Lasting Leadership: Lessons from the 25 Most Influential Business People of Our Times

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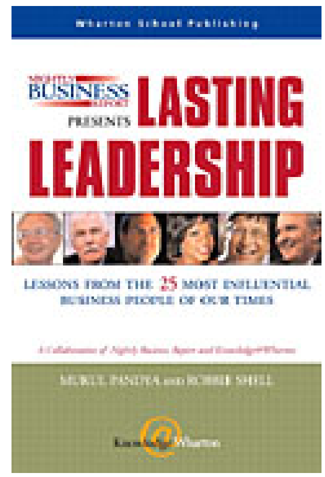

In June 2000, John Bogle, founder and former CEO of The Vanguard Group, spoke about leadership at Wharton. As an avid group of executives listened to the man who popularized the principle of indexing - and in the process built the Vanguard Group into a firm managing more than $550 billion in assets - Bogle ended his speech quoting James Norris, a Vanguard manager, who wrote: "While it is revealing to consider what constitutes a leader, your search for understanding, for some kind of leadership formula, is apt to end in frustration. It is like studying Michelangelo or Shakespeare: You can imitate, emulate, and simulate, but there is simply no connect-the-dots formula to Michelangelo's David or Shakespeare's Hamlet. I suppose, when all is said and done, it really comes down to this: People are leaders because they choose to lead."

The heart of leadership is as simple as that: It is a matter of choice and determination. If this is true, then people who choose and are determined to become influential business leaders can benefit from observing other leaders and using their observations to nurture their own leadership style.

With that as a premise, Nightly Business Report (NBR) - the most watched daily business program on U.S. television - and Knowledge@Wharton joined forces to identify the 25 most influential business leaders of the past 25 years. This collaboration has resulted in a new book, written by Knowledge@Wharton in partnership with NBR and published by Wharton School Publishing, entitled *Lasting Leadership: Lessons from the 25 Most Influential Business People of Our Times.* The project coincides with NBR's celebration of its 25th anniversary on the air.

The winners were chosen by six Wharton judges from more than 700 names submitted by NBR viewers. They include, in alphabetical order: Mary Kay Ash, founder of Mary Kay Inc.; Jeff Bezos, CEO of Amazon.com; John Bogle, founder of The Vanguard Group; Richard Branson, CEO of Virgin Group; Warren Buffett, CEO of Berkshire Hathaway; James Burke, former CEO of Johnson & Johnson; Michael Dell, CEO of Dell Computers; Peter Drucker, the educator and author; William Gates, chairman of Microsoft; William George, former CEO of Medtronics; Louis Gerstner, former CEO of IBM; Alan Greenspan, Chairman, U.S. Federal Reserve; Andrew Grove, chairman of Intel; Lee Iacocca, former CEO of Chrysler; Steven Jobs, CEO of Apple Computer; Herbert Kelleher, chairman of Southwest Airlines; Peter Lynch, former manager of Fidelity's Magellan Fund; Charles Schwab, founder of The Charles Schwab Corp.; Frederick Smith, CEO of Federal Express; George Soros, founder and chairman of The Open Society Institute; Ted Turner, founder of CNN; Sam Walton, founder of Wal-Mart; Jack Welch, former CEO of General Electric; Oprah Winfrey, chairman of the Harpo group of companies; and Muhammad Yunus, founder of Grameen Bank.

Intel's Grove headed the NBR/Wharton list, earning the title of most influential business leader of the past 25 years.

Of the 25 people profiled in *Lasting Leadership*, two have died: Sam Walton in 1992 and Mary Kay Ash in 2001. Knowledge@Wharton interviewed 15 of the other 23, including Jeff Bezos, John Bogle, James Burke, Michael Dell, William George, Louis Gerstner, Lee Iacocca, Herb Kelleher, Andrew Grove, Peter Lynch, Charles Schwab, Fred Smith, Ted Turner, Jack Welch, and Muhammad Yunus, in addition to Mary Kay Ash's son, Richard Rogers. For information on the other leaders, the authors relied on books about them or by them, speeches and interviews they have given over the past decade, and newspaper and magazine articles.

Lasting Leadership also identifies eight attributes of leadership, each of which has its own chapter in the book, that are evident to varying degrees in these individuals.

1. They are able to build a strong corporate culture.
2. They are truth-tellers.
3. They are able to find and cater to under-served markets.
4. They can "see the invisible" - that is, spot potential winners or faint trends before their rivals or customers.
5. They are adept at using price to build competitive advantage.
6. They excel at managing and building their organization's brand (which in some cases may be their own name).
7. They are fast learners.
8. They are skilled at managing risk.

In addition, the book includes essays describing a major challenge that each leader faced during his or her career, and detailed timelines of each leader’s life.

The authors of *Lasting Leadership* are Mukul Pandya, editor and director of Knowledge@Wharton, and Robbie Shell, managing editor of Knowledge@Wharton. Three others - Susan Warner, Sandeep Junnarkar and Jeff Brown - made significant contributions in reporting and editing.

Below are two excerpts from the book, the first from Chapter Two on "Leadership and Corporate Culture;" the second from Chapter Six, "Using Price to Gain Competitive Advantage."

Herb Kelleher: Giving Southwest Airlines Its Wings

Getting Southwest Airlines off the ground at all was Herb Kelleher's greatest feat.

The upstart Texas airline, catering to low-fare, no-frills flyers, was blocked at the gate for more than three years as established carriers filed lawsuits to protect their turf. Kelleher, who was Southwest's lawyer in those early days, fought all the way to the U.S. Supreme Court, clearing the way for Southwest's first flights in 1971. Later, Kelleher was back in court fighting to keep the airline at Love Field in Dallas. "It was a long and difficult battle. It even continued after Southwest began operations," says Kelleher. "The other carriers exerted a massive effort to get us out of business."

Ultimately, executives at two competing airlines were indicted on antitrust charges. Southwest grew to become one of the nation's largest carriers with planes painted like killer whales, flight attendants popping out of overhead bins, and in-flight meals consisting of a simple bag of peanuts. Those initial battles gave Southwest its wings, but they also helped shape Southwest's celebrated culture, one marked by humor, loyalty, and a fierce resistance to corporate bureaucracy.

During the early courtroom struggles, before the airline was flying, Southwest was just Kelleher, a small group of investors, and a plan sketched out on a cocktail napkin. "It was only a couple of us fighting the legal battles, day in and day out, against a whole cadre of lawyers from the other carriers," Kelleher recalls. "Persistence was very important. The other thing that was important was not accepting the conventional wisdom that it wouldn't work. I think probably only one in four people in Texas thought Southwest had a chance of flying, much less of being successful. I say, 'If it's conventional, it ain't wisdom, and if it's wisdom, it's not conventional.'"

In 1973, when competitors again took legal action against Southwest, this time to make it leave Dallas' Love Field, flight attendants, baggage handlers, and reservations clerks rallied around the company. "Our people were stimulated and challenged and responded with warrior-like spirit," says Kelleher. "I think that inculcated in them the idea that survival in the airline industry is a game of inches, and by golly, we've got to pitch in. The company became a crusade that they enlisted in. It's been pretty much the same ever since."

Kelleher rejected the conventional notion of putting the customer first. At Southwest, employees come first, in the belief that a company with happy and productive workers will have happy, paying customers. He loves to tell the story of an executive who complained it was easier for a baggage handler to get in to see the Chief Executive than it was for him. Kelleher told the executive that was because the baggage handler was more important.

As it was attempting to get off the ground, Southwest's management team was made up of refugees from other airlines who had lost jobs in the recession of the early 1970s. Some were free spirits who did not fit in at other carriers. Many had a lot of experience and became known inside Southwest as the Over-the-Hill-Gang. "The original employees were not young, but they were looking for new opportunities. They were looking for ways to do things differently," says Kelleher. "When they came to Southwest, they were unleashed. They could begin to say what they really thought. That group was seminal to turning the corner at Southwest Airlines, making it profitable and creating the blueprint for how we operated."

From the start, Southwest resisted traditional hierarchies and built flexibility into its operations. Kelleher says his days playing high school football and basketball taught him how a team should work. "If you play football, you don't say to the tackle, 'That's your territory, I'm not going to make that tackle.' Teams don't function effectively under those circumstances - Team play is a fundamental concept, and playing team sports brings that home to you very strongly. If you want to succeed, if you want to win, you have to play as a team."

As the young airline developed its operations, Southwest focused on substance, not process, says Kelleher. Southwest made use of every second to keep its planes in the air. Pilots, flight attendants, and ticket agents helped clean planes to turn them around within 10 minutes for the next flight. To fill every seat, the company pioneered low, off-peak fares.

With little capital for advertising - the company spent half its first year's marketing budget of $700,000 in the first month - Kelleher relied on word-of-mouth to generate interest. Southwest flight attendants dressed in orange hot pants and white go-go boots for the 8AM flight from Dallas to Houston, dubbed the "Love Bird" flight by the company.

Despite all the fun and games at Southwest, the company has maintained a disciplined business strategy, says Kelleher. When airline deregulation took place in 1978, Southwest had the opportunity to become a larger interstate airline competing for more lucrative, longer routes. "We said, 'We have a particular niche in the airline industry, and we're basically going to continue as an intrastate airline within Texas. That took a great deal of discipline when the other alternatives were available," says Kelleher. Gradually, carefully, Southwest did expand, but only with enough cushion to ride out an emergency without having to cut people or profits.

Kelleher figures the airline industry is good for two major crises every 10 years, such as an oil-price hike, a war, an air-controllers' strike - even another 9/11. Each crisis leads to massive layoffs and bitterness. But Southwest has never furloughed an employee. "It's very important if you are going to be successful that people's jobs are secure, so they don't have all the haunts and worries about whether they are going to [be jobless] next week. That's how people at airlines have always felt."

Jeff Bezos: Raising Capital for Amazon.com

It's been a rough ride for Amazon.com since it raised $54 million in 1997 in one of the earliest blockbuster Internet initial public offerings. The e-commerce pioneer saw its market capitalization soar to $32.1 billion and then plummet to $8.9 billion when the Internet bubble burst; it watched brick-and-mortar retailers stream online to compete on its digital turf; and it lost billions of dollars over a span of six years, to the point where some dismissed the site as "Amazon.org" because, as the joke went, it appeared to be a not-for-profit company.

Yet according to Jeff Bezos, Amazon.com's 39-year-old founder and CEO, his biggest challenge came in 1995 when he tried to raise $1 million in seed capital to launch his company and keep it operating for at least two years. "There was a time there when the whole enterprise could have been extinguished before it had even gotten started," he says.

During the now legendary trek from New York to California in 1994, Bezos' wife McKenzie drove while he used his laptop to write a business plan for a bookstore that would use the power of an emerging networking technology - the Internet - to revolutionize retailing.

If it had taken him just another year or two to reach Silicon Valley, he would have found investors clamoring to fund his idea, Bezos says. But the investment frenzy that sparked the go-go days of the Internet bubble wouldn't kick in until 1997. Then, he adds, "people were raising $60 million with a single phone call."

Serial entrepreneurs - those who have a track record of starting up several companies - usually find venture capitalists' doors wide open, but Bezos had no such base from which to raise $1 million. The amount itself was too low to pique investors' interest. He did, however, have a $100,000 investment from his parents, the "classic seed round that comes from people who are betting on the entrepreneur rather than on the startup idea," Bezos notes.

Banking on a few contacts he had from his days working on Wall Street, Bezos managed to line up meetings with several angel investors in Silicon Valley. "I talked to all the people I knew who I thought could afford to invest $50,000," he says. Over a six-month period in early 1995, Bezos met with about 60 private investors. At the same time, he was also recruiting programmers to develop the web site and working out the details of starting a company that, as yet, had no precedent. Raising the money "was more difficult than we expected," he says. "It is hard to get people to invest $50,000 because the worst case outcome is not that unlikely; and the worst case outcome is that you lose your entire investment."

Although no "capital crunch" existed in 1995, investors were still in the habit of carefully evaluating each business plan before opening their checkbooks. With little understanding or faith in the Internet's potential, they were skeptical. "We got the normal comments from well-meaning people who basically didn't believe the business plan; they just didn't think it would work," Bezos says. During his visits to investors, he recalled being told things like: "You can special order these books" … "Why would someone buy them online?" … "If you're successful, you're going to need a warehouse the size of the Library of Congress."

What made Bezos' challenge so difficult was that he needed to raise the entire $1 million at one time. He didn't have the luxury of getting $50,000 one week and then another $50,000 several weeks later. If somebody puts in $50,000, they worry that an entrepreneur might fritter away that money "before it could be combined with the rest for maximum benefit," Bezos says. "So toward the end of the process, it has to be synchronized."

Bezos never considered lowering the amount of capital he was seeking. "It wasn't a practical solution." If he had suddenly settled for $500,000, investors would have looked askance. "They would have said, 'What has changed so that now you only need $500,000, and is my $50,000 going to be at risk because you didn't raise the $1 million?'"

But a few prescient investors sensed that Bezos was ready to capitalize on a seismic shift that would revolutionize nearly every aspect of the business world. Other companies that would later attain legendary status - like Netscape, which created the Web browser for non-technical Internet users, and Yahoo, which cataloged the exploding number of web sites - were appealing for seed money as well. The excitement about the web's potential was quietly beginning to percolate.

Bezos had more than just his persistence to help convince these wary private investors. Using research from John S. Quarterman, one of the earliest people to collect Net usage data, Bezos reported to his investors that the web was growing at 2,300% a year. "Things growing at 2,300% are invisible today and everywhere tomorrow," he told them. The business plan he had typed on the cross-country drive envisioned an online retailer focused on selling books - a "bookstore with more than 10 times the selection of even the largest physical superstores." He explained that he was going to build something unique online that could not be replicated in the physical world or through catalogs.

Investors began to realize that he had planned well into the future. Bezos, for example, talked about connecting the power of the Internet with that of databases. He proposed a "personalization" service that could highlight products to a shopper based on his or her previous purchases. (This service launched in 2000.) "Ultimately that $1 million was raised, $50,000 at a time, with about 20 angel investors," Bezos says. A year later, venture capitalists began to line up outside Bezos' door. The blue chip venture capital firm Kleiner Perkins Caufield & Byers was among those that pumped $8 million into the company, a move that paid off handsomely when the e-tailer went public.

Looking back at the arduous process of raising seed capital, Bezos says he clearly benefited from the experience. "I don't think it should be easy. One of the things that happened to some of the companies who started during the bubble is that the money was too easy to raise." And so, he added, "it was not appropriately valued."