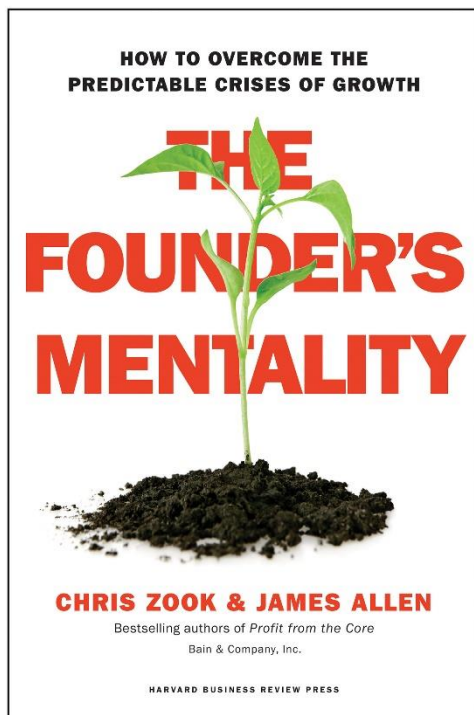


THE FOUNDER'S MENTALITY
How to Overcome the Predictable Crises of Growth
By
Bain Global Strategists and *New York Times* Bestselling Authors
Chris Zook and James Allen



Praise for **THE FOUNDER'S MENTALITY**

“The concept of the ‘founder’s mentality,’ and in particular our ‘ownership’ culture, has been central to our evolution and growth as a company.”

—Carlos Brito, CEO, AB InBev

Growth creates complexity, and complexity is the silent killer of growth. This paradox of growth explains why only about one company in nine has sustained more than a minimum level of profitable growth during the past decade, and why 85 percent of executives blame internal factors for their shortfall, not external ones beyond their control. Their increased internal complexity leads them farther astray from the clear values and attitudes that their founder put in place. The few companies that avoid such internal crises and sustain long-term growth are those that maintain a “founder’s mentality.” In fact, 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. That’s why what counts is not how well a

company plays in the outer game of quarterly earnings, returns to shareholders, market share shifts, and profitable growth. Instead it’s how well they play the inner game to manage internal complexity with a founder’s mentality.

Whether you work at a founder-led startup or a founder-less multinational, **THE FOUNDER'S MENTALITY: How to Overcome the Predictable Crises of Growth** (Harvard Business Review Press; June 7, 2016) by Bain strategists **Chris Zook and James Allen** empowers executives with the necessary mindset to safely steer their company through every stage of growth and past the inevitable crises of internal complexity that follow.

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These crises of internal complexity that follow growth include:

- **Overload:** The internal dysfunction and loss of external momentum that management teams of young, fast-growing companies experience as they try to rapidly scale their businesses.
- **Stall-out:** 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.
- **Free Fall:** 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.

The authors' research shows that more than 80 percent of a company's major swings in value can be traced to the decisions and actions the companies take—or do not take—at these three moments of internal crisis. If addressed with a founder's mentality, each crisis can be leveraged into a moment of huge value creation, but if not addressed, they can destroy huge amounts of value and even spell the end. In fact, over two thirds of large companies will stall-out or be acquired within the next fifteen years, and the odds are only about one in six that a company, after stalling out, will recover fully. Sony, Philips, Panasonic, Sears or Mazda are among today's companies in stall-out because their growth formula of the past stopped generating growth in the present.

That's why a founder's mentality isn't just a nice to have, but a must-have. A founder's mentality consists of three elements: an insurgent's mission, an owner's mindset, and an obsession with the front line. While it is undervalued, the incentive to have one is strong. New research by Bain shows that companies able to maintain a founder's mentality as they grow large and complex—companies like AB Inbev, L Brands, IKEA, Haier, Google, or Nike—achieve three times the economic returns of companies that let these attributes erode. And more than 80% of top performing companies adhere to the traits of a founder's mentality.

Based on the authors' decades-long study of companies in more than 40 countries, **THE FOUNDER'S MENTALITY** identifies a profound connection between these “founder's mentality” traits in companies of all kinds—not just start-ups—and their ability to sustain performance. With this powerful mindset, companies will grow safely and steadily past any crisis to their highest potential scale.

About the Authors

CHRIS ZOOK is a partner at Bain & Company and has been co-head of the firm's Global Strategy practice for 20 years. He is based in Boston and Amsterdam, and specializes in helping companies find new sources of profitable growth. **JAMES ALLEN** is a partner in Bain's London office. Co-head of the firm's Global Strategy practice, he is founder of the Bain Founder's Mentality 100, a global network of founder-led companies. They are the authors of five bestselling books on strategy, including *Profit from the Core*.

[THE FOUNDER'S MENTALITY: How to Overcome the Predictable Crises of Growth](#)

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Praise for **THE FOUNDER'S MENTALITY**

“The concept of the ‘founder’s mentality,’ and in particular our ‘ownership’ culture, has been central to our evolution and growth as a company. Remembering how we became successful in the first place has helped us act boldly and quickly with an insurgent mindset.

This book offers great insights for business owners and leaders.”

—**Carlos Brito, CEO, AB InBev**

“As a founder I resonate strongly with the themes of **THE FOUNDER'S MENTALITY**, especially with regard to the overwhelming importance of speed, singular focus, and the ability to invest for the long term.”

—**Michael Dell, founder and CEO, Dell Inc.**

“Zook and Allen share invaluable insight as to how to preserve a company’s founding purpose, perspective, and energy, while preventing institutionalization from diluting it. Their work has been instrumental in the way my leadership team and I think about our culture, our structure, and our business model.”

—**Adrian Gore, founder and CEO, Discovery Group**

“In this heavily researched and compelling book, Zook and Allen provide a road map for winning growth. Companies that build and maintain healthy cultures scale with speed and sidestep avoidable stall-out. Whether you are a start-up entrepreneur, an investor, or a *Fortune* 500 manager, you need **THE FOUNDER'S MENTALITY!**”

—**Linda Rottenberg, cofounder and CEO, Endeavor Global**

“As companies grow, scale and complexity can become a real threat to momentum. Zook and Allen’s **THE FOUNDER'S MENTALITY** offers useful insights to help leaders maintain agility in order to sustain their success.”

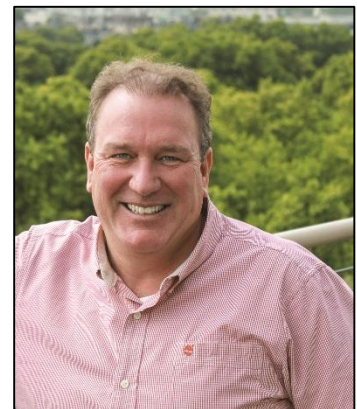
—**Les Wexner, founder and CEO, L Brands**

About the Authors of **THE FOUNDER'S MENTALITY**



CHRIS ZOOK IS a partner at Bain & Company and has been co-head of the firm's Global Strategy practice for 20 years. He is the author of five bestselling books on strategy, including *Profit from the Core* and *Repeatability* with James Allen. *Beyond the Core* was recognized by *The Economist* as one of that year's top five business and economic books; *Unstoppable* was a *Financial Times* notable business book of the year. Based on his work on how companies grow, Zook was recently included by the *Times of London* in its biannual list of the 50 Most Influential Global Business Thinkers. He has been a featured guest on NPR, CNBC, and Bloomberg TV and has been published in *The Wall Street Journal*, *The Financial Times*, *The New York Times*, *Fortune*, *Forbes* and *BusinessWeek*. He is a frequent speaker at a wide range of international and business forums including the World Economic Forum, the World Knowledge Forum, the Forbes' CEO Conference, the BusinessWeek CEO Conference, and the Economist Summit. He received a B.A. in mathematics and economics from Williams College, an M.Phil. in economics from Exeter College, Oxford University, and an M.A. and Ph.D. from Harvard University. He is based in Boston and Amsterdam.

JAMES ALLEN is a senior partner in Bain & Company's London office. Co-head of the firm's Global Strategy practice, he is the founder of Bain's Customer Strategy & Marketing Practice and of Bain's Founder's Mentality 100, a global network of founder-led companies. A recognized leading expert in developing global corporate and business unit strategy with more than 25 years of consulting experience, he has worked extensively for multi-national companies in consumer products, oil and gas, technology and telecommunications, healthcare and other industries on the development of global growth strategies, emerging market entry strategies and turnaround strategies. He speaks about growth strategy at numerous conferences and is quoted frequently on the topic in media outlets around the globe. He earned his M.B.A. from Harvard Business School.



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Case Studies and Companies featured in THE FOUNDER'S MENTALITY

- ◎ **Jaipur Rugs** used **THE FOUNDER'S MENTALITY** to redefine the entire handwoven carpet industry: <https://www.youtube.com/watch?v=jPEY1KRYf3E>.
- ◎ **Yonghui Superstores**—a rapidly growing founder-led business in China—operates with a **clear insurgent mission**: providing “safe, good food for the Chinese mother.” Now challenging larger rivals including Walmart, it improves its agility by building insurgent “green store” businesses alongside its incumbent “red store” business, figuring that if a new insurgent is going to disrupt its industry, it might as well be *its* insurgent.
- ◎ **Oberoi Group** founder M.S. Oberoi pored over every detail of customer experience—the bellmen’s trousers, the temperature of tea, the freshness of flowers, the placement of signage—well into his 80s and established a culture by which all employees shared in his **front-line obsession**. In 2015, years after his passing, *Travel and Leisure* named it the best hotel brand in the world.
- ◎ **AB InBev** became the largest and most profitable beer company in the world by promoting an **owner’s mindset** attractive to young, hungry talent—a sense of deep personal responsibility for results that leads to a bias for speed against bureaucracy.
- ◎ **Norwegian Cruise Lines** launched the modern cruise industry but ran aground when it failed to implement an internal growth strategy and experienced **Overload**. Kevin Sheehan stepped in as CEO and used **THE FOUNDER'S MENTALITY** to transform the company from the ground up, prioritizing core principles, front-line employees and customer needs.
- ◎ **The Home Depot** experienced **Stall-Out** when it lost touch with a key tenet of its mission: a direct and advisory relationship with customers. When Frank Blake came in as CEO, he turned the company around by embracing the principles founders Bernie Marcus and Arthur Blank, re-empowering the “Orange Apron Cult.”
- ◎ Kent Thiry and his team saw potential that proved unattainable to their predecessors and used **THE FOUNDER'S MENTALITY** to take **DaVita** from **Free-Fall**—as Total Renal Care it was near bankruptcy—to the best-performing healthcare company in America.
- ◎ **Scaling Insurgency**: **Marico**, the largest hair oil company in the world; **L Brands**; **Mey Icki**, the leading spirits company in Turkey; **Dell**, **IKEA**, **Apple**.
- ◎ **Reversing Stall-Out**: **Cisco**; **Perpetual**, Australia’s oldest trust company; **3M**; **eBay**; **Telenor**, the largest bank in Pakistan.
- ◎ **Stopping Free Fall**: **Schwab**; **Apple**; **LEGO**; **Crown Castle**; **Marvel Entertainment**; **Leica**; **NXP**; **Dell**.
- ◎ **Infusing THE FOUNDER'S MENTALITY on all levels**: **Olam**; **Cimpress**; **Unilever**; **Vanguard**; **Walmart**.

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Crunching the Numbers: Stats from THE FOUNDER'S MENTALITY

- ⦿ Only about **one company in nine** has sustained more than a minimum level of profitable growth during the past decade. Of these, nearly **two in three** are governed by the founder's mentality.
- ⦿ More than **four in five** problems on the outside of a business trace to problems on the inside. 94% of barriers cited by large-company executives had their roots in internal dysfunction and lack of internal capabilities.
- ⦿ Since 1990, **returns to shareholders in public companies where the founder is still involved are three times higher** than in other companies.
- ⦿ The most **consistent high performers** exhibit attributes of the founder's mentality four to five times more than the worst performers.
- ⦿ On average, **more than 80% of the major swings in value in companies' lives can be traced to the decisions and actions the companies take—or do not take—during the three moments of crisis** (Overload, Stall-out and Free Fall).
- ⦿ New companies that reach Fortune 500 scale today are doing so **more than two times faster than just two decades ago**, and in 40% of the competitive arenas, the strongest company is no longer the largest. But these insurgents also stall out faster when they become incumbents.
- ⦿ 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**.
- ⦿ **90% of the time, leaders cite at least one of the three founder's mentality traits as a source of the founder's advantage**. The best fifth of performers in Bain's database had high insurgency characteristics 75% of the time, versus 19% for the poorest performing fifth; for front-line obsession, 57% versus 12%; and for the owner's mindset, 50% versus 9%.
- ⦿ **One start-up in two thousand makes it to \$500 million**; of those, only about **7-8% reached the position of scale insurgency** over the past decade. Those few that do account for **much more than half of the net value created in the global stock market** during a typical year.
- ⦿ Bain & Company tracks performance of more than 8000 global companies. Of the roughly one in five companies that managed to make it through insurgency to incumbency in a recent 15-year period, **two-thirds faced stall-out**.
- ⦿ Of the large companies that hit stall-out, **fewer than one in seven will recover** its market power and prior momentum.

A Conversation with Chris Zook and James Allen
Authors of THE FOUNDER'S MENTALITY

1. What is a “founder’s mentality”?

New research from Bain’s reveals that founder-led companies perform best, but established companies can still win against founder-led startups if they maintain a “founder’s mentality.” This set of practices and attitudes helps companies maintain energy, flexibility, and open-mindedness as they succeed at growth instead of the drift toward underperformance that typically follows the exit of a company’s founder.

2. Why is it critical for companies to adopt or reconnect with a founder’s mentality now?

The lifecycle of business is shortening. Young companies are able to scale faster and threaten incumbents like GoPro did against Sony in small video cameras or like Netflix did in becoming the first Internet TV station, rather than the networks. The founder’s mentality is an enormous competitive advantage for young, growing companies, and they need to recognize it and invest in it as they grow larger and as this source of natural advantage begins to wane. Companies that allow their founder’s mentality to erode find that they face increasing risk and vulnerability against younger insurgents in areas like speed to decide and act and the ability to attract and retain young talent.

3. Why does today’s faster company lifecycle require a new growth strategy?

Jack Welch of GE once said “when the speed of change on the outside is greater than the speed of change on the inside, it is over.” Faster-moving markets and faster insurgent competitors pose a major problem for large companies that have slowed down, are mired in complexity, have difficulty agreeing on their situation, and are burdened by bureaucracy. Companies seeing a gap open between speed to decide and act on the inside and speed to see and adapt to change on the outside need to simplify and focus their strategies in the marketplace, and renew the founder’s mentality within. Our research shows that young companies are scaling faster than ever and mature companies have the potential to stall-out more suddenly than ever, shortening the life cycle of many companies in the process.

4. What’s an example of a successful founder’s mentality approach currently in the news?

Michael Dell taking Dell private a year ago to create “the world’s largest startup” and, now, being in a position to acquire EMC in the largest technology acquisition ever is an example of this. Dell is experiencing large market share gains, and shows huge improvements in customer loyalty and employee engagement.

LEGO Group recently made headlines for releasing the second LEGO movie. Yet, just a few years ago LEGO Group was heading to bankruptcy. The new CEO exited a series of poor acquisitions and businesses in order to shrink to the LEGO toy system at the core and then took a series of actions to renew the founder’s mentality from re-introducing the principles of the founder to involving

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customers more intimately in product design. LEGO Group in the past few years has become one of Europe's highest performing companies.

5. *What are the consequences if companies don't use a founder's mentality and what is an example in the news?*

Hewlett-Packard recently hit the lowest point of their stock price in twenty years. At about the time the stall-out began, one of the founders wrote that their biggest concern was slowing down and becoming a bureaucracy. Since then, they have had 7 CEO's in twenty years (including interim CEO's), many changes in direction, and, lost their sense of insurgency which HP had in spades during its early years. One writer in HBR commented they have become "just another company."

Yahoo became mired in complexity and lost the founder's mentality through a succession of CEOs. They were once the most visited Internet site, but lost focus and started a well-documented drain of talent to other companies from Yahoo. Now the company is on the block and even the *Daily Mirror*, a tabloid newspaper, is preparing a bid for what is left. They lost vision, they lost the hearts and minds of the best young talent, and they lost their ability to adapt in an open minded way to the marketplace, constantly defending their strategy of the past.

6. *THE FOUNDER'S MENTALITY identifies three crises of growth that every company will face and need to navigate. What are they?*

The first crisis is Overload. This is the crisis faced by young companies trying to scale their business rapidly when they discover that their systems to hire, to decide, to adapt, and to stay in touch with the customer are all straining at the seams, threatening to kill momentum and degrade what made the business so successful in the first place.

The second crisis is Stall-out. This is the crisis faced by more mature companies that discover that their growth formula of the past seems to be reaching a limit. This will happen to 2 of 3 large companies in the next 15 years and only about 1 in 6 will ever fully recover. At its core is the question whether the problem is one of strategy on the outside or of organizational performance on the inside in pursuit of full potential.

The third crisis is Free Fall. This is the crisis faced by companies that discover their business model, at least in part, is facing obsolescence. An example would be Netflix realizing that their model of sending DVD's through the mail would be replaced by streaming (and they reacted and succeeded) or Barnes and Nobles discovering that Amazon had created a model that would kill the economics of most bookstores.

All three of these crises are difficult for people in them to see clearly, yet they all have early warning signs and actions that can be taken, if seen in time. Most do not see these deeper internal root causes of external crisis until it is upon them.

7. *How can business leaders recognize whether their company is experiencing one of these three “choke points”?*

Each of the three crises is quite different, yet they share a few warning signs that all relate to the slowing engines of organic growth. If I were to highlight five warning lights that start to blink in each growth crisis they would be:

- Increased difficulty attracting and retaining top talent.
- Loss of clarity on the unique purpose and differentiation of the company
- Decline in advocacy and loyalty in the most progressive customers
- Young, insurgent competitors gaining market share in your “core of the core”
- Slowing organic growth rate without a clear reason why

8. *What companies have used a founder’s mentality to reverse stall-out or stop free fall?*

The return of Howard Schultz to Starbucks when he said that the company’s turn from positive to negative growth, and its 85% stock price collapse was due to self-inflicted wounds and set about to reverse the practices that were killing the company.

The renewal of Home Depot, including the dismissal of a “big company” CEO who had taken steps to kill the heritage of the company, dampen the founder’s mentality, and sap energy from the front line employees. The next CEO brought back the founders as advisors on the first day and has totally renewed the business.

The story of DaVita’s re-founding by Kent Thiry from near-bankrupt dialysis company to the best performing health care company of the past 10+ years in the U.S.

9. *You spoke with and surveyed hundreds of corporate leaders from around the world for your book THE FOUNDER’S MENTALITY. What insights stood out the most?*

1. The growth paradox: growth creates complexity and complexity is the silent killer of profitable growth.
2. How the founder’s mentality is undervalued and erodes in companies that don’t see that.
3. The existence of three predictable crises, with internal root causes, that drive 80% of value.
4. How the leadership lessons of the founder’s mentality are learnable and actionable for all leaders.

10. *What was the most surprising finding in the research Bain did for this book?*

That 85 percent of the outside breakdowns or shortfalls of companies in the marketplace, and 94 percent in really large companies, trace to deep, pre-existing inner root causes that were controllable to leadership and connected by the common theme of complexity as the silent killer of profitable growth. Lack of opportunity and outside forces beyond their control accounted for only about fifteen percent of the perceived barriers to achieving their growth ambitions.

11. How does a founder's mentality motivate and retain talent in the era of Millennials and the gig economy?

Companies with the founder's mentality at a high level like Google, Facebook, Nike, can appeal to the millennial generation for three reasons relative to other companies.

- These companies have a clear and special purpose for existing whose cause liberates energy – they are not just another job in another company. An example would be Google's mission to organize all of the world's information. They are simply more inspiring.
- These companies tend to have fewer layers and a shorter distance between senior management and the front line employees. Thus younger employees feel more connected to leadership and to the company, and they are typically given a bigger voice and more responsibility like with Haier in China which is built around thousands of small teams with the CEO's stated goal to reduce the distance from him to the front line employees.
- These companies tend to be more meritocratic, like AB Inbev. They give new employees more hope of promotion and getting ahead in their careers.

The result of these three things is a company that is more inspiring, offers better and fairer career prospects, and where young people are listened to early in their career and can have impact. Bain is a great example of this. Sometimes they almost feel cult-like. Employees feel as if they are part of something special, a movement.

12. How do you adopt a founder's mentality if your company no longer is run by its founder?

The founder's mentality is not about individual founders per se, but about the attitudes and behaviors that are common across the most sustainably successful companies with the most loyal and energized employees. While these practices (a clear mission, long term perspective, or total intellectual curiosity about front line details) are most strongly expressed by the greatest founder-run companies, they are traits that can be learned and fostered when the founder is no longer there as we still see at Apple after Steve Jobs, or as we saw renewed at Home Depot even after the founders.

The truth is that most founders fail. For instance, the United States has averaged 500,000 new incorporations every year, of these, only about 10,000 reach venture capital quality and get formal funding. Of these 10,000 only 1,000 ever succeed to grow to \$100 MM in revenues and only 30 grow to \$500 million. The Founder's Mentality is an examination of how companies that did survive and achieve sustained success were built by the top founders in the first place and the lessons that hold for how all companies should think about how they are built on the inside to succeed on the outside.

13. What predictable risks are provoked by a founder's exit?

The most predictable risks relate to the potential weakening of any one of the three elements of "the founder's mentality."

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When the founder is gone, sometimes the original vision of the company, its *insurgency*, begins to wane and a short term perspective sets in focusing on quarterly earnings more than on what is being built for the long term. A great example of this is the collapse of Home Depot and its stock price in around 2000 with the hiring of a CEO from General Electric to replace the founders. When that CEO failed, the replacement renewed the energy of the business by going back to ideas of the founders and bringing them back in as advisors even.

A second thing that can happen is that the company begins to *lose touch with the front line and its ground level details* – something most founders are obsessed about and have amazing intellectual curiosity over. An example is what happened at Starbucks when Howard Schultz left and the next management team stopped paying attention to the details of the coffee experience in the stores that was at the heart of Starbucks success. In this case, founder Howard Schultz returned to right the ship.

The third thing that can happen is that the company starts to bureaucratize, decision processes become more complex than they were with the founder, people don't step up to take responsibility, politics set in, and the business slows down. The founder has enormous moral authority to make big decisions, and sometimes the founder's replacements do not have the same sense of urgency, not organizational support. Just look at what happened to Apple after Steve Jobs left and John Scully, not a technologist with the same respect from the developers or people who really knew the business, came in.

14. Who within a company can practice the founder's mentality?

Any leader can motivate their team with the three principles of the founder's mentality. It is harder to do in a bureaucracy and easier to do in a separate unit.

To keep companies young, and reinforce the founder's mentality, we have found enormous value in "mini-founder experiences," where employees who are not the CEO can exercise these leadership skills in a region, a product line, or a business.

Companies like ABInbev, or Haier in China, or DaVita can be successfully re-founded and the founder's mentality can be created. These aspects of leadership are learnable, that is what makes the founder's mentality so universal and useful.

15. What are "speed killers" and how can companies eliminate them?

Complexity is the silent killer of profitable growth for many reasons, but the primary reason is its effect on speed at which an organization is able to perceive issues, make decisions around those issues, and take action.

As companies build up layers, and departments with their own agendas, and build a matrix organization, the four distortions of bureaucracy all set in to slow down the company – distortions in information, distortions in incentives, distortions in priorities, and distortions in decisions.

Nearly all of the cases we studied of large companies that encountered the crisis of Stall-out were characterized by a slowing of the metabolism of the company that allowed faster, younger insurgent

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competitors to out-innovate, out-hire, and out-hustle the incumbents. An example would be the way that Go-Pro succeeded in tiny video cameras against giant Sony, the dominant incumbent.

16. If a business leader wants to adopt a founder's mentality, what are the first steps he or she should take?

Any leader who wants to dial up the level of the founder's mentality in their organization should consider the following actions:

1. Ask what is the insurgent mission and unique purpose of their organization. Probe at all levels of the organization. Ask the top 20 people privately. If you have no mission or special purpose, you have to start here to define it as well as the key principles and beliefs that should be common across the organization.
2. Look at where the decision power is and the direction in which it is flowing. The general managers closest to the front line will tell you the answer to this. Ask them in a way that will assure their directness. You might be shocked.
3. Take the top ten decisions that are critical to the functioning of the organization and map out in detail, objectively, how these decisions are made, who makes them, and how long they take. Slow and fuzzy decision making is one of the most common signs of a company that needs to renew, or adopt, a founder's mentality.
4. Manage the three elements of the founder's mentality as one of your most critical strategic assets. Measure it, talk about it, and insist on it.

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