Productive Paranoia: Lesson #3 From Jim Collins' Great By Choice

Jim Collins and Morten Hansen have written a book titled, ***Great By Choice*** ***(http://www.amazon.com/gp/product/0062120999/ref=as_li_tf_il?ie=UTF8&tag=stephbland-20&linkCode=as2&camp=217145&creative=399373&creativeASIN=0062120999)*** in which they explore three behaviors that allow companies and organizations to thrive in chaotic and uncertain environments. I wrote about the first behavior, **FANATIC DISCIPLINE** **(http://stephenblandino.com/2011/12/fanatic-discipline-lesson-1-from-jim-collins-great-by-choice.html)** , and the second behavior, **EMPIRICAL CREATIVITY** **(http://stephenblandino.com/?p=849&preview=true)** . In this post I'll tackle the third core behavior employed by what they call "10x companies": **PRODUCTIVE PARANOIA**.

Collins and Hansen make it clear: "The only mistakes you can learn from are the ones you survive" (p. 91). The idea of Productive Paranoia is not for leaders to walk around scared, afraid to make decisions and suspiciously paranoid about their employees. Rather, the authors note that leaders in the 10x companies constantly ask "What If." They state, **"The 10x**

winners in our research always assumed that conditions can–and often do–unexpectedly change, violently and fast. They were hypersensitive to changing conditions, continually asking, 'What if?'" (p. 91)

Collins and Hansen examine **three dimensions of productive paranoia** employed by 10x organizations:

1. Build Cash Reserves and Buffers – Companies rarely hoard cash but rather deploy it, working hard to take advantage of new opportunities. However, the 10x companies were careful to build cash reserves and create a buffer against unpredictable environments. They were careful to prepare for the worst *before* it happened. This was a pattern since the early days of the 10x companies. Collins and Hansen observe:

> "When it comes to building financial buffers and shock absorbers, the 10x cases were paranoid, neurotic freaks! And it wasn't just an industry effect. When we sliced the data comparing the 10x cases to their comparisons, we found that the 10x cases were more conservative in how they managed their balance sheets than their direct comparisons; 80 percent of the time, the 10x cases carried a higher cash-to-assets ratio and a higher cash-to-liabilities ratio than their comparisons." (p. 93)

The 10x companies didn't wait for the storm to hit. They knew it was coming…they just didn't know when. So they prepared carefully and methodically for its arrival.

In 1991, Herb Kelleher of Southwest Airlines captured this principle best when he explained why Southwest always maintained an extremely conservative balance sheet:

> "As long as we *never* forget the strengths that enable us

> to endure and grow in the midst of economic catastrophe; as long as we remember that such economic catastrophes recur with regularity; and as long as we never foolishly dissipate our basic strengths through shortsightedness, selfishness, or pettiness, we will continue to endure; we will continue to grow; and we will continue to prosper." (p 94)

Turbulent times will come. Herb Kelleher understood this and planned for chaos. He couldn't define what the turbulence would look like, but he could prepare his response to the turbulence. Collins and Hansen observe, **"When a calamitous event clobbers an industry or the overall economy, companies fall into one of three categories: those that pull ahead, those that fall behind, and those that die. The disruption itself does not determine your category. You do"** (p. 95).

2. Bound Risk – Collins and Hansen questioned whether the success of 10x companies was due to a willingness to take high risks. However, their research actually showed the opposite. The leaders of 10x companies were more conservative in their approach to risk. "They constrained growth in the 20 Mile March. They fired bullets before firing cannonballs. They displayed financial prudence, building a cache of extra oxygen cannisters" (p. 96).

Collins and Hansen identified **three types of risks: Death line risk** (risks that could severely damage the organization), **asymmetric risk** (risks with a greater potential downside than upside), and **uncontrollable risk** (risks that expose the organization to things they have little ability to manage or control). In all three types of risk, the 10x companies took less risk than their comparison companies.

Timing also affects risk. After careful research, Collins and Hansen observed:

> "Sometimes acting too fast increases risk. Sometimes acting too slow increases risk. The critical question is, *'How much time before your risk profile changes?'* Do you have seconds? Minutes? Hours? Days? Weeks? Months? Years? The primary difficulty lies not in answering the question but in having the presence of mind to *ask* the question."

3. Zoom Out, Then Zoom In – The 10x companies possessed a "dual-lens capability" in which they could zoom out to see changes in the environment and assess risk and then zoom in to focus on the superior execution of plans and objectives.

For example, when Intel's position with one of their microprocessors weakened against Motorola, a task-force of six Intel managers and a marketing expert spent three days in intense discussions. They *Zoomed Out* (carefully evaluating the situation and developing a five-point competitive positioning strategy). Their plan of counterattack was called, "Operation CRUSH." But then they *Zoomed In* (executing the plan by garnering 2,000 design victories over the next year).

So, as you reflect on Productive Paranoia as an essential behavior for navigating chaotic and uncertain environments, consider Collins and Hansen's closing question: "**Regarding the biggest threats and dangers facing your enterprise, how much time before the risk profile changes?"**