

Bet This!

A Gambler's Guide
to Leadership



by Eileen Shapiro

When Rich Karlgaard, publisher of *Forbes* magazine, wrote a piece on Steve Jobs in the *Wall Street Journal* recently, these are a few of the things he said:

Jobs has the impulse of a totalitarian. Born in a different time in history, say China or Russia in the early 1900s, and he might have gone to “the dark side.” He is cruel and paranoid and has brought misery to a slew of other folks, including employees, buddies, and family. He takes credit for things other people do, and screws over long-time friends. He’s all for humanity but seems to loathe people.

And, now the question: would you consider Jobs a great leader?

I’d say yes, at least with respect to business, and despite all of the above I’m pretty sure that Karlgaard would too. The reasons are simple. Jobs, along with Steve Wozniak (one of the long-time friends he screwed over), changed the world. He’s also made a ton of money for a ton of people. Sure, he had one flop—NeXT—and he and others in Apple’s first incarnation missed the chance to secure that company’s lead when Apple owned 50% of the new desktop computing market. But where Jobs has succeeded, he’s succeeded almost beyond measure.

A quick Jobs bio: 1976, co-founds Apple, starts the personal computing revolution; 1986, co-founds Pixar which creates six films—“Toy Story” and “The Incredibles” among them—that have generated a clutch of Academy Awards and over \$3 billion at the worldwide box office; 1996, rejoins and revitalizes Apple, leads the digital music revolution while remaining the CEO of Pixar; 2006—well, it’s the iPod and beyond.

Now, a second question: how do you define leadership—the core tasks that all leaders must be able to complete to turn potential into results, not the nice-to-haves of leadership, but the must-haves?

If you’ve read any of the jillions of books and articles on this subject and are now turning to one of them for guidance on this question, my bet is that you’re not having much luck. That’s because most books and articles on leadership effectively skip over the bothersome task of

defining what they mean by “leadership” and instead jump directly to describing the characteristics and techniques of *some* set of people the authors admire versus some others they do not. The result is a mishmash of prescriptions, and almost everything one person says about leadership contradicts directly what someone else has avowed.

Bets always require action ... Decisions without action aren't bets, they are just words.

But defining the core tasks of leadership is essential for any actionable discussion of the topic. How can you learn to be a better leader, or learn to pick the people who will be great leaders, if you don't know the essentials of what you are looking for?

Style and technique are secondary characteristics. They enhance a person's leadership abilities but they are not the core.

The core of leadership is this: the ability to bet well, to act in the face of uncertainty to create the futures that the leader and ultimately the followers of the leader desire. Effective leaders are, in fact, first and foremost great gamblers. They bet better than other people, and so other people cede their own bets to the leader in order to create the future they jointly desire. To lead is to bet on a really big scale.

And, yes, I do mean bets and I am talking about gambling. If you are thinking that I am using the language of betting to dress up a discussion about decision making, let me try to disabuse you of that notion now. Decision-making has come to mean making a statement of intent. I declare that I have decided to do whatever—lose weight, become a market leader, listen to customers—and what I say may sound great but if my declaration isn't accompanied by concerted and focused actions, then that's all it is, a declaration. Bets always require action:

to do this or to do that or to continue doing some other thing. Decisions without action aren't bets, they are just words.

Real leaders place bets. Effective leaders bet smart and deliver on their promises bigger and more of the time than other people. Over time, the best leaders build the kind of betting records that get other people to willingly cede their bets for some area of their lives. Think of General Patton, Jack Welch, Steve Jobs, Mother Teresa, Pope John XXIII, Oprah Winfrey, Pope John Paul II, Ronald Reagan, Bill Gates, Paul Revere, Margaret Thatcher, Meg Whitman, Warren Buffett, Winston Churchill, Anne Mulcahy, Peter Lynch, Martin Luther King, Jason Varitek (Red Sox catcher for those readers who are not part of Red Sox Nation), Martin Luther, Franklin Delano Roosevelt, a favorite teacher. All very different styles. All using divergent techniques. All great gamblers.

Now to the heart of this manifesto: four tests of leadership and one proxy. The four tests correspond to the four must-haves of building the capacity to lead by betting better. My co-author on *Make Your Own Luck*, Howard Stevenson, and I summarize these four under the acronym OOPA—the Orient, Organize, Predict and Act. You can use these tests four tests to gauge your own leadership skills, or assess the leadership potential of someone else. The proxy is designed to provide a way to assess to whom you want cede your bets to when you are several steps removed from the person you are evaluating—when choosing between mutual funds managers, for example, or between political candidates, or deciding whether to purchase shares in a company Steve Jobs is running or even whether to accept an offer to work for Jobs in one of his ventures.

Leadership Test #1: Orienting—Picture where you want to go.

This is obvious, right? If you are a leader, you are leading people someplace. And if you are leading people someplace, it's helpful to know, at least in a general sense, where or what or in what general direction that someplace is so you can orient your future bets to getting you closer to that destination.

So, here's a little test I've given a thousand times or so, and you've probably heard it too. You're stranded on a deserted island and you're given the choice of one person to be with you. Who do you choose?

When I posed this puzzle to an interviewer who was having trouble understanding why I think great betting always starts with the first O of OOPA, his immediate response was his wife. To which I then said, oh, so you want your wife to die with you on the island?

Okay, I was being a smart ass. But the truth is, in my experience at least, 99% of people answer exactly as he did—except, of course, for the one radio interview who quickly asked for Eva Longoria. A better answer is what Dean Kamen, the inventor of the Segway and also the wheelchair that climbs stairs, came up with when asked this question.

He said: the world's best boat builder. Alan Rothman, host of Business of Success, came up with a similar answer—someone with great skills at surviving in the wild.

Back in the business world, Steve Jobs talks about “insanely great” machines that change the way people work and live. A. J. Lafley, the boss at Procter & Gamble, talks about “getting market share and sales growing by winning with the consumer.” Different style for sure, and certainly very different ways of using language and rhetoric, but each expressing an overall objective in a way that orients all the bets in their respective companies and both stellar examples of leaders who understand the necessity of picturing the future they desire.

Now think about the average mission statement or vision statement. How many of them can you parse down into a simple declarative statement that you actually understand, as opposed to a lot of nice sounding corporate blah-blah-blah? And of those you can understand, how many of these statements strike you as being anywhere close to either the real objective or the right objective, no matter how soaring the rhetoric or high-minded the goals may be?

Or think about the typical wedding, now averaging close to \$30,000, and many costing much more in dollars as well as frayed nerves and squandered goodwill among and between the newly-weds to be, their families and even their friends. Makes me wonder, at times, with all the attention on creating the “perfect wedding,” who is paying attention to the long-term health and happiness of the marriage?

The point is, it’s easy to miss this first test of leadership, orienting your bets to create the future you want and then checking to see if what you think you want is what you really will want when the results transpire. And once you’ve missed the first O, then no matter how well you do at the next three tests, it will be a total crapshoot as to whether the effects of your bets will, by accident rather than by intent, lead to the results you want.

Leadership Test #2: Organizing—Identify your starting point and begin to reorganize the assets you currently have toward the future you want to create.

At a press conference, US Secretary of Defense, Donald Rumsfeld, famously said: “You go to war with the army you have, not the army you might want or wish to have.” And was promptly pilloried by the press.

But regardless of your view of either the war in Iraq or Rummy, what he said was literally correct. You start with whatever you start with. That's indisputable. The real debate is how you organize those initial assets. And that's the art of the second test of leadership—regardless of your starting point, leveraging what you have to get you closer to where you want to be. The better you understand your starting point, the more likely it is that you will be able to figure out how to leverage even the most meager resources into something more.

A. J. Lafley is a master at this test. His logic seems simple. P&G needs to win with the consumer. P&G's consumers, as for all packaged goods companies, are overwhelmingly female. Therefore P&G needs to win with women. Therefore P&G had better start with a clear understanding of its products and how women really use and think about them.

Take laundry detergents. Lafley spent ten years in the laundry division at P&G, from 1984 to 1994. Early on, he went to women's homes and did laundry with them. This is the "new normal" now, but it wasn't at the time. He also requested permission to install cameras in consumers' laundry rooms, to see how these women did laundry when some big exec from P&G wasn't in the room with them.

Here was one of Lafley's discoveries. Women had said in response to direct questions, that the detergent boxes were "easy to open." The cameras showed that women were opening the boxes easily ... when they used screwdrivers to pry the boxes open. As Lafley recently told the Wall Street Journal, "So all of a sudden we realized, boy, we've got to have cartons and packages that are a lot easier to open."

Did I mention that from the time Lafley took the laundry group over, in 1984, to when he moved on up ten years later in 1994, division revenues more than doubled, from \$4.7 billion to \$9.8 billion? It pays to know your (real) starting point and move from there.

Nonetheless, people repeatedly and persistently fail this test, most often, in my observation, because they totally misunderstand the real strategy they are following. Women say the boxes

are open, so we don't have to worry about that. We have a bunch of detailed PowerPoint presentations and big strategy book that has all our plans in it, so we've checked that box too.

It's **difficult** to **bet smart** if you don't know how to **organize** your **starting resources**.

Except that often what we say our starting point is, and what we actually do—or the real bets we are placing—are often quite different. I think of this as the “diet syndrome.” We say that we are on a diet, or that our strategy is to lose weight. But in fact most of us are the weights we are because we eat to our weights; and even if we lose weight on one of the fad diets du jour, we promptly put the pounds back on when we finish the regime because we go back to our real strategies, which is eating to our old weights.

Now, what happens if instead of believing that what we said was our starting point—the new diet that we will follow on a temporary basis in hopes that somehow doing so will fix all our weight woes forever or at least for a long time—we instead consistently cut 100 calories a day and exercise an additional 100 calories a day as a permanent life style change? Again, the answer is pretty obvious. We would actually lose pounds with very little or no deprivation—one to two pounds per month for most people—and then keep the weight off.

Failure at this step is also what dooms many negotiations. Even though you know the result you want to achieve, if you don't understand your starting point sufficiently, you may sabotage your chances for a more attractive outcome than you actually achieve. (This is different from bluffing, of course. In that case, you know what you have, but you want to confuse your counterparty or the adversary to your own advantage.)

Again, as with the first test of leadership, the point is to bet smarter. And it's difficult to bet smart if you don't know how to organize your starting resources. If you hear a candidate for a leadership position talk inspiringly about where she wants to be without a clear understanding of where she is and why she is there, run, don't walk, to the nearest exit. This is not someone you want to cede your bets to.

Leadership Test #3: Predicting—Figure out the bets you want to take that have the biggest potential to get you where you want to go with the least risk.

In a funny way, this is the least intuitive of the four tests of leadership. That's because we've grown accustomed to the idea that risk and return are always a matched set. But they aren't. The key here is predicting causes and effects; if I take option X, what return could I get with what odds and what risks, versus taking or creating option Y.

Consider the following choices. A hand of poker has been dealt, but you haven't seen your cards yet. You have already bought your chips for the evening. You can play the hand, or you can give it to Tuan Le, currently the number one poker player in the world. If you give it to Tuan, you get all the winnings up to the amount you have already pledged, and above that, you and Tuan will split the winnings 50–50. For me, this is a no brainer. Unless I'm a stellar player, I'm going with Tuan. Why? Easy. I've just upped my potential return and reduced my risk of losing everything (especially the way I play poker). Incidentally, this is why many smart managers always look to hire people who are smarter than they are; they want higher returns and less risk.

On the flip side, imagine that Donald Trump invites you to be a minor equity investor in his latest recapitalization of his casinos in Atlantic City, and paints you a story of dazzling re-

turns. Do you take him up on his offer? Hmm, in the last two incarnations, Trump went into bankruptcy negotiations, the bankers recut their deals, Trump recut his deal, and the equity investors just got, er, squeezed. If history is any guide, the third time around is also likely to be a high risk, low return kind of bet. I would take a pass.

When you bet, you are betting on a **prediction** of what actions will create what **kinds of results** you will get.

Or take the desktop computer industry in its very early days, around 1980, when Steve Jobs was first in the game. At that time, Apple was the established market leader, with 50% or so of the market. IBM was just about to introduce the “IBM 5150 Personal Computer,” its first real entry into the market. You have a pot of money and you can bet on one of two strategies. You can bet on developing more beautiful machines, slicker interfaces, and glitzy applications—basically the “better mousetrap” approach that technologists always love. Or you can bet on a very unglamorous bit of software infrastructure—the operating system. Which do you choose?

We all know the story now but the fact is, if you were just about anyone in the industry at that time—including Commodore, Osborne, Timex Sinclair, TRS/Tandy, and also Apple—you took the first option. Oh, you don’t recognize most of those names? No surprise there either—they along almost everyone in the industry took the “better mousetrap” type of bets, even though these bets were very high risk, and then paid the price.

Almost everyone, that is, except for Bill Gates, who realized that creating a ubiquitous operating system was much lower risk with at least the same upside than any of the glitzy bets on creating the best box. And once he had created the de facto standard for the industry, well, you know the rest. It also helped that Gates was skilled at the first two leadership tests, the

Orienting and Organizing parts of OOPA, including his very effective use of one of his starting assets, his mother's connections to John Opel, then president of IBM.

The point, again: when you bet, you are betting on a prediction of what actions will create what kinds of results you will get. Great leaders practice their skills of prediction relentlessly, and face and learn from their mistakes. The better you can predict, the better you can find or create bets that have more return for less risk.

An aside here. When Howard and I were presenting the Predicting part of OOPA to a group of the most successful members of YPO (Young Presidents Organization), the audience members began to chuckle in agreement with our argument for finding the high return/low risk bets that everyone else is ignoring. That's because, as with Gates, they had all made their fortunes by finding the bets that leverage reasonably certain trends, thereby giving them more return for less risk. (How successful were the people in this group? Here's one indication. Howard and I use puzzles in our book, and also in our presentations, to illustrate key points. Some of these puzzles have potential hypothetical payoffs of \$10 million. To keep this group interested, even on a hypothetical basis, we had to raise the stakes fivefold, to \$50 million.)

Leadership Test #4: Acting—Act well enough and fast enough to capture the opportunities while the opportunities are available.

During World War II, when General Patton addressed new officers about leadership, this is what he said: "You've got to lead! You take a piece of spaghetti, put it on top of a piano and you push it. What happens? The fucking thing buckles up on you! You got to get in front of it and pull it! You've got to lead!"

All bets require action. And all actions involve risk; you have to act while the best opportunity is available and you cannot analyze away all the uncertainty about whether to take this action

or that one or continue doing something else. If you are great at the OOP part of OOPA, but can't stand the risk of taking action and possibly failing or getting a result that wasn't what you had wanted or anticipated, you cannot be a leader. You might be a good analyst or a great advisor, but you cannot lead.

When I look at all the successful leaders I've known, I see leaders who have employed all different ways of taking action—some with great humility and others with bracing shots of arrogance; some with eloquence and others who seem to be a war with their native languages; some with drama and others with tremendous understatement; some with a sense of finesse and others with a dose of in-your-face. But what I see consistently are two characteristics, authenticity and belief. Both are important because they fuel the staying power essential to taking action and then following up with subsequent actions as needed.

Trying to be someone else is exhausting, and takes energy away from betting better using your own skills and style. Authenticity allows you to follow through using all you have to get the outcome you desire. This is why many people following the Jack Welch's prescriptions for leading fail; their skills and styles are different than Welch's and they end up doing poor imitations of both who they could be and of Welch. Belief adds staying power because it keeps you going despite the inevitable setbacks; otherwise impediments and delays can dissuade you from continuing on a path that still holds promise—witness Jobs at Apple, and Jobs everywhere really.

In the end, if you want to move the spaghetti, you have to act—you have to get in front of it and pull. You don't need Patton's trademark pearl-handled revolvers, or his personal style, but you do need to be able to act—and act in the face of uncertainty to create future you desire.

AND ONE PROXY: By now you have probably already figured out that my proxy is NOT charisma. In fact, it is kind of the anti-charisma. Style and charisma can cloud your vision as to

what kind of better your prospective leader will turn out to be. The more useful indicators are past records and character.

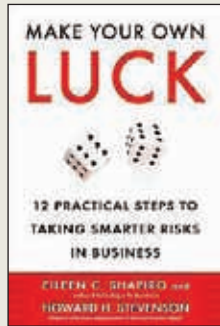
Past record is an obvious indicator. Many of the people who are widely considered to be very charismatic are charismatic only by virtue of their past records, not their personal style. Think of Warren Buffett, Alan Greenspan, Peter Lynch. Honestly, do you think any of them have the kind of innate magnetism that characterizes a very high-charisma person like Bill Clinton? But what they all do have, for sure, are betting records that beat all comers. People listen when Peter Lynch talks about anything, and especially when he talks about investments, because, well, because he is Peter Lynch and Peter Lynch has built one of the most outstanding records in investing that anyone has ever compiled.

And character is the other one, because in the absence of having the data to do a close OOPA analysis on a person—a political candidate as an example—one's character is the best indicator you can use to predict what a person might do in a range of future situations. Say you are looking at two candidates, both of whom have approximately the same positions as you do on key issues. If one of the two is known to be mercurial or to have changed positions radically to catch the political winds, that one brings added risk of switching positions from what you want to something else. Character matters when you are ceding your bets—in selecting a key person for your company, or for your country.

All of which brings us back to Steve Jobs, and one final question: would you cede your bets to Jobs? Here are my answers, based on the four tests of leadership and the proxy. As an investor, yes, subject to the details of the deal; it's difficult to find people who have done better at the OOPA of leadership. As an employee, well, no—not at this stage in my life.

But if I were way earlier in my career and had key skills that Jobs was looking for in one of his enterprises, you know, I might just.

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
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