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Freakonomics chapter 1 questions and answers

Switching to Content To prevent post-traumatic stress disorder, is it helpful to provide psychotherapy to all those who have been exposed to significant trauma? Follow the latest daily buzz with BuzzFeed Daily! In an in-depth interview, we asked Collins about the implications of his research and ideas for the economy, the stock market and the very nature of executive leadership. The good companies you've written about all the remarkable stock market results over a 15-year period. But today, the stock market is down. Does that mean we will not see good companies today? First of all, I want to correct a big misconception. The stock market is not down. What does the stock market look like compared to 1985? The stock market is not down. What does it look like compared to 1990? The stock market is not down. The market was irrationally out of whack — we didn't have a stock market; we had a speculative casino. The technology bubble was not the new economy — there is a new economy that has been around for years at a deeper level. But the stark fact is that companies that were at the top of the tech bubble have not had results. You can't make zero profit and pretend you have results. In the case of companies that had excellent results before the bubble burst, they are in a period of decline now, but then what? The essence of a company like Cisco is, we do not yet know the answer. These companies may be in a very difficult period of 6 to 12 months. Let me use an analogy. Let's say you have a great basketball dynasty like the UCLA Bruins under John Wooden. This is a team that will win 10 NCAA championships in 12 years. This is a team that has gone from good to great. But in 1970, they lost three games. Does that mean we are going to write them off and say they are not a great team? We need to look at more time. The same goes for companies that have been caught in the bubble. It was too short a period. It's going to take longer to say which companies that are in trouble now are simply going through a momentary period and will have the resilience to come back. But for many businessmen, the current slowdown is a sign of the demise of the new economy. This is one of the most wonderful moments in history. Two or three years ago, what was the main complaint we heard? It's so hard to get good people! Whine, whining, whining! Today, we have the greatest opportunity in decades to hook a load of boats — not a bus, but a shipment of boats — of people. And big business always starts with who, not what. We can finally get on the right side of the Packard Act. Packard's law is like a law of physics for big business. He says that no company can become or stay big if it allows its revenue growth rate to outpace its growth by getting the right people in a sustainable way. It is one of those timeless truths that transcend technology and economics. Now, instead of trying to accumulate to accumulate we can accumulate people. If I ran a business today, I would have a priority above all others: to acquire as many people as possible. I would hand over everything else if I could afford it — buildings, new projects, research and development — to fill my bus. Because things are going to come back. My steering wheel is going to start spinning. And the biggest constraint on the growth and success of my organization is not the markets, is not technology, is not the opportunity, is not the stock market. If you want to be a big company, the biggest limitation on your ability to grow is the ability to get and hold on to enough good people. It's also a great time to force you to look back. When you broke the packard law, you probably left a lot of bad people on the bus. It's a good time to get them down. In fact, it's a little easier to do it now. We can blame the circumstances. What else would you do to take advantage of this reassessment period? It's also the perfect time to ask yourself some very difficult questions. In an era of irrational prosperity, when the market would give you money whether you delivered or not, many companies had not answered any of the questions in the three circles (What can we be the best in the world to? What is the economic denominator that is the best economic driver? And who are our deeply passionate core people?). They had no idea what they could do better than any other company in the world that was sustainable, they had no profit denominator, and the only thing they had the passion for was to overthrow the company. Now we can no longer live in this fantastic land. We need to look more and more at all the things we do and put them all to the test of the three circles. All the things that fail the test that we have to stop doing — today. I see a lot of companies that have ended up with a lot of capital. So they went through all kinds of acquisitions or new companies or new directions, simply because they could. But they did not necessarily fit into all three circles. Today, the task is for them to prune away. Those who clarify their three circles will come out of this situation very well. Those who don't deserve to die. Today's CEOs have little time to prove their worth. What advice would you give to a CEO in the hot seat? If I were a CEO in the hot seat taking over from a company I wanted to go from good to big, here's what I would do. I would take this good-to-great picture of actions, and I would put it in front of my directors. I would say, We are on the left side of Curve. We want to be on the right side of the curve. Right? If that is what we all want, we know what it will take to get it. You can't keep lurking from CEO to CEO. If you do that, you'll end up in the Doom loop - and then we'll end up as one of the comparison companies, not one of the big companies. I don't think all directors are stupid. Most of them are intelligent, but they operate out of ignorance rather than lack of intention. We have to hit them over the head with the empirical results. Our job is to beat the market in a sustainable way over time. We need to think about the course of action over a five-year period. And we need to start doing all the things it takes to run this steering wheel. Finally, if I am the CEO, I want the board of directors to give me the following assurance: Whatever the duration or short of my tenure as a CEO may be, whoever you choose as my successor must pick up this steering wheel mid-turn and continue to push in a consistent direction. I can only get the steering wheel spinning at 16 RPM. But my successor has to take it at 100 RPM. His successor is to increase it to 500 RPM, and his successor to 1000 RPM. It is not about me as CEO — it is a commitment to a coherent program. We're not going to do a Doom. The loop that took their good to big businesses were largely anonymous - away from the celebrity CEOs we read. Is it an accident? Or is it cause and effect? I think it is more a cause-and-effect issue than an accident. There is something directly related between the lack of fame and the presence of good to great results. What for? First of all, when you have a celebrity, the company turns into the only genius with 1,000 aides. It gives the impression that this is really about the CEO. And that leads to all kinds of problems - if the person leaves or if the person turns out not to be a genius after all. At a deeper level, we found that for leaders to do something great, their ambition must be for the greatness of work and business rather than for themselves. That doesn't mean they don't have an ego. This does not mean that they do not have personal needs. This means that at the decision point after the decision point - at critical times when choice A would favor their ego and choice B would favor the company and its work - time and time again these executives choose Choice B. Celebrity CEO, at these same decision points, are more likely to favor oneself and the ego over society and work. Like anonymous CEOs, most of the companies that have transformed the property into the great are undecorated. What does that tell us? The truth is, most people don't work in the most glamorous things in the world. They do a real job - which means that most of the time they do a heck of a lot of chore with only a few points of excitement. Some people put baked bread. Some build retail stores. The real work of the economy is done by people who make cars, who sell real estate, who run grocery stores and Banks. So one of the big findings of this study is that you can be in a big company and do it in steel, in pharmacies, in grocery stores. It's just not the case that if you're not in Silicon Valley, you're not cool. It doesn't matter where you are. So no one has the right to complain about their business, their industry or the kind of business they are in — never again. Were the 11 companies that made the enjoyed their anonymity? One of the great advantages that these companies had was, no one cared! Kroger began his transition; Nucor has begun its transition; no one expected much. They could under-promise and overrealize. In fact, if I took over a company and tried to get it from way to big, I would tell my vice-president of communications that his job was to make the world believe that we were constantly on the brink of fate. During our study, we actually printed transcripts of CEO presentations to analysts by good companies and comparison companies. We read all of this. And it's striking. Well-to-do people always talk about the challenges they face, the programs they build, the things they worry about. You go into comparison companies, they are constantly hyping themselves, they sell the future - but they never provide results. If I'm not CEO, how do the right lessons apply to me? Good quality concepts apply to any situation — as long as you can choose the people around you. That's the crucial thing. But basically, we really do — we have a lot of discretion over the people in our lives, the people we decide to leave on our bus, whether it's in our department at work or in our personal lives. But the basic message is this: Build your own steering wheel. You can do it. You can start building momentum in something for which you are responsible. You can build a big department. You can build a large church community. You can take each of the good ideas and apply them to your own work or your own life. What did your study teach you about business change in general? Is that essentially a message to get back to basics? Very rarely significant changes ever lead to results in a sustainable way. This is one of the really important conclusions of the book. We started with 1,435 companies. And 11 companies have done so. Let's look at this fact for a moment. The fact is that it doesn't happen very often. Why not? Because we don't know what we're doing! And because we don't know what we're doing, we're getting into all sorts of things that don't produce results. We find ourselves like a bunch of primitives dancing around the campfire singing to the moon. My strong believer is that we need some science to understand what it really takes to make a difference. Is it back to basics? No, that's before you understand. Why did he go back to basics to say that CEOs need to be ambitious for their companies and not for themselves? Why is it back to basics to make the question who and people first and question what and where second question? Since when is it back to basics for a company to start with a question like, Why have we sucked for 100 years, and what are the brutal facts that we have to face? Why is it back to basics to say that stop lists are more important than to-do lists? And since when did he go back to basics to say that is only an accelerator and not a creator of anything? I don't think these concepts are back to basics. Because if that is the case, we should be able to go back in time and see that people were using these ideas. People have not done that — that is why there are only 11 out of 1,435. So, no, it's not back to basics. That's before you understand. What is your assessment of the new economy? We have seen a lot of changes, and we have seen a lot of reactions against change. How can you make sense of all this? The huge changes that are happening around us make it the most exciting time in history to be alive. It's really fun. All of these changes — technological change, globalization — are brutal facts that must be incorporated into every decision we make. The people of Walgreens did not ignore the Internet because they were focused solely on the basics. They confronted the brutal fact of the Internet and then asked, How does this fit into our three circles, and how can we use it to turn our steering wheel faster? You never ignore the changes - you hit them head-on like brutal facts, or you come to them with a great sense of joy and excitement. This change, this new technology opens a way for you to prevail, to be even better as a company. All good quality companies have made changes and used them to their advantage, often with great joy. When new pianos arrived, Mozart did not hang up his music. He did not say: There are these new pianos! The harpsichord is out of the way, so I'm washed as a composer! He thought, That's so cool! I can do it hard with strong piano! It's really neat! He kept the discipline of writing great music and, at the same time, embraced with great joy and excitement the invention of pianos. With all the change that surrounds us, we must be like Mozart. We maintain great discipline about our music, but at the same time, we embrace things that can allow us to make even more music. Alan M. Webber (awebber@fastcompany.com) is a founding publisher of Fast Company. Jim Collins (jimcollins@aol.com) wrote the essay Built to Flip in the March 2000 issue of Fast Company. His new book, Good to Great: Why Some Companies Make the Leap ... And others do not, will be available in October. October.

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