GUTS

8 Laws of Business from One of the Most Innovative Business Leaders of Our Time

ROBERT A. LUTZ

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This book is dedicated to the two men who have had the profoundest impact on my life.

Robert H. Lutz, my father, mentor, critic, and coach, who continued to teach me until his death at age 94.

Colonel John C. ("Jack") Vernon, Jr., USMC (retired), my best friend, recently deceased. A fine officer, superb pilot, honest and caring attorney, a role model of courage and integrity.

AUTHOR'S NOTE

Several of the best legal minds of our time, knowing my unsurpassed gift for inciting controversy (or in layman's terms, for putting my foot in it), have suggested I might want to preface my remarks at the earliest opportunity with a small disclaimer of some sort. This is it: The opinions here expressed aren't anyone's but mine. Keep in mind, please, before you get too comfortable, that diplomacy has never been my strong suit. When confronted by a spade, I don't say, "nice shovel." So buckle up tight, then, and we'll motor on.

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PART III

Lutz's Corollaries, or "The *Rest* of the Story!"

INTRODUCTION

It's been an eventful five years since I wrote *Guts,* and a lot has happened to the world, to America's sense of security, to the self-confidence of American business, and last but not least, to me personally.

The five years have seen the rise and fall and rise again of the new DaimlerChrysler, the Trade Center and Pentagon atrocities, the explosion of the space shuttle *Columbia,* the collapse of the pyramid-scheme-like dot-com revolution (and with that, a blessed end to a gabbling about a "new economy"), and much, much more.

Personally, I left the soon-to-be-blended DaimlerChrysler in July 1998 at age 66, feeling curiously unsuited to a life of ease. "Wait a minute," my reasoning went, "don't push me out now; it's taken me longer than I'd like to admit to figure this business out, and I'm finally getting it." It was a thought directed less at DaimlerChrysler than at a world that tends to measure age only chronologically.

Thus, it came as almost a relief to be asked to lead Exide, the world's largest maker of lead-acid batteries and one of Chrysler's main battery suppliers. At the time I came aboard, Exide's first name in the media was "troubled." Mismanagement, dishonest accounting, excessive debt, questionable business practices, and a leadership team that ultimately was sent to prison had left the company in a dismal state. Still, I reasoned, how complicated could these problems be to fix? Compared to Chrysler, Exide was small, its product less complex.

Wouldn't my experience and proven leadership skills carry the day once again?

Someday, when Fox television invents a show called *When Hubris Attacks*, they can tell the story of my unsuccessful efforts to save Exide. Despite my best efforts, the company succumbed to Chapter 11. The disappointment prompted both a personal reassessment and a questioning of my original Seven Laws. Which had served me well? Which had not? What new truths had I discovered that might be turned into new laws?

Law #1, "The Customer Isn't Always Right," is as valid as ever. Truly pleasing the customer means going beyond his or her stated wishes and creating products or services that are new, unique, maybe even controversial—doing much more, in other words, than slavishly interpreting market research. (But be careful of Law #4—"Too Much Quality Can Ruin You.")

Law #2, "The Primary Purpose of Business Is Not to Make Money," is still equally valid. I suppose it's a somewhat more elegant way of saying, "Short-term greed is bad." It's as true as ever that a venture created purely to make money or maximize short-term shareholder value will not endure against competitors who are passionate about their product or services or whose goal is to build a positive reputation by increasing customers' delight.

"Ah!" The astute reader will say, "but what about the greed-generated fortunes that were made during the dot-com bubble by those who got out before the bubble popped?" My answer is twofold: (1) We suffer from an imperfect system that sometimes rewards mere good luck and market manipulation. (2) Most firms born of the bubble ultimately exploded, leaving not even a ripple behind, which only proves the law.

The attitude of Exide's old management provides an excellent case in point: Their single-minded drive to make money resulted in substandard quality, deceit, civil lawsuits, a federal investigation, conviction, and, happily, sentencing of the guilty.

Next we have Law #3, "When Everybody Else Is Doing It, Don't!" I'm a bit embarrassed about this one, because at least one example of (I thought) wrongfully "following the herd" turned out to be exactly the right thing to do. I'm referring to auto companies' making major investments in China, which had assumed fad status in the mid- to late 1990s, only to look less smart when I wrote the book. GM was one of the companies that joined the original rush, and, after a few less-than-golden years, it's now reaping the benefits of being in on the ground floor of a vital automotive market. Oh, well! Still, even if my batting average on this one was way below 1,000, it's still a good law, because there are many fads out there waiting to bankrupt the gullible. Perhaps a decent respect for Law #3 will protect the unwary from rushing, say, into the next Internet-enabled home-delivery food scheme—a killer ap, perhaps, for tuna sandwiches.

How about Law #4, "Too Much Quality Can Ruin You"? I never liked that title, but was persuaded to use it because it sounds provocative. Many people who read only the table of contents e-mailed messages to me such as, "No wonder Japanese cars are better when you, as a senior American automotive executive, don't believe in quality!" Well, of course, I do believe in it. But I also learned, from the Japanese themselves, the concept of "wasteful quality." Anything that makes a product or service unnecessarily complicated, expensive, or user-unfriendly, is waste, no matter how well intended it may be.

Dare I mention, in this context, the dreaded BMW i-drive—a mouselike, multiaxis knob that "permits" the driver to perform over 700 "functions" while trying to steer an otherwise excellent car? I'm sure BMW didn't set out to alienate or befuddle customers or the world's automotive press. They thought they were adding real quality. They weren't. They were (and here I'll invoke an old phrase that means the same thing as Law #4) gilding the lily!

Law #5, "Financial Controls Are Bad!" is another deliberate overstatement that was meant to capture the reader's attention, only to be misunderstood in the worst possible way by the index scanners. I received e-mail from former bosses hinting darkly that they had suspected all along my true leanings toward unfettered fiscal irresponsibility. Maybe, based on another five years of observation, I'd change this law to read, "Be Careful What You Measure," since measuring the wrong thing invariably promotes the wrong behavior. If, for example, a manufacturing system measures only "workerhours per unit produced," and if it links rewards to lowering that number, people will drive toward that goal even if by so doing they add bottom-line cost to the product. "Hey!" your folks will say, "nobody asked about total cost; the focus is on hours per unit, and I'm going to make my target."

There's a restaurant in the northern part of Ann Arbor that, to protect the guilty, we'll call "Roasters." The real name is close. It's part of a chain, managed by a group of leaders who measure. And one of the key "quality metrics" they track is how long a customer has to sit at a table before his or her order is taken. The target time is two minutes, and the Ann Arbor employees hit it, big-time! They keep patrons standing in a fenced-off bullpen until tables are available and set. Only when a waitress (excuse me, server) is ready to hand out menus do the standing customers get to sit. Thus the key quality metric is met, and the local manager probably gets a nice recognition. But what about the customer? It's not that controls—financial or otherwise—are bad. It's that an obsession with measuring the wrong thing leads to disaster (or, in this case, flat feet). According to Law #6, "Disruptive People Are an Asset." Yes, they often are. But the system may see things differently, and weed those people out. I didn't think, when I wrote that law, that I'd have new chances to be disruptive (or be forced, again, to pay the price!). But I was wrong.

For many years, I had been a member of the Advisory Board of the Haas School, the University of California at Berkeley's graduate school of business administration. It's my alma mater. I had served loyally under a variety of administrations and enjoyed the company of the faculty and the successful, seasoned cream of the school's alumni who also served on the board. But, in 1999, what's this? I attended a meeting where all the old faces and well-tailored suits, the air of deserved, carefully nurtured achievement were gone, replaced by eager, youthful faces, some barely used to shaving (and others who had eschewed that practice altogether). They tossed around phrases like "minimize time to IPO" and "focus on entrepreneurship" and "changing the business education paradigm." I suddenly felt really old. And completely out of it.

My beloved Haas School, it appeared, was into wholesale pandering to the new economy of the "ten-by-thirty" ($10 million by the time I'm 30) ethic. My transparent disapproval only reinforced everyone's belief that this tragic old fossil (me), this sad reminder of an earlier time, had outlived his usefulness. On the plane returning to Detroit, I crafted a heartfelt letter of resignation to the then president of the Haas School, the Honorable Laura d'Andrea-Tyson, which I reproduce in part:

> Thank you for your note. . . (it) did remind me that I wanted to tender my resignation at this time, for reasons not related to financial considerations. First, the logistics are very difficult for someone living and working "back East," and the meetings do take at least two days out of my "normal" job of turning Exide around. Second, the last meeting reinforced a gnawing and growing feeling that I'm really out of touch with where the Haas School emphasis appears to be right now, namely on churning out e-commerce, dot-com start-up entrepreneurs who all want to be worth $10 million at age 30. I realize from my board service at SGI that this is the "Valley Culture," and Stanford is doing it, and it's the "hot ticket" right now, and you have to be "customer responsive." My problem, I suppose, is one of age and experience. I grew up in a culture where we actually designed and engineered things, then made and sold them, hopefully adding a lot of value along the way for both consumers and shareholders.
>
> How much real value-added will remain when the e-bubble deflates remains to be seen. I remember other Haas School (then UC Berkeley Graduate School of Business) infatuations, such as "Asian Studies," where every department seemed to fall all over itself trying to be more Japanese than their peers. It was seriously explained to me at the time that California, economically, was no longer part of the United States, but rather an integral link in the great and ever-growing "Pacific Rim" system; that Industrial America, in manufacturing such things as automobiles, was in irreversible decline, and that the death of the nation's "rust belt" would be of little concern or consequence to California, given it's new economic affiliation with Japan. Needless to say, that fad is no longer "operative."
>
> Again, I'm not being critical; it's just that I feel not that Haas is out of step with me, but that I (an unreconstructed, rust-belt, manufacturing-oriented moss-back) am totally out of step with the fast moving

> and, in my judgment, overhyped dot-com world. Besides, I've been on the advisory board for a long time and it's unquestionably time for a newer face.

My resignation was (gratefully?) accepted. But, shortly thereafter, the whole new-economy, dot-com, ten-by-thirty, overhyped mess collapsed, and the Haas School was left with a paradigm that wasn't worth 20 cents. I was invited back to the board, because my "vast experience and deep insights" were missed. I couldn't accept, for a lot of reasons, but the lesson was clear: If you say what you truly believe, and you say it out of love for the organization you serve, you are sometimes rewarded—and sometimes not! Also, you're never too old to be too disruptive!

"Teamwork Isn't Always Good," Law #7, is one totally, universally applicable law that will always stand the test of time. Teamwork is only the answer if it is driven by strong leaders who establish clear goals for the team's activities and demand performance. Otherwise, it's a social activity masquerading as work.

And that brings me to the corollaries, or, perhaps, the lesser laws, beginning with, "It's Okay to Be Anal Sometimes." I might be tempted to modify that to, "You Must Be Anal Enough to Ensure High Quality." It's a sad fact that we, in this country, are too often satisfied with things that do the job but are seriously wanting in the little details. May I mention the nation's air carriers here? The airlines do, it must be admitted, get the traveler from A to B, but no more gracefully or smoothly than would a mule. How many of us now, when driving on our nation's highways, simply accept pothole-filled roads as just the way it is? Or light switches on a conference room wall that are all at different levels and have different faceplates? (What's the big deal? They work, don't they?) Well, yes, and so do groups of pictures that hang at slightly different levels and angles: They still manage to depict persons and scenes. Yet they also send one explicit, overriding message: "We don't really care how things feel or look around here, Pal; we don't care about the niceties. We're giving you function, period!" That might be an acceptable attitude, were it not for the fact that the Germans, Japanese, and Koreans are cleaning our clocks daily with perfection—with products and services that really are perfect.

Have you ever seen anything more precise than the way a trained sushi chef lays out sliced sashimi on a platter? "Trifles make perfection," said that great authority on customer satisfaction, Oscar Wilde. "And perfection is no trifle."

I would add little to the corollary, "A Little Fear, in Reality, Ain't All That Bad," because, while a good leader tries to coach and motivate, the sting of accountability also must be present. Popularity contests won't win wars. Leaders will.

As for "Leadership Is All about Common Sense, Which Unfortunately, Is Not All That *Common,*" it's a corollary that still speaks for itself. I thought I had the common sense thing down pat, but when I arrived as the new CEO of "troubled Exide," I made the mistake of thinking that the situation would respond to the same logic and motivation/communication/coaching methodology that had served me so well in the past.

In fact, it required more draconian measures, administered with more urgency. Real progress in cleaning up the fundamentals speeded up considerably with the arrival of Craig Muhlhauser, who had "disruptive-peopled" himself out of the top job at automotive supplier Visteon. The experience prompted me to posit a new leadership subcorollary: "When you inherit a really big rats' nest, don't try to lure them out with food. Use a flamethrower!"

"Some Squeaky Wheels Don't Get the Grease, or Pros and Cons of Being a Change Agent" is still a valid corollary to "Disruptive People Are an Asset." If you're a change agent, the system will sometimes react like a healthy immune system, encapsulating and ultimately rejecting you, the annoying virus. I've been that virus!

All in all, I'm quite pleased with how well my Seven Laws and their corollaries are holding up. Are they immutable? No. Can they be considered generally reliable? Yes. As I note in the new epilogue to this book, continuing adventures at DaimlerChrysler, BMW, Renault, GM, and other companies give almost daily proof of their utility, even of their sagacity. Hey, somebody's got to be right! It might as well be me. Now read on.

FOREWORD

Bob Eaton
Former Chairman and CEO, Chrysler Corporation

This book is full of contradictions because Bob Lutz has never been hobbled by a slavish concern with consistency. With a martini in one hand and a cigar in the other, he will wax passionate on the blessings of vegetarianism. He's deeply upset that our schools today will tolerate students who behave like he once did. Largely responsible for a monumental transformation in the way Chrysler develops, builds, and markets its products, Bob has a healthy skepticism about what he calls "unexamined change." He's a curmudgeon about casual dress at the office, but trusts the gut instincts of the bedenimed creative types before the numbers and charts of buttoned-down analysts.

Mavericks like Bob Lutz stand out in industries like the car business that revere predictability. Profitably mass-producing automobiles requires highly disciplined engineering and manufacturing processes, financial controls, marketing strategies, and other business practices. And in spite of some of the impressions he might leave in this book, Bob is a disciplined Marine who knows how the system has to work, and respects it. First and foremost, that's why he was so effective at Chrysler in helping to change that system, even getting it to accept something as outrageous as a Viper.

In the auto industry, as with most others, you don't have the luxury of breaking a system in order to fix it. That's the easy way. Instead, changes have to take place on the fly. The unique management theories embodied in "Lutz's Laws" can help guide executives through the difficult change process that someone in our company once compared to rewiring a 747 in flight.

It always made me nervous to hear him say in speeches that "the customer isn't always right," "too much quality will ruin you," and "teamwork isn't always good." Fortunately, the press *usually* allowed him to explain himself, and the explanations, as you'll see, are simply judicious doses of common sense applied to some of the business world's more perfunctory platitudes. When he writes that "disruptive people are an asset," he's talking about people like himself who challenge conventional thinking—not to be difficult, but to be sure it's still relevant.

Bob's last six years at Chrysler were undoubtedly the most creative period in the company's history. The platform team concept took root and blossomed. We introduced more all-new cars and trucks in the nineties than in the previous two decades. We won one award after another for the design and execution of our cars and trucks. We became the acknowledged world leader in developing exciting vehicles, and doing it faster than anyone else. And, to prove the point that Bob makes in his chapter "The Primary Purpose of Business Is Not to Make Money," we made more money than in all the previous six decades of Chrysler's existence put together.

Chrysler has a rule that requires executives to retire at 65. We broke it for Bob and gave him the title of Vice Chairman, which he immediately changed to "coach." During his final 18 months, he would attend our major meetings, lean way back in his chair, mouth the ever-present cigar (unlit, in compliance with company policy), and blow imaginary smoke rings. He spoke as often as before, but always as a coach.

This is his playbook.

July 1, 1998

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First-time authors are, I suspect, overwhelmed (as I was) at the complexity of the job of getting a book written and published. It would have been impossible for me without the dedicated help of many people, too numerous to list. Some, though, stand out for the magnitude of their contribution. In no particular order, they are:

T. Quinn Spitzer, Jr., former Chairman of the Board of Kepner-Tregoe, Inc., who originally said, "You should write a book," hounded me until I said "yes," and then helped me find a collaborator and publisher.

Alan Farnham, author, former *Fortune* magazine contributing editor, and currently a senior editor at *Forbes* magazine, who, as my creative partner, not only helped turn my often-wooden prose into language people might actually want to read, but shepherded this book from proposal to finished manuscript.

Timothy L. Yost, a fine writer in his own right, who, through generous contributions of his personal time and intellect, played an indispensable role in this project. As the person who, among other things, helped me write many, many speeches over the years, it long ago became difficult to distinguish his intellectual contributions from my own.

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Steven J. Harris, Vice President, Communications, General Motors, at the time of writing in the same position at Chrysler. PR people normally start to worry when anyone other than the CEO of a company decides to write a book. Steve may have cringed over some of the content, but supported my effort anyway.

Other of my erstwhile Chrysler colleagues, including (in alphabetical order): Dan Bodene, Julianne Butkus, Joe Guy Collier, Josh Davidson, Derek Fiebig, Barbara Fronczak, Thom Gillis, Ken Gluckman, Steve Hantler, Peter Hollinshead, Rick Houtman, Van Jolissaint, James Kenyon, Carol Lieber, Cindy Marasco, Mike Morrison, Bill Stewart, and Patrick White.

And last, but not least, my wife, Denise S. Lutz, who always provided support, advice, encouragement, love, and understanding when I was robbing her and all the kids and animals of quality time.

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