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Leverage That Matters: achieving 3x to 6x to 10x more

by Tim Pearson

Leverage matters. When the Russians arrived in Alaska in 1741 they were after sea otters. They knew that the dense silky fur of the sea otter, known as "soft gold," was prized by the Chinese, who in turn had the black tea prized by the Russians. The result was the birth of Russia's empire in America, which lasted for 120 years – four times longer than Alaska's current oil-based economy. What's interesting is that the technology for capturing the sea otter was based on leverage -- the ancient Aleut and Alutiiq throwing board or atlatl, pronounced "ott-lottle."

The throwing board is still used today by seal hunters in St. Michael, Alaska. An arrow rests on top of the board, with the base of the arrow fitting into the hooked end of the board. The hunter then swings the board and the arrow, letting the board propel the arrow to its target. It takes an hour's worth of practice to get the hang of the swing, but it's intuitive – in the genes so to speak, since in prehistoric times, throwing boards were used globally before the invention of the bow and arrow.

Leverage is power. The leverage of the throwing board on the arrow results in three times the velocity, six times the distance, and ten times the force of impact over throwing the arrow by hand. An atlatl-powered arrow has more impact than a bullet fired from a .357-caliber Magnum. According to Kenneth Tankersly, a professor of anthropology at the State University of New York, "It can penetrate a car door."

So, what does leverage mean for business? Two recent books are noteworthy:

In Good to Great: why some companies make the leap . . . and others don't, (Oct. 2001) Jim Collins summarizes the results of five years of research into what transforms a good company into a great company (www.jimcollins.com). He looked at 1,435 companies to determine companies that generated cumulative stock returns over 15 years that exceeded the general stock market by at least three times – independent of the industry. Eleven companies averaged returns 6.9 times greater than the market – in fact, twice the performance of GE under Jack Welch. (examples: Abbot Laboratories, Fannie Mae, Nucor Corp., Wells Fargo.) What made the difference?

--**Great companies have the discipline of direction and the leverage of the fly-wheel**: people company-wide push in the same direction until momentum (mass times velocity) kicks in and speed builds.

--**Great companies put the "who" before the "what"** – it's about "getting the right people on the bus, the wrong people off the bus and the right people in the right seats."

--**Great companies have Level 5 leaders** – these are leaders whose ambition is for the greatness of the work and the company, rather than for themselves. They are low-key, but their leadership lasts.

Collin's bottom line in a tough economy: "If I were running a company today, I would have one priority above all others: to acquire as many of the best people as I could. I'd put off everything else to fill my bus. Because things are going to come back. My flywheel is going to turn. And the single biggest constraint on the success of my organization is the ability to get and to hang on to enough of the right people."

That leads us to The War for Talent, (Oct. 2001) written by Ed Michaels, Helen Handfield-Jones, and Beth Axelrod, three McKinsey & Company consultants who updated their influential 1997 survey of 6,900 executives at 56 companies with new research on 13,000 executives at 120 companies. They wanted to determine what enables a company to attract and retain the top talent. Their findings:

--The talent war has intensified: 89% of their respondents say recruiting is harder now than three years ago, not surprising since the supply of 35- to 44-year-olds is dropping.

--Companies are becoming less effective in responding to the talent gap: Only 14 percent of the managers in last year's survey (as opposed to 23 percent in 1997) strongly agreed that their companies attract highly talented people.

--But great talent still brings great returns: According to 410 corporate officers, the return of high performers over average performers is 40% more in operations roles, 49% in general management roles and 67% in sales roles.

The McKinsey consultants' key recommendations:

--Develop a talent mindset: Senior management of the top performing companies had deepening of the talent pool as one of their top three company goals.

--Rebuild your recruiting strategy: "Paying an additional 40 percent to hire an A player could yield an overall return of 100 percent or more in a single year."

--Differentiate and affirm your people: "Invest in your A players (the top 20%); develop your B players; and act decisively on your C players."

Leveraging people matters. In the days of Russian America, a single sea otter pelt was worth three years of a man's salary and profits were spectacular – a 100% mark-up on average. Alaska's wealth helped to stimulate the creation of the empire of Catherine the Great and the Tsars. But the Russians couldn't have done it without the Aleut and Alutiiq peoples – they, not the Russians, were the ones skilled with the throwing boards. Leverage – a little goes a long ways.

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