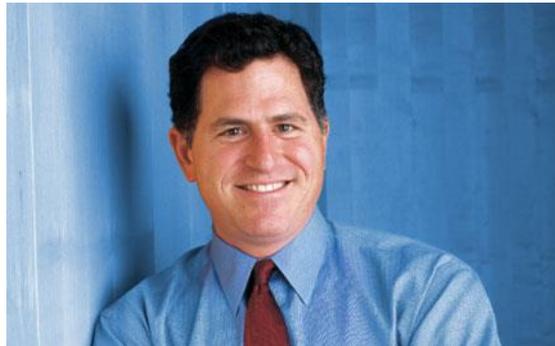


Steps to Leadership

The Center for Asia-Pacific Exchange

Before you begin

What do you think is meant by the phrase, “build a company of owners?”



DIRECT FROM DELL: STRATEGIES THAT REVOLUTIONIZED AN INDUSTRY

CHAPTER 9: BUILD A COMPANY OF OWNERS

MICHAEL DELL WITH CATHERINE FREDMAN

The following chapter comes from the book, *Direct from Dell: Strategies that Revolutionized an Industry* in which Michael Dell details his approach to managing the industry powerhouse that is Dell, Inc.

Overview of the chapter:

- ❖ Learn Voraciously
- ❖ Teach Innovative Thinking
- ❖ Encourage Smart Experimentation
- ❖ Beware the Perils of Pride

Key Terms:

Engender: to produce; cause

Shareholder: someone who owns shares or stock in a company

Quantitative: of or relating to how much there is of something

It's one thing to create a culture that works. It's another to use that culture to create a measurable strategic advantage.

At Dell, much of our success can be attributed to our people. But it's not enough to just hire well. You need to **engender** a sense of personal investment in all your employees—which comes down to three things: responsibility, accountability, and shared success.

As a manager, you know that individual “investment” is almost impossible to inspire externally—some people have it, and some people don't. It's a quality that is usually self-motivated. Unless you can develop a company of owners.

Creating a culture in which every person in your organization at every level, thinks and acts like an owner means that you need to aim to connect individual performance with your company's most important objectives. For us, that means we mobilize everyone around creating the best possible customer experience and enhancing **shareholder** value—and we use specific **quantitative** measurements of our progress toward those goals that apply to every employee's performance. A company composed of individual owners is less focused on hierarchy and who has the nicest office, and more intent on achieving their goals.

Key Terms:

Leverage: to use (something valuable) to achieve a desired result

Voracious: having or showing a tendency to consume a great amount

Procurement: the action of getting something by some action or effort

“Curiosity is encouraged because there’s no operator’s manual that contains all the answers.”

-Michael Dell

At Dell, everyone’s an owner. Here’s how and why.

LEARN VORACIOUSLY

Our people are obviously motivated by the ways we link our goals to their compensation and incentives. But more importantly, there are ways in which we work to instill ownership thinking in our people and better **leverage** their talents so they can reach their full potential. The willingness and ability to learn constantly is one of them. Let’s face it. If we took all the knowledge we had gleaned from 1993 and 1994 and said, “That’s all we need to know,” I probably wouldn’t be writing this book. But since the start of our company, we have had to learn at a **voracious** pace just to keep up. That’s no small feat, given how quickly our jobs change.

I approach learning from the standpoint of asking questions: What would make your job at Dell easier? More successful? More meaningful? What do our

customers like and not like? What do they need? What would they like to see us doing better? How can we improve? I start by asking a lot of questions and doing a lot of listening. You don’t learn anything when you’re talking. We spend a considerable amount of time opening the floor to questions at meetings, whether they’re operations reviews or business updates or team meetings. We question the very issues at hand: Why are we doing this? Why aren’t we doing that? Curiosity is encouraged because there’s no operator’s manual that contains all the answers. (And even if there were, we wouldn’t want people to rely on it.)

I recently had a meeting with our Dell team in France. Someone asked, “Why is the company so focused on servers?” I answered by explaining how the profit pool works. “Think about it as a big pool of dollars that sits in the middle of the room. Every time we run in, we get to take some of that profit pool and run out. If we sell \$1,000 PCs, we can run in as many times as we want but we don’t get to take much out. But if we sell \$10,000 servers, we can take a big handful of dollars. So, if all of you could run into the profit pool as many times as you wanted, what would you do—go after the \$1,000 PC or the \$10,000 server?”

This enabled them to relate to the concept of profit pools on a very immediate and personal level. The relevance of that example helped them “own” our server initiative and recognize that our ability to

thrive depended on their ability to understand and sell servers to our customers.

The point is to get into the guts of why things happen. Asking lots of questions opens new doors to new ideas, which ultimately contributes to your competitive edge. In our **procurement** group, for example, someone responsible for buying disk drives knows to ask the deeper questions: What is the real cost structure that underlies the disk drive industry? If I were a disk drive manufacturer, what would my cost of capital be? What are the costs of the product components? What’s my P&L? Who are my competitors? How will product ramps and technology evolution affect the cost structures? What are the economics of acquiring a customer like Dell over time? What are my incentives, and how will those motivate me to succeed? By understanding more fully the underlying economics from the standpoint of capital, supply chain, technology, and market trends, our people can make a much more informed series of decisions about the relationships we enter into.

We also learn a lot by asking the same questions in similar groups across the company and comparing the results. We do this to share the best ideas throughout our various businesses because we’re all working on the same team, toward the same goal. If one team is having great success with medium-size companies, we **cross-pollinate** their ideas around the world. If another team has figured out how to sell

Key Terms:

Cross-pollinate: to share or interchange ideas, knowledge, etc. for mutual enrichment

Holistic: relating to complete systems rather than with individual parts

Jump on the bandwagon: *idiom*, to join a person, party, cause, etc., especially one that is currently popular



Bill Gates, Bono, and Michael Dell unveiling (PRODUCT) RED laptops.

into law firms, we share their learning throughout the organization. Our best ideas can come from anywhere in the world and be shared instantly. They help us develop the broad-reaching mindset required of a global company. We exchange ideas through e-mail and the Web, and through councils where we bring different groups from around the world together to exchange information.

People have a tremendous capacity to grow and learn when stimulated by this thought process. If we don't understand the significance of some new process or some new technology that is driving our industry, if we don't understand the physics behind it and how it will affect other suppliers, we run the risk of missing important technology transitions. As a result,

we won't be equipped to make the right decisions. But if we go back and understand the root cause of why these things happen, we can make the right decisions and repeat the process in the future.

That's how you obtain truly innovative thinking.

TEACH INNOVATIVE THINKING

It is really dangerous if everyone in a company starts thinking the same way. And it can happen so easily, with everyone focused on the same goals. The danger comes when you fall into the trap of approaching problems too similarly.

You can encourage your people to think about your business, your industry, your customers innovatively. Ask a different question—or word the same question in a different way. By approaching a problem, a response, or an opportunity from a different perspective, you create an opportunity for new understanding and new learning. By questioning all the aspects of our business, we continually inject improvement and innovation into our culture.

How can we teach people to be more innovative? Ask them to approach a problem in a **holistic** sense. We start by asking our customers, “What would you really want this thing to do? Is there a different way to accomplish that?” We meet with our suppliers and ask, “Can we do this in a different way?” Then we try to come up with a totally different approach that exceeds the original objectives.

We did this in the mid-1990s when we introduced Managed PCs. At that time, the industry and media were all excited about what was presented as a brand-new product: the Network Computer, or NC. This supposedly revolutionary idea was essentially a stripped down computer without a hard disk or floppy drive. All the software applications would reside on a large server, and the NC would only allow the user to run applications and access data at the center of the network.

The NC was announced with great hype at Comdex in November 1997. Soon, many were predicting it would ultimately spell the end of the PC as we know it, and several large computer companies were **jumping on the bandwagon** to develop and introduce their own versions of NCs.

The reality is, this was not a new idea at all. It was essentially an updated version of the “dumb terminal” of the 1980s, which had a small role in the computing spectrum and was massively overshadowed by the growth of PC usage. I doubted the NC would find much greater acceptance (but we still paid attention to it because it could have posed a potential threat to our business). Most users had come to rely too intensely on their PCs as a productivity tool: To remove all the flexibility and control over installed software would be almost as bad as taking away their PC and giving them a typewriter. In addition, mobile computing was becoming more important, and without a connection to the server,

Key Terms:

Configure: to put together or set-up a computer

Information superhighway: the Internet

as on an airplane, an NC was totally useless. But customer demand for NCs was beginning to build, so I challenged our product team to understand why. What was the underlying issue the NC was trying to solve, and what would be a better solution? If we didn't address it, we would certainly leave ourselves vulnerable. It turned out that the NC provided the solution to a critical need experienced by many corporations. They needed to know how to maintain control over network standards and reduce the time and cost related to supporting users whose systems had crashed. In a way the PC had become too flexible.

Our answer was Managed PCs. These are PCs that have the features, flexibility, and power that users had come to value, with remote management capabilities that allow network administrators to **configure**, manage, and maintain hardware and software from a central location.

Today, the NC is pretty much roadkill on the **information superhighway**. But nearly every company has developed some form of Managed PCs.

Our culture despises the status quo. We try to precondition our people to look for breakthrough ideas, so that when we're confronted with

big strategic challenges, they can rise to the occasion and come up with the best solutions—fast. You must train your people to ask, on a regular basis, “How can we change the rules of the game? What can we do that no one ever thought of that enables us to achieve this goal?”

When you take the historical blinders off, it's amazing what you can accomplish. Having a history of successes based on unconventional wisdom encourages people to go for it. Fostering an environment that urges people to think like owners, in which they continually create new and different ideas, gives them the freedom and courage to take risks.

ENCOURAGE SMART EXPERIMENTATION

To encourage people to innovate more, you have to make it safe for them to fail. Many companies say that they welcome and expect innovation but also tell people, “Just don't screw up.” Failure, however, takes on many different definitions.

If a team experiments with something and says, “These are the facts. This didn't work and here's why.” that's not failure. That's a learning experience and, typically, an important milestone on the road to achieving success.

Our business is by definition full of innovation and experimentation because so many things that we try haven't ever been done before. We're facing new challenges and can't look to history because it's not relevant. Our website is a great

example. When we started to sell computers over *www.dell.com*, we had to create an operational model from the ground up. That involved assembling a team of people from various groups within the company, and organizing them around one simple question: How do we accomplish this—and fast?

We're often faced with problems that we know represent an opportunity and it's up to us to create an entire business out of it. That's the fun stuff. But we also know that if we don't do it, someone else will. We're forced to innovate to stay ahead of the competition. And when you're dealing in an industry that's changing so dynamically, there are often more unknowns than knowns.

You also need to embrace an experimental attitude in making decisions. Sometimes you can't wait for all the data to present themselves before making a decision. You have to make the best decision you possibly can based on your experience, intuition, available data, and assessment of risk. There's a guaranteed element of risk in any business, so experiment—but experiment wisely.

Back in 1987, we expanded into the United Kingdom. It was a pretty big risk for a company that had only operated in the United States, but once we succeeded there, it wasn't as big a deal to move into Canada and Germany. And once we knew that the direct model worked in those countries, it was logical to extend that to Sweden, France, and

Key Terms:

Status quo: the existing state or condition

Ingrain: to implant or fix deeply and firmly, as in the nature or mind

Meritocracy: a system where a person's progress is based on ability and talent rather than on class privilege or wealth

Eclipse: to make less outstanding or important by comparison; surpass

Proprietary: belonging or controlled as property



Japan. If you're smart about experimenting, it can lead to strategies that create new avenues of growth and ultimately become "business as usual."

We have deliberately shaped our culture to accept continual "course corrections" on the learning curve because in order to thrive, we need an environment in which people feel it's okay to experiment.

Because we believe that people can learn from mistakes, we want them to feel good about trying something that's a little out of the ordinary with the goal of achieving something wonderful. It should be your goal to encourage experimentation in your people and, as a company, to experiment smarter than you ever have before.

BEWARE THE PERILS OF PRIDE

If you accept the **status quo** as "good enough," you're managing in a rearview mirror. And in this economy, you can bet you will end up smashing right into the future. Just to stay competitive, you have to constantly question everything you do.

Challenging the current state of affairs ensures that you don't get too wrapped up in your success. By now, self-criticism is **ingrained** in the Dell culture—we're always ready to question our own ideas, looking for ways things can be improved. We try to model this behavior from the top down. We hire for, and develop, leaders who are openminded and can accept being disagreed with publicly or corrected when they've got their facts wrong. This helps promote open debate and encourages an intellectual **meritocracy**.

We try to avoid being too proud of our accomplishments. Some could argue that in certain areas, we've already set the benchmark. I'd like to think there are always ways to improve what we do. If we start to think we've made it, we're just setting ourselves up to be **eclipsed** by someone else.

It's not that pride in and of itself is a bad thing—it's wonderful to be proud of what you do every day and the company you do it for. Our people put a great deal of energy into the things that ultimately become the big accomplishments in our business; acknowledging their achievements reinforces the value that they bring to our company and

emphasizes how much we appreciate their efforts.

But when taken too far, pride can create a false sense of security. Feeling invincible, people can assume that success begets success with little new effort—or even worse, that success happens all by itself. They can become blind to important trends or opportunities that are literally right in front of them. They can stop trying to find ever better new ways of doing things and may become oblivious to emerging threats. You would think that being featured on the cover of *Fortune* was a great achievement, but I'm quick to remind our team that in 1986 *Fortune* put a big, smiling picture of Digital Equipment's CEO, Ken Olsen, on the cover with the caption, "America's most successful entrepreneur: Ken Olsen." Since then, Digital's stock fell from about \$200 a share to \$20, then increased to \$56 a share before they were acquired by Compaq—in part because the company never successfully made the move from a centralized **proprietary** computing model to a model based on industry standards.

Being on the cover of *Fortune* doesn't guarantee you anything.

It's easy to fall in love with how far you've come and how much you've done. It's definitely harder to see the cracks in a structure you've built yourself, but that's all the more reason to look hard and look often. Even if something seems to be working, it can always be improved.

Comprehension Questions

1. In addition to hiring the right people, what is also needed to ensure successful employees?
2. How does Michael Dell approach learning?
3. How can we create an opportunity for new understanding of a problem?
4. What must be done to encourage people to innovate more?
5. What happens when pride is taken too far?

Reflection Questions

1. What do you think of Michael Dell's idea of a "company of owners?" Do you agree or disagree and why?
2. As Dell writes, "failure ... takes on many different definitions." Dell used failure as a stepping stone to innovate better products. What is your definition of "failure?" Has your definition changed after reading this article?

Source and Additional reading for those interested:

Biography of Michael Dell from Biography.com (<http://www.biography.com/people/michael-dell-9542199>)

Michael Dell: Taking the Direct Approach from Entrepreneur Magazine (<https://www.entrepreneur.com/article/197566>)

Direct from Dell: Strategies That Revolutionized an Industry by Michael Dell and Catherine Fredman