter to each of the three crises: overload in Chapter 3, stall-out in Chapter 4, and free fall in Chapter 5. In Chapter 6, our final chapter, we'll look at the idea of *scale insurgency* as a model of how to achieve sustainable growth, and we'll conclude with a discussion of the lessons that our work on the founder's mentality holds for leaders at all levels of an organization.

Research is the bedrock on which we've based this book, but stories are how we've built it up: stories that we feel reflect the most practical ideas and lessons from our research, stories of how leaders have overcome the crises of growth, stories of disappointments that proved to be avoidable, stories of renewal. We've observed some of the world's most effective leadership teams in action, and they've talked candidly to us about what has worked for them and what hasn't. Drawing on that access, we'll provide you with an in-depth look at what the founder's mentality is, and we'll show you how companies of all sorts have overcome the paradox of growth by continuously using the founder's mentality as the touchstone for everything they do. Our hope is that this book will empower leaders everywhere to infuse a founder's mentality throughout their own companies, and to control the destiny of their companies in an uncertain future by mastering the internal game of strategy. Ultimately, this book is about addressing the pressing needs of the future—a future that more than ever rewards speed, open-mindedness, human motivation, and adaptability.

Let's begin with the story of one of the great founders of our time.

1

The Founder's Mentality: The Key to Achieving Sustainable Growth

Every great business founder has an origins story to tell. For Leslie Wexner, that story began one day in 1963, when, at the age of 25, he concluded that he could create a retail business that would achieve better results than the one run by his parents.

Wexner had been born and raised in Dayton, Ohio, the son of a Russian-Jewish immigrant father who had emigrated to avoid persecution. His father, Harry Wexner, who never learned how to write, had worked his way up at a Chicago department store from package wrapper to store walker to window trimmer to manager; his mother, Bella Cabakoff, who had started at the Lazarus department store as an administrative assistant, had risen to become the youngest buyer in the store. Together, despite working long hours, they had never made more than $9,000 a year. "We had absolutely no money," Wexner recalls. "Zero." In 1951, hoping to do better on their own, they opened a small store, with a storefront only 13 feet

wide. They named it Leslie's, after their son. But their situation didn't improve much.

This nagged at Wexner, who had studied business as an undergraduate at Ohio State University, in Columbus. How was it that his parents, who were always working so hard, hadn't managed to get farther ahead in life? Part of the answer came to him after college, when he was helping out at the store and came across a set of invoices. As he studied them, he realized that his parents had filled their store with big-ticket items that sold with lower net margins, such as dresses and coats. What was selling at higher profitability and keeping the store afloat, however, were the average-priced items, such as shirts, skirts, and pants. To Wexner, the solution was obvious: sell more of the merchandise with the best economics. Wexner enthusiastically took this idea to his father—who, less than receptive, told him to get a job.

So he did. Convinced that he could succeed, Wexner founded his own business: a specialized clothing store for women at the Kingsdale Shopping Center, in Upper Arlington, Ohio, that, in contrast with his parents' general-merchandise strategy, would stock only a limited selection of clothing and focus on what sold best. He called his store The Limited.

To get his business launched, Wexner turned for help to his Aunt Ida, who lent him $5,000 as collateral. With that money, he got himself a $10,000 bank loan and set to work. This was no tentative venture. Convinced it would succeed, he signed a lease for a second store and ratcheted up his liabilities more than $1 million even before he opened his first store. He was all-in and had a powerfully personal sense of what was at stake. "With $1 million of debt and no equity," he says, "I felt that a bear was chasing me and would eat me if I stood still for a second," and adds, "If it didn't work, I would be the most notorious bankruptcy in Ohio."

Receipts in The Limited's first year were $160,000—not enough to reduce Wexner's anxiety but enough to keep him going a bit

longer. Despite his fragile finances, he embarked on an ambitious plan of growth, opening a new store in each of the next five years—and each succeeded, thanks in large part to his force of will. "I felt that I could win by always outworking my competitors," he says. "If they worked 12 hours a day, I would work 16. I was determined to make sure that everyone left the store with a reason to come back. I thought, *We do not have much money, we do not have many stores, but at least I can be enthusiastic.* You can describe it as passion for success."

Wexner also succeeded in his early years by developing an unrelenting focus on the front line. "I treated each customer as a friend," he says. If they didn't like what they'd bought from him, he decided, they could bring it back for a refund—not a common practice at the time, and one his father told him was crazy. But he did it anyway. From the start, too, Wexner imbued The Limited with a sense of personality and purpose. The Limited, he believed, should exist to serve the needs of a very precise kind of customer: a smart, strong, independent modern woman, typified by Jenny Cavalleri, the beloved character played by Ali McGraw in *Love Story.* "I built my store around an image of a woman like her," he says, "and what she would want to wear."

With six successful stores in operation, Wexner took another unconventional risk—in 1969, he decided to take The Limited public with an intrastate offering, in order to provide his employees with real equity that would make them share his owner mindset. People ridiculed the decision at the time, but it turned out to be a good one: if you had invested $1,000 in The Limited when it went public, your stake today would be worth $60 million.

Today, L Brands, as Wexner now calls his company, employs 100,000 people. Running the company poses all sorts of complex management challenges, but as Wexner and his management team confront them, they remain as focused as ever on their core mission and ideals. "I knew that we needed to become a big company in order

to be able to compete economically," he says. "But above all, I wanted to build a good company with a special purpose and clear values." In working toward that goal, Wexner learned an important lesson by reading *Making Movies*, by Sidney Lumet. "You have to think of all of the creative talents when you make a movie," he says. "Like designers, actors, producers, directors, costume designers, musicians. Yet when you see a great movie, it's cohesive, as if one person did it all. Great brands have that cohesive point of personality and require attention to coherent detail."

In the decades since he founded The Limited, Wexner's businesses have moved from success to success. Today, as the head of L Brands, he is the longest-serving CEO of any major Fortune 500 company in North America. Over the course of the past 52 years, he has made a success of not only The Limited but also Express, Bath & Body Works, Abercrombie and Fitch, Henri Bendel, LaSenza, and—the jewel in his crown today—Victoria's Secret. In doing so, he has produced a return of nearly 20 percent per year for his shareholders, and L Brands today has a market value of roughly $28 billion. In large part, he has succeeded because he thinks and acts like an insurgent. "When you stop to smell the roses," he says, "is when you get hit by a truck. Success does not naturally beget success. The hardest thing to do is to keep your edge and stay on your game as you succeed and grow. Consequently, I refuse to accept the fact that I am mature, or that the business is mature. As soon as you accept that, you begin to die."[1]

The Founder's Mentality: Three Defining Traits

Les Wexner and his L Brands team exude the founder's mentality. They live and breathe their insurgent mission. No matter how big their companies have become, they remain obsessed with the front

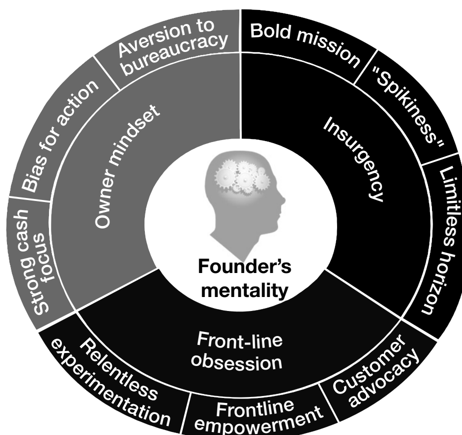
line, always aware that the details there make all the difference. And theirs is an owner mindset, a powerful sense of responsibility for all of their employees, customers, products, and decisions.

These three traits—*the insurgent mission, the front-line obsession*, and *the owner mindset*—are key traits of the founder's mentality (see figure 1-1), and our research shows that assiduously cultivating them leads to success.

In the following section, we'll describe how three founders instilled those traits in their companies during the early days, and then maintained them as the companies became large. Our point here is basic but important: the founder's mentality does not have to wane over time, as companies age, nor does it have to disappear when a founder retires or dies; it can help companies of all ages and sizes achieve sustainable growth. We have chosen focus here on the stories of founders simply because it's in those stories that we've found the purest and most enduring expression of the founder's mentality.

FIGURE 1-1

The defining traits of the founder's mentality



An Insurgent Mission

The first element of the founder's mentality is the sense of insurgent mission. As we mentioned in our introduction, some of the most successful founders have likened the start-up phase to waging war against an industry on behalf of underserved customers—which is why, in the early years, Les Wexner held company meetings in what he called his "war room." Others have described their purpose as redefining the rules of their industry. And still others see the insurgency as creating totally new markets, as SpaceX is doing in space travel, or perhaps as Netflix is doing in Internet television. Typically, the insurgent mission derives from a company's founder, but in many of the really sustainable businesses it ultimately takes hold at every level and can far outlast the founder. Let's look more closely at the components of insurgency, using the example of Yonghui, a rapidly growing founder-led grocery business in China that is challenging larger rivals, even Wal-Mart.

Yonghui's founders, Zhang Xuansong and Zhang Xuanning, are brothers who grew up in humble circumstances in rural Fujian in the southeast corner of China. Their father was a contractor in the local village, and their mother made extra money at home by processing tea leaves and making pastries. The brothers grew up helping their mother do her work. Inspired by this experience, in the mid-1980s they founded a small local grocery business selling local beer and common packaged foods. The business quickly expanded to five small locations. Then, in 1999, something happened that changed everything for the brothers: China got its first hypermarkets China.

These new stores were giant by Chinese standards, spreading over more than 10,000 square meters, and they carried packaged goods and produce: the traditional grocery profile. Intrigued, the brothers began studying how the stores were run, and gradually decided that they could do it better. They saw, for example, that the hypermarkets were purchasing fresh produce from distributors and earning about

17 percent gross margin. Why not eliminate the middle layers of distribution, they thought, and just purchase directly from the farmers. That would allow them to more than double the gross margin while also forging partnerships with local farmers and bringing produce faster and fresher to customers. They began to imagine a hybrid: stores that were big, clean, and air-conditioned, like the hypermarkets, but that also developed a supply chain directly to the farmers that allowed them to sell lower-cost, higher-quality produce. They decided to give it a try, and in 2000 they opened their first store, the Yonghui Pingxi Fresh Product Supermarket in 2000. It was an instant.

As they prospered, they opened more stores, which allowed them to further increase their supply-chain advantage. For instance, they were willing to pay the farmers in cash, something the large chains were not willing to do. They also developed relationships with the local farmers to take all of their produce, and offer guaranteed minimum reimbursement in years of bumper crops—a huge concern for rural farmers.

In everything they did, the brothers operated with a sense of insurgent mission, waging war on behalf of the underserved customer, who in Yonghui's case is the Chinese mother. "Safe, fresh, good value food for the Chinese mother" is how the company's mission reads today. Xyansong explained it to us this way. "To deliver that mission," he said, "demands that we focus most of our attention on the supply chain, and to source the highest quality food from the most trusted suppliers. You would think this would be clear to all, what really matters the most, and differentiates us ultimately is our supply chain. That is where we must be the most excellent." But this is not so easy to do, he continued, in a complex, fast-growing business, in a fast-growing country, and in an industry that rapidly spawning new competitors and witnessing major shifts in channels and delivery modes due to the Internet and mobile digital technologies.

The secret to their success, the brothers told us, is that they have focused relentlessly on the essence of their insurgency as they've grown, and have paid special attention to what differentiates them. "When I was growing up in China," Xyansong said, "there was a great volleyball player who helped us win the medal in the 1984 Olympics. Her name was Lang Ping and she was called the Iron Hammer. She was known for her spike—if you could set her up well, she would win the point. In our business, a major role my brother and I play is to remind people that our supply chain is like Lang Ping. We win if we spike it. We have become convinced that this focus and awareness is *the* thing that matters more than anything else we can do as leaders and founders. Leaders must keep things simple and focused, especially in the turbulent and distracting environment in which we now compete."

So far, it's working. The Yonghui fresh-produce core was so successful that it now accounts for around 40 percent of the store's economics, compared to less than 20 percent for their rivals. Over the past five years, Yonghui has grown at a 34 percent annual rate. The company now operates more than 300 stores and takes in $5 billion in profitable revenues.

The most powerful insurgencies have several mutually reinforcing attributes. One is a *bold mission*, of the sort that has fueled the phenomenal growth of Yonghui. Another is *spikiness*: a constant emphasis on what differentiates the company and makes it unique. Yet another the idea of a *limitless horizon*: the idea that company, if massively successful, can intelligently extend the boundaries of its core farther and farther outward. You see this especially come into play in the stories of companies that have maintained their insurgent focus and energy even at large scale—companies such as IKEA and Apple.

A sharp insurgent mission should provide a company with its focus and purpose, both inside and outside. It is at its most powerful when pushed down into personnel systems, advertising, product

features, and customer focus in a way that makes it real, and forces tradeoffs that shape the company—by helping determine who gets hired and promoted, which suppliers are chosen, and what investments are made. Great statements of insurgency jump right out at the people they are supposed to reach. Google's objective—"Organize all of the world's information"—grabs you right away with its ambitious simplicity. CavinKare, a Indian consumer-products company that has enjoyed an eight-fold increase in revenues since 2000, has built itself and its product offerings around this core idea: "Whatever a rich man enjoys, the common man should be able to afford." IKEA is an especially good example of the lasting power of a great insurgent mission. Founded in 1943 and still family-owned, the company is now into the third generation of ownership. IKEA has grown to 150,000 employees—yet it has barely strayed from its original mission, originally articulated in a document titled "Testament of a Furniture Dealer." That mission—"offering a well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them"—is nothing less than the company's soul, as every great mission should be. The lesson is simple: Stay true to your mission in everything you do, no matter what your size and you're more likely to succeed. Lose touch with it, and you're more likely to fail.

Front-Line Obsession

Most founders were their company's first salesperson, its first product developer, or both. They lived and breathed the front line, driven by an intellectual curiosity about every detail of the customer experience and of how everything in the business works. They used instincts formed at the ground level to make every decision.

An obsession with the front line is fundamental to the founder's mentality. It shows up in three ways—as an obsession with front-line employees, with individual customers at all levels of the company,

and with the details of the business. This is the mentality that Les Wexner has brought to L Brands—and it's the mentality that the young M.S. Oberoi, who grew up poor in what is now Pakistan, brought to the Oberoi Group, one of the world's great luxury-hotel companies. Oberoi began his career as a penniless hotel clerk in rural India, learning the business absolutely from the bottom up. He founded the hotel chain in 1934, on a shoestring, after raising the money to buy the Grand Hotel in Calcutta, which he was able to acquire because its price had hit rock bottom after it had been decimated by a cholera epidemic. That's the kind of classically courageous move that young insurgents make. During World War II, to finance his purchase, Oberoi resourcefully turned the hotel into a barracks for British soldiers.

Oberoi obsessed about every detail that might affect the customer experience in his hotels: the length of bellmen's trousers, the temperature of the tea, the freshness of the flowers, the placement of signage. Even in his eighties he was still visiting his hotels to make sure employees were getting everything right. In doing so, he established a culture by which all employees shared in his obsession—which is why, more than a decade after his death, Oberoi hotels are still some of the world's most successful. In 2015, *Travel & Leisure* named Oberoi the best hotel brand in the world, and its hotel in Udaipur, India, as the best hotel in the world. The founder's mentality lives on.

The front-line obsession is the essence of Oberoi's competitive advantage, and the company maintains it by ensuring that all aspects of staffing—from hiring to training to promotion—tracks back to attention to customer detail. At any Oberoi hotel, the employees on the front line are individually responsible and empowered to directly create value for the customer. During an average stay, an Oberoi customer will come into contact forty-two separate times with staff members, each of whom has the discretion to make decisions as he or she sees fit—even at the level, say, of giving a

scarf to a customer on the way to visit a sick friend. To maintain a personal connection with each customer, the staff meet nightly, to go over the day's arrival list and to review each new guest's history and preferences. Employees get special training in how to deal with difficult guests and how to recover after a customer disaster. Even the most senior managers are encouraged to be humble and to model behaviors—by checking in guests when necessary, by clearing tables at busy times, or even by moving bags. Every month groups of employees meet in an organized way to share experiences and capture best practices. In one of the hotel kitchens we visited, we saw a sign above the vegetable-washing table that read, IMPROVE EVERYTHING YOU TOUCH.

The hotel tries to segment customers in a way that they can anticipate special needs. Poornima Bhambal, an assistant manager at the Oberoi Udaivilas, described how the hotel builds systems to look for patterns of past stays and cultural indicators, so that the staff can anticipate needs that customers may not even have yet. For instance, they know that some types of guest always ask for special dental or shaving kits and put them in the room. Other types of guest expect 24-hour childcare, so they simply offer it at check in. Guests with very long trips to the hotel get special fast track to get them to their room within two minutes of arrival. As she said, describing their methods for anticipating needs: "Unless you put yourself in a guest's shoes, you will never know." This attention to detail and front-line empowerment, part of a finely honed and highly data-driven guest-management system, are the core of the Oberoi's competitive advantage in an industry where customer service standards are constantly rising. Oberoi has succeeded for decades by leading the way, not following.

Today the CEO of the group that controls the Oberoi and Trident Hotel chains is Vikram Oberoi, a grandson of M.S. Oberoi. When we met, he told us about visiting his grandfather when he was in his 90s. "My grandfather's sight declined with age," he said, "and he

had to resort to very thick glasses and would have to hold reading materials about four inches away. But I remember, time after time, visiting him at his house and finding him holding guest surveys up to his nose and constantly making notes to send to the hotel managers about his observations. He remained obsessed with the smallest detail about how the hotels were serving our guests right up until the end. He was the ultimate role model."

Another critical element of the front-line obsession is deep curiosity about how the business is working in its details at the front line. M.S. Oberoi demonstrated this by attending to every last detail in his hotels around the world. He insisted that his chefs visit food markets themselves, rather ordering food to be delivered unseen, and he discussed plumbing problems with his managers. He lasered in on the right detail at the right time—and his son, P.R.S. Oberoi, who is now the chairman of the group that runs the business, has carried this tradition on. He has been known to randomly check even eggs in the kitchen, cracking them and inspecting their color. But M.S. Oberoi did not let his belief in the importance of attention to detail slow anything down. He had a reputation for clearing his desk of every file before leaving every day. Without a haystack, he felt, you can't lose any needles.

In the "high touch" consumer business of luxury hotels, an obsession with the front line is the essence of competitive differentiation. However, you can find the same trait in all sorts of great founder-mentality companies, across a wide range of industries. These are often the most lasting performers. Think of Steve Jobs at Apple, and how much he focused on the simple elegance of the motherboard design inside his products, even though the customer would not see it. Or think of how obsessively Toyota focuses on the front-line jobs in its factory production system, where every operator has the right, indeed the obligation, to shut down the line and trigger a problem-solving effort if they see any kind of production problem in front of them. The most enduring companies in fast-changing

industries manage to maintain their front-line obsession and love of the detail even as they grow to large size.

The Owner's Mindset

Small companies possess one great competitive advantage over incumbents. At every level of the business, the employees of small companies make their decisions and pursue their objectives motivated by an owner's mindset. They're so invested in the company, that is, that they feel and act like owners—something that can't be said of the layers of staff and professional managers at large incumbents. Surveys show that only about one business employee in five feels any emotional connection or engagement with the company at which they work.[2] That's a startling number, and it represents an opportunity for companies who can inspire their employees with an owner's mindset. The difference between employees who operate with the owner's mindset and those who don't can be as great as the difference between devoted parents and restless babysitters.

Three ingredients make up the essence of the owner's mindset and establish it as a source of competitive advantage. The first is a *strong cost focus*—treating both expenses and investments as though they are your own money. The second advantage is what we call a *bias to action*. Adi Godrej, who runs Godrej, a leading Indian consumer-goods company, exhibits this bias in how he runs its operations. "It is our superior speed to make big decisions and take actions on them," he told us, "that lets us constantly out maneuver larger global consumer-goods companies that come in to our markets." The third advantage is an *aversion to bureaucracy*—an aversion, that is, to the layers of organization, headquarters departments, and hordes of corporate staff that can accumulate, capture power, and create complex decision processes that clog the arteries of a business and slow it down.

Many companies lose the competitive edge of the owner's mindset as they grow. That's because they become complex, turn into public companies with diffuse ownership, hire professional managers with short tenures (the average public-company CEO lasts only about five years), build up enormous corporate staffs, and experience a balkanization of budgets that trap resources inside of departments with their own agendas, making them hard to find and to redeploy. Again, this creates an opportunity: those companies that can grow to large size while still maintaining some of the speed, efficiency, and focus of a young founder-led company have an enormous competitive advantage and, our research shows, are the big winners when it comes to value creation.

Take ABI, the largest and most-profitable beer company in the world, with revenues of $50 billion, a market value of $170 billion, and a profit margin of 32 percent, more than ten points above the average of its largest rivals. Not many people would have bet on ABI at its start, but the company has succeeded beyond expectations by assiduously cultivating the owner's mindset as it has grown.

The story begins in 1989, when three Brazilian private-equity investors—Jorge Paolo Lemann, Marcel Telles, and Carlos Alberto Sicupira—purchased a marginally profitable local brewer called Brahma. They knew from looking around the world that a strong local beer business could be a huge money maker, and they set out with the objective of making their new brewery the most efficient in the world. To that end, they hired an expert in the Toyota production system, and they launched an effort to benchmark and capture the practices of the lowest-cost global brewers. "From 1989 to 1999," Marcel Telles told us, "it was primarily a cost-cutting story, and a story of creating a new culture with young, hungry talent, mostly from outside of the beer industry. The competitive culture we created essentially wore down Antarctica, our Brazilian competitor, who eventually had to merge with us, giving us strong leadership of the market."

Their plan succeeded well. Within just a few years, the company reapplied its cost systems and cultural practices in breweries from Ecuador to Paraguay and created the largest and most-profitable beer company in South America. When we visited Marcel Telles in his office in the humble outskirts of Sao Paolo, on a hill overlooking a favela, he described the types of practices that the young company was using to reinforce an owner's mindset. There were no offices, even for the CEO, because the leadership team believed that closed offices led to a culture of hiding and of hierarchy. Targets for every group, all the way to the CEO, were projected onto big screen in the main office area, with the targets color-coded according to their status. Everyone could see how others were doing, and how each piece connected to the whole. Hiring focused heavily on young people with a hunger to succeed. Budgets were looked at from the ground up each year, and *everything* mattered: employees who wanted a new pen had to turn in their empty old one.

Today, the company that began with humble beginnings as Ambev has become a global powerhouse that has captured nearly one fourth of the world's beer market. It merged with Interbrew in Europe, acquired Anheuser Busch in America, and acquired Modelo in Mexico, along with a host of local brands and breweries. The company has even just launched a bid for SAB Miller. In consolidating the global beer industry, it has constantly refined its practices and culture, embedding them into each new business acquired on the way—without ever changing its core repeatable model. The company is still guided by its original insurgent mission (being most efficient beer company in the world) and works hard to instill the owner's mindset in all of its employees. "We are a company of owners," the company's statement of principles reads. "Owners take results personally."

One manager we met during our visit memorably summed up the company's approach. "We create restaurant owners, not waiters," he said. "If you're a restaurant owner, and a new restaurant

opens across the street serving the same food, how do you feel? You feel like someone is putting your livelihood at risk, threatening you, threatening your family. It's personal, because the restaurant is your dream. But if you are a waiter, and a new restaurant opens across the street how do you feel? At best, indifferent. Actually, there's now competition for your services. Many companies inadvertently create waiters. We work tirelessly to create restaurant owners."

But its founders have not stopped with beer. Their private-investment firm, 3G, recently purchased Kraft and Heinz, and intend to rebuild those companies using the same principle's and owner's mindset that worked so well for them at ABI.

For more than 20 years, we've encouraged clients to "think like an owner"—to review their strategies with an owner's mindset, which means aligning the broad interests of the company's leaders and shareholders. The power of this approach has been central to the rise of the private-equity industry. We see it as a reaction against the bureaucracy, poor cost management, and complexity that beset many large companies as they drift away from the founder's mentality. When we analyzed the returns of a range of different types of deals within several private-equity funds that we knew well, we found that of all deal types, the ones that earned nearly 50 percent more than the others were businesses sold by large, public companies in which the management had seemingly lost the owner's mindset and the incentives of ownership. When private-equity firms restored the owner's mindset at these companies, this consistently increased speed, reduced bureaucracy, caused a more critical evaluation of non-core businesses, and improved the management of costs. The consistency with which a return to the owner's mindset propelled high returns to private-equity firms is one of the most profound phenomena of the past few decades in business. In the interviews we've conducted with founders and founding families around the world, we've heard the same thing—that the owner's

mindset has provided them with a consistent source of competitive advantage.

For the past couple of decades, many of us have talked about the owner's mindset as *the* best way for companies to succeed. But we've come to realize that there's more to the story than that. The owner's mindset is only part of the story. That's why we've made it just one of the three defining traits of the founder's mentality—which, we believe, represents a significantly more powerful way for companies big and small to achieve sustained profitable growth. The owner mindset aligns the interests of leaders and shareholders, but the founder's mentality goes beyond that and also aligns the interests of leaders and the employees who work at the front line, where your business meets your customers. It demands innovation and is profoundly customer-centric: a posture that, we believe, ultimately creates the most value.

In the owner-mindset discussions of the late 1980s and early 1990s, people very rarely talked about the front line. The focus on aligning the interests of leaders and shareholders at times led to an incumbent mindset: a concern with hunkering down and extracting value from the existing business, and a loss of the impulse to innovate, serve customers uniquely, and fully value the employees on the front line. That's a major impediment to sustainable growth—one that, as we'll explain in this book, the founder's mentality can help you avoid.

Learning How to Infuse the Founder's Mentality in Your Organization

Though all of our examples so far have been founder-led companies, we should note here that many founders do *not* exhibit the founder's mentality. All founders are different, of course, and many succeed or

run their companies into the ground because of the unique strengths and weaknesses of their personalities. Our focus in this book will be on a mentality, not a personality—a collection of specific behaviors and attitudes, best exemplified by the traits of great founders, that if properly cultivated in the rest of the organization can lead more reliably to sustainable growth.

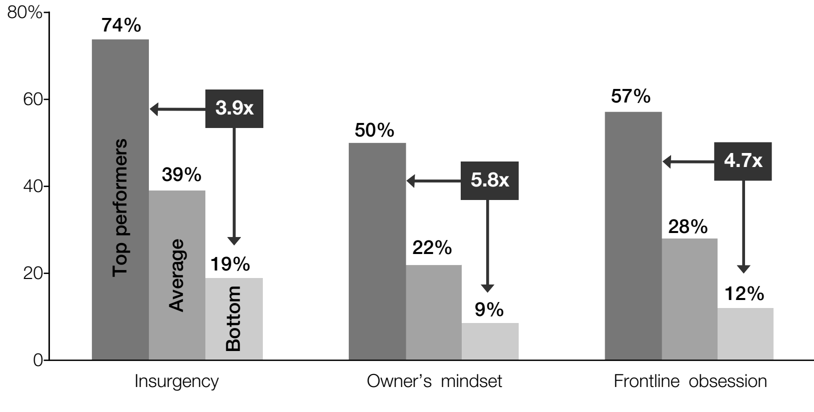
It doesn't matter if your company is decades removed from the era of its founding. Our point is that just about every company, at any stage in its life, can benefit from the attitudes and behaviors that make up the founder's mentality. Young companies need to *build* the founder's mentality; older companies need to *rediscover* or even *redefine* it. This book will show how.

What the Data Shows

We've explored the three traits of the founder's mentality at length, by surveying executives and examining databases on companies and their behaviors, and we've found that 90 percent of the time,[3] leaders cite at least one of these traits as a source of the founder's advantage. Our work with this data has also made clear to us that the founder's mentality can provide benefits not just to young or small companies. Companies of all ages and sizes that were able to maintain the founder's mentality are more likely to be top performers. In fact, companies able to attain a reasonable level of scale and market power while maintaining the founder's mentality prove to be the best-performing companies in the world. The best fifth of performers in our own database, for example, had high insurgency characteristics 74 percent of the time, versus 19 percent for the poorest-performing fifth. For front-line obsession, the difference was nearly a factor of five—57 percent vs. 12 percent. For owner's mindset, the difference was about the same—50 percent vs. 9 percent (see figure 1-2).[4]

FIGURE 1-2

Top performers adhere to the traits of founder's mentality



On the surface, the three traits of the founder's mentality look like basic business. But they're surprisingly hard to retain as companies grow. Complexity sets in, rewarding the masters of internal politics and process; power shifts away from the front line to the center; bureaucracy takes over. Gradually, internally, companies lose the founder's mentality, and externally they start drifting off course, onto the path toward failure.

How does your company rate on the traits of the founder's mentality? Take the following brief survey to find out.

Does Your Organization have a Founder's Mentality?

Instructions

A company has the Founder's mentality when its employees live and breathe the principles and entrepreneurial approach characteristic of great founders. **The Founder's Mentality® diagnostic survey** is the first step in the process of understanding whether your company is really retaining the Founder's Mentality as it grows, and the biggest internal barriers that are eroding it. For a more detailed version that shows respondents how they rate on the individual attributes of the Founder's Mentality, you can take the survey online on our website. To get started, consider each of the following statements and rate yourself or your organization using a numerical scale where 1 = "Strongly Disagree" and 5 = "Strongly Agree".

Insurgency		
Bold mission	• We are clear about the "big why"—the unique purpose for us being in business	_
	• I find our mission to be personally energizing and inspiring to those around me	_
Spikiness	• Our organization is clear on the 1 or 2 capabilities that drive our differentiation with customers	_
	• We have a repeatable model for growth which will allow us to capture/extend leadership in our markets	_
Limitless horizons	• We are focused on the long term in our investments and our budgetary decisions; managing quarterly earnings is truly secondary	_
	• We embrace turbulence and are experimenting and building new business models ahead of competition	_
Frontline obsessions		
Relentless experimentation	• We innovate and experiment in the field a lot; this drives our learning and is a competitive advantage	_
	• We have an efficient feedback process in place to help us understand what is working and take corrective action quickly	_
Frontline empowerment	• We are the most sought after employer by top talent in our industry	_
	• We treat our front-line as the heroes of our business, and do whatever is needed to support them	_

Customer advocacy	• We are clear about who our core customers are and their loyalty is a competitive advantage	_
	• The voice of the customer is fully represented in all important meetings	_
Owner mindset		
Strong cash focus	• We have a sharp focus on cash and costs; we treat each dollar as if it is our own	_
	• We rapidly redeploy people and capital wherever they are most critical to the business	_
Bias for action	• Our organization makes and acts upon key decisions faster than our competitors; speed is an advantage for us	_
	• People in the organization are quick to take personal responsibility and risk to do the right thing	_
Aversion to bureaucracy	• We have simplified our initiatives to focus on the biggest priorities that deliver value	_
	• Our planning and review processes are the best in our industry, efficiently reallocating resources to make our frontline more competitive	_
Overall questions		
	• Our biggest barriers to growth and future success are much more internal than external; our fate is in our hands	_
	• Our main competitors five years from now will be different companies than in the past five years	_

Scoring

At the highest level is your cumulative score. Data we see with people who have taken the survey typically would group companies in four ranges from strong Founder's Mentality (total score across all statements >75) to waning (total score of 60–75) to low (total score of 45–60) to Founder's Mentality lost (total score <45).

While the overall score is a strong indicator of a company's health on the inside and its ability to sustain profitable growth on the outside, the pattern is even more important to identify the highest level of issues. This is because companies don't lose the Founder's Mentality® uniformly, but see big drops in one or another dimension.

Taking this further and ultimately drilling down to the root cause of decline is critical (i.e. understanding the issues that the frontline is grappling with which are unresolved, getting real feedback from customers, etc.). That is what you will get from this book.

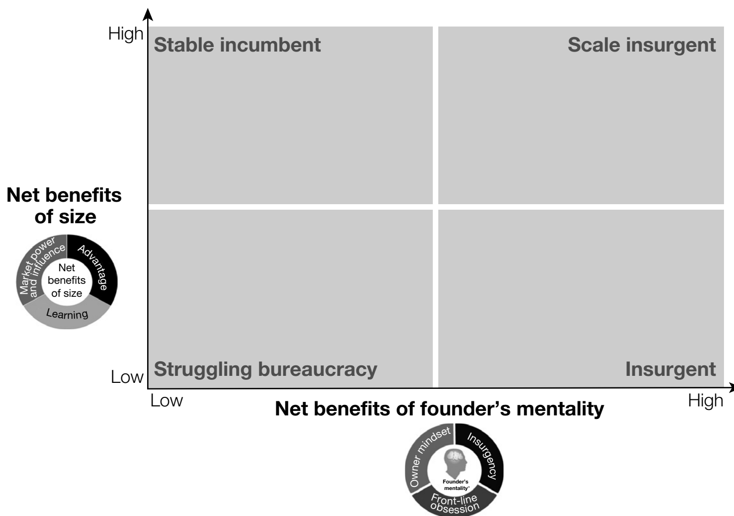
The Founder's Mentality Map

By harnessing the power of all three of these traits, companies like LBrands have managed to scale and—even more difficult—sustain profitable growth over time. But few businesses make that journey successfully, and fewer remain there for decades. Most, buffeted by the predictable crises of growth, are gradually pushed away from the benefits of the founder's mentality and the benefits of scale, and instead drift off course in predictable ways. Before we start exploring them in detail, though, let's start by taking a schematic look at the terrain on which this all plays out.

Figure 1-3 is the general map that we will use to chart the predictable stages and crises of companies as they move through the business life cycle. The map has two dimensions. The east-west axis represents *the net benefit of the founder's mentality* (a measure

FIGURE 1-3

The founder's mentality map



of the internal strength of the company and its culture) and the north-south axis represents *the net benefit of size* (a measure of the external strength of a company relative to competitors in its industry, a product of market power and scale).

Companies in the bottom right, where most companies start their journeys, are what we refer to as *insurgents*. They are young and have attained relatively little scale, but are propelled by a big idea and the internal strengths of the founder's mentality: namely, a missionary zeal for changing the standards in their industry; an obsession with the people and the work done at the front line of the business; and the owner mindset, a sense of deep personal responsibility for results that leads to a bias for speed and against bureaucracy.

Endeavor, a non-profit organization dedicated to fostering the development of young companies in developing economies, works with more than 700 companies in 20 markets. These companies, with whom we spoke extensively during the course of our research, are exemplary insurgents. For instance, Alessandro Gardemann runs Geo Energetica, a 50-person Brazilian company that has a proprietary method to turn unused sugar-cane waste into energy—a process that has the potential to fill a large share of the demand for new energy in Brazil's rapidly growing economy. This is a company with the potential to scale to large size, but with no shortage of practical challenges to go from insurgency to scale. It is an example of what we mean by a business that has made it through the start-up phase, has proven the power of its idea, and is now a young insurgent trying to achieve the benefits of scale.

Look at the upper right of our map and you'll see what we believe most business leaders should strive for: *scale insurgency*. Scale insurgents are companies that have stayed true to their insurgency for a long period of time, have built market power and influence in the process, and retain the human vitality of the founder's mentality. ABI, Enterprise Rent-a-Car, Google, Haier, Apple, Victoria's Secret, and

IKEA have all achieved scale insurgency. Ultimately, all of the advice in this book is designed to help companies achieve scale insurgency. Here companies have grown to scale and achieved a position of leadership, yet they also manage to maintain the benefits of the founder's mentality. Only about 7 to 8 percent of all companies that grow to $500 million (only about one start-up in 2,000 makes it to that size at all) reached the position of *scale insurgency* over the past decade—but those few that do account for much more than half of the net value created in the global stock market during a typical year.[5]

Incumbency, the position in the upper left of our map, is quite different. Companies here have largely lost the entrepreneurial energy and flexibility of the founder's mentality, yet they have attained a position of sustained strength, and perhaps even industry leadership, because of the assets and capabilities that they possess. They have created barriers to competition that serve as imposing defense fortifications, and they tend to be the largest companies. Well-known examples in this position include Microsoft, Gazprom, Unilever, and SAP.

The worst place to be on our map is the lower left: the realm of struggling bureaucracy. Companies in this position long ago lost the internal strengths of the founder's mentality—but they've either lost or never developed those defensive fortifications that protect successful incumbents. Most of the companies that end up here never recover their momentum. At the extreme, these are companies in which the scourge of complexity has disabled the ability to react rapidly to change, slowed down the rate of learning to a crawl, and driven up costs. Familiar examples include General Motors, Kodak, Sony, and K-Mart. Though rapid, external events triggered the traumatic decline of each of these companies, it was their poor state of inner health that made them especially vulnerable to the trauma and that determined their fate.

Many companies don't exist at the extremes but instead drift toward the middle of the matrix—an inherently unstable position

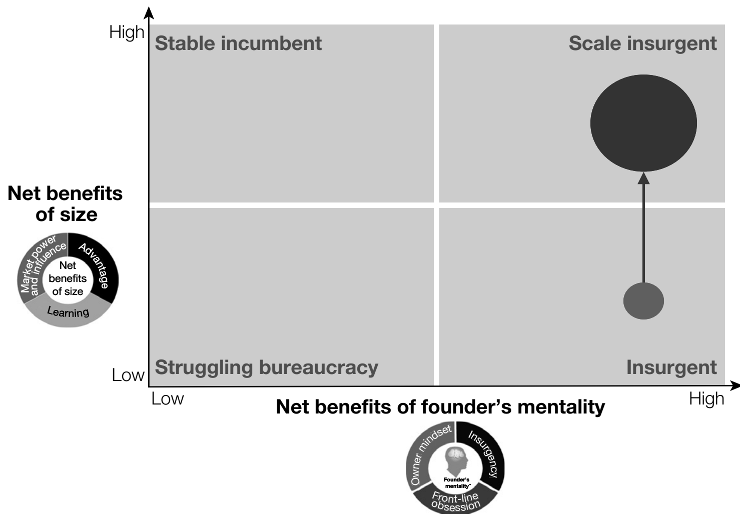
characterized by waning market power, internal dysfunction born of complexity and bureaucracy, and a sluggishness that impedes quick decision-making. On balance, as these companies drift downward, they do not earn their cost of capital, and they therefore destroy value in the stock market.

The Journey North: Achieving Profitable Growth at Scale

As we'll show in the chapters ahead, success along both dimensions of our map leads to sustainable growth. We call this process *the journey north* (see figure 1-4): a journey from the realm of *start-up insurgency*, at the bottom-right of our map, to the realm of *scale insurgency*, at the top-right. This is the journey that Les Wexner

FIGURE 1-4

The journey north: achieving profitable growth at scale



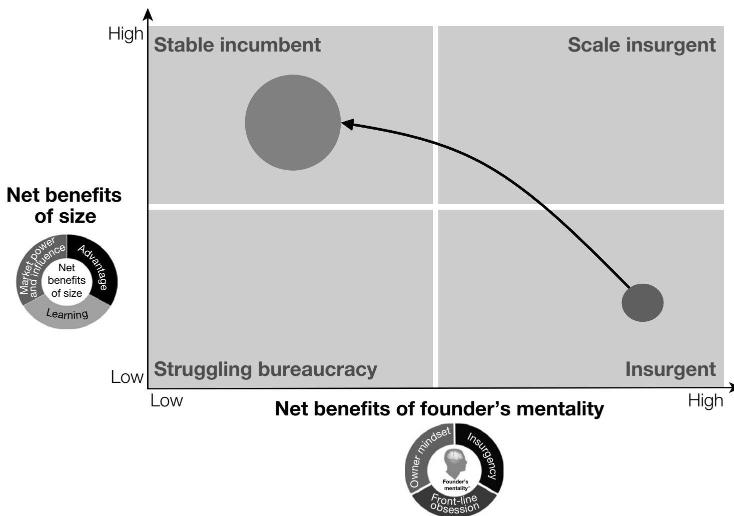
has made successfully with L Brands—but it's a hard one to make without encountering troubles along one axis or the other. Success on one but not the other leads to instability for all but a handful of businesses. Failure of both leads to decline and eventual demise.

The Default Path: Problems that Come with Scale

Time and again in our research and our practice, we've observed companies following a default path on our map (see figure 1-5). It begins in the lower right corner of the map. The company here is endowed with positive traits of the founder's mentality and is often still founder-led, but it has little other than an idea and an enthusiastic team to work with. It needs to reach critical mass to compete; it needs to garner market power to create profitability; and it needs to do both at once to earn returns for investors and opportunities

FIGURE 1-5

The default path: problems that come with scale



for employees. From there, the growing company moves north on our map, gaining in size and market power yet often adding systems and complexity that dilute the internal energy of the founder's mentality.

This is where the *paradox of growth* comes into play. The internal strength and vitality of young companies, which allowed them to take on larger incumbents in the first place, often declines as those companies grow and succeed, adding process and structure, which detract from the personal intimacy of the earlier founder years. As we will show, the problems that emerge in growing companies often trace directly to internal changes that erode the founder's mentality. That is why 85 percent of executives today perceive that the key barriers to sustained and profitable growth that they face are on the inside.[6] Most observers don't recognize the extent of this problem, however, because nearly all measures of success—in a company's own reporting or in the analysis of those who follow it—track *external* results, in the form of financial returns, growth rates, market share, and sometimes customer advocacy. These are critical, of course. But nobody would value a racehorse based solely on its past wins. To make sure its performance is sustainable; you also need to gauge its inner health—very carefully.

Three of the four quadrants on our map represent terrain—*insurgency, incumbency*, and *struggling bureaucracy*—represent the terrain on which the predictable crises of growth play out. In our next chapter we'll take a look at these crises and how they arise.

A quick note, however, before we do. In the chapters ahead, we will *not* be outlining a program for how businesses can engineer lasting cultural change within themselves. That's a process that requires years of sustained effort on the part of leadership teams, and it's beyond the scope of this book. Our goal here is to identify practical ideas for achieving sustainable growth that can lead to results in a much shorter timeframe than the five to seven years that experts on culture estimate is required for deep cultural change.

Using the Founder's Mentality in Your Organization

- Evaluate your business against the 3 key elements of Founder's Mentality (insurgency, front line obsession, owner mindset) using the survey in this chapter. As a team, discuss the gaps you identify and investments required to close these gaps.
- Identify the most powerful incumbents and most interesting new insurgents that are seen by your customers as your most serious competitors. Gain feedback from your customers and front line on how well you are competing against them. Ask: is the Founder's Mentality a competitive weapon for you or for them?
- Commit to the ambition of becoming a scale insurgent and discuss how this changes your business priorities.
- Delegate accountability for the ambition broadly: discuss founder mentality with your top 50 managers and task them with responsibility for reviving Founder Mentality with their teams.

NOTES

Introduction

1. Since our first book, *Profit from the Core*, in 2001, we have maintained a database of 8,000 public companies worldwide that we call the "Profit from the Core" database. It now contains thirty years of data and we use it to analyze patterns of growth around the world, we refer to it as the "actuarial tables" of company growth. Today, across the world, only about 11 percent of companies have achieved a decade of more than modest sustained and profitable growth that we defined as 5.5% revenue and profit growth (currency adjusted), and have also earned their cost of capital.

2. Survey of 377 global executives in survey conducted for Bain & Company by the Economist Intelligence Unit (EIU) in March 2011.

3. Analysis done for our book *Repeatability: Build Enduring Businesses for a World of Constant Change* based on 300,000 employee surveys that the company Effectory (their business is conducting employee surveys in Europe) analyzed in conjunction with our Bain team.

4. See http://www.theglobaldispatch.com/only-13-of-employees-are-engaged-at-work-14783/.

5. Bain analysis based on data from Capital IQ, company reports and literature search. Founders Index (n=115) includes companies in the 2014 S&P 500 in which the founder is the CEO or was on the Board for at least 8 of the past 10 years.

6. Bain evaluation of 200 companies worldwide, internal study relying on literature search and experts.

7. Kevin J. O'Brian, "Nokia's Success Bred its Weakness: Stifling Bureaucracy Led to Lack of Action on Early Smartphone Innovation," *International Herald Tribune*, September 27, 2010.

8. We examined this with a sample of 25 large companies with long histories whose value creation we traced all the way back in time. We then characterized the challenges and decisions facing the company during each period and sorted out the big value swings according to what was going on in the company at the time and its life stage. We found that the large swings in value relative to the stock market averages occurred when the prospects for future profitable growth changes up or down significantly

and we also found that these perceptions were related much more to the company performance relative to its industry than industry variations (in fact, over 80 percent of variation in value was within an industry grouping, not relative to the rise and fall of market growth expectations).

9. These estimates came from an analysis that we conducted with our global financial database in which we looked at the speed by which companies were growing as they entered the *Fortune* 500 list. We also used our database of 8,000 global companies over 30 years to look at the fastest growth companies in the world that have scaled their business to over $10 billion in revenues. We find that companies are able to achieve this today several times faster than in past decades. We have a similar analysis that we conducted ten years ago that looked at speed of growth in the 1980's and 1990's which concluded a similar thing about the "speed to scale" record holders.

10. Bain Brief: Strategy Beyond Scale, February 11, 2015.

11. Based on analysis by our Bain team of entrants to and exits from the *Fortune* 500 list of companies from 1994 to 2014. We further validated this by studying the speed of revenue declines of 50 of the largest company stall-outs of the past 10 years.

12. Survey of 377 global executives in survey conducted for Bain & Company by the Economist Intelligence Unit (EIU) in March 2011.

Chapter 1

1. Derived from a series of interviews and discussions of Chris Zook with Leslie Wexner at various times in 2015 in Columbus, Ohio.

2. Gallup State of the Global Workplace Report, 2014.

3. This statistic is based on three mutually reinforcing sets of survey results. The first was a survey of Endeavor entrepreneurs at the annual meeting of Endeavor in San Francisco during 2013. The second was a survey of 70 executives, all company founders, in a workshop Chris Zook held in June 2013 at the Vlerick School of Management in Belgium. The third was our Founder's Mentality Global Survey of 325 executives. All showed consistently strong results.

4. Bain evaluation of 200 companies worldwide.

5. Bain & Company life cycle value analysis in which we took a sample of 20 large, public global companies and analyzed the major swings in their market value over the course of their history, ascribing each swing to the life cycle period in which it happened, and whether it was in response to its predictable crises.

6. Survey of 377 global executives in survey conducted for Bain & Company by the Economist Intelligence Unit (EIU) in March 2011.

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