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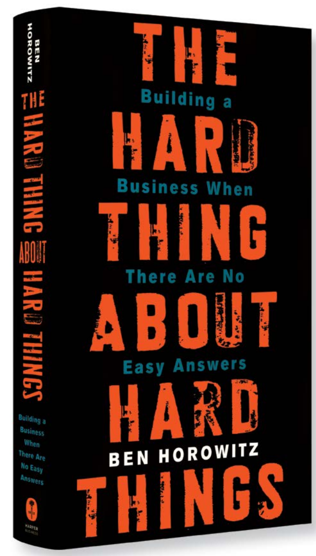
Entrepreneurship

The Hard Thing About Hard Things

Building a Business When There Are No Easy Answers



by Ben Horowitz

THE SUMMARY IN BRIEF

While many people talk about how great it is to start a business, very few are honest about how difficult it is to run one. In *The Hard Thing About Hard Things*, Ben Horowitz, cofounder of Andreessen Horowitz and one of Silicon Valley's most respected and experienced entrepreneurs, offers essential advice on building and running a startup — practical wisdom for managing the toughest problems business school doesn't cover, based on his popular "Ben's Blog."

Horowitz analyzes the problems that confront leaders every day, sharing the insights he's gained developing, managing, selling, buying, investing in and supervising technology companies. He also amplifies business lessons by telling it straight about everything from firing friends to poaching competitors, cultivating and sustaining a CEO mentality to knowing the right time to cash in.

Filled with Horowitz's trademark humor and straight talk and drawing from his personal and often humbling experiences, *The Hard Thing About Hard Things* is invaluable for veteran entrepreneurs as well as those aspiring to their own new ventures.

IN THIS SUMMARY, YOU WILL LEARN:

- Techniques for navigating the struggle of being a leader.
- The right way to hire and the right way to lay people off.
- Why you should take care of the people, the products and the profits, in that order.
- How to lead even when you don't know where you're going.

CONTENTS

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THE COMPLETE SUMMARY: **THE HARD THING ABOUT HARD THINGS**

by Ben Horowitz

The author: Ben Horowitz is the cofounder and general partner of Andreessen Horowitz, a Silicon Valley-based venture capital firm that invests in entrepreneurs building the next generation of leading technology companies. The firm's investments include Airbnb, GitHub, Facebook, Pinterest and Twitter.

The Hard Thing About Hard Things: Building A Business When There are No Easy Answers by Ben Horowitz. Copyright 2014 by Ben Horowitz. Summarized by permission of the publisher, HarperBusiness. 304 pages, $29.99, ISBN 978-0-06-227320-8. To purchase this book go to www.amazon.com or www.bn.com. Summary Copyright © 2014 by Soundview Executive Book Summaries®. www.summary.com, 1-800-SUMMARY. For additional information on the author, follow him on Twitter @bhorowitz, or read his blog at www.bhorowitz.com.

Introduction

Every time I read a management or self-help book, I find myself saying, "That's fine, but that wasn't really the hard thing about the situation." The hard thing isn't setting a big, hairy, audacious goal. The hard thing is laying people off when you miss the big goal. The hard thing isn't hiring great people. The hard thing is when those "great people" develop a sense of entitlement and start demanding unreasonable things. The hard thing isn't dreaming big. The hard thing is waking up in the middle of the night in a cold sweat when the dream turns into a nightmare.

The problem with those books is that they attempt to provide a recipe for challenges that have no recipes. There's no recipe for really complicated dynamic situations. There's no recipe for building a high-tech company; there's no recipe for leading a group of people out of trouble; there's no recipe for running for president; and there's no recipe for motivating teams when your business has turned to crap. That's the hard thing about hard things — there is no formula for dealing with them.

Nonetheless, there are many bits of advice and experience that can help with the hard things.

When Things Fall Apart

People always ask, "What's the secret to being a successful CEO?" Sadly, there is no secret, but if there is one skill that stands out, it's the ability to focus and make the best move when there are no good moves. It's the moments where you feel most like hiding or dying that you can make the biggest difference as a CEO.

The Struggle

Every entrepreneur starts a company with a clear vision for success. You will create an amazing environment and hire the smartest people to join you. Together you will build a beautiful product that delights customers and makes the world just a little bit better. It's going to be absolutely awesome.

Then, after working night and day to make your vision a reality, you wake up to find that things did not go as planned. Your company did not unfold like you planned. Your product has issues that will be very hard to fix. The market isn't quite where it was supposed to be. Your employees are losing confidence, and some of them have quit. Where did you go wrong?

As your dreams turn into nightmares, you find yourself in *the Struggle*. The Struggle is when you wonder why you started the company in the first place. The Struggle is when people ask you why you don't quit, and you don't know the answer. The Struggle is when your employees think you are lying, and you think they may be right. The Struggle is when you know that you are in over your head, and you know that you cannot be replaced. The Struggle is not failure, but it causes failure. Especially if you are weak.

The Struggle is where greatness comes from.

There is no answer to the Struggle, but here are some things that might help:

Don't put it all on your shoulders. You won't be able to share every burden, but share every burden that you can. Get the maximum number of brains on the problems even if the problems represent existential threats.

This is not checkers; this is chess. Technology businesses tend to be extremely complex. The underlying

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technology moves, the competition moves, the market moves, the people move. As a result, there is always a move.

Play long enough and you might get lucky. In the technology game, tomorrow looks nothing like today. If you survive long enough to see tomorrow, it may bring you the answer that seems so impossible today.

Don't take it personally. The predicament that you are in is probably all your fault. You hired the people. You made the decisions. But evaluating yourself and giving yourself an F doesn't help.

Remember that this is what separates the women from the girls. If you want to be great, this is the challenge. If you don't want to be great, then you never should have started a company.

CEOs Should Tell It Like It Is

As the highest-ranking person in the company, you think that you are best able to handle bad news. The opposite is true; nobody takes bad news harder than you. If things go horribly wrong, others can walk away, but you can't. As a consequence, employees handle losses much better.

There are three key reasons why being transparent about your company's problems makes sense:

Trust. Without trust, communication breaks. As a company grows, communication becomes its biggest challenge. Telling things as they are is a critical part of building this trust. A CEO's ability to build this trust over time is often the difference between companies that execute well and companies that are chaotic.

The more brains working on the hard problems, the better. In order to build a great technology company, you have to hire lots of incredibly smart people. It's a total waste to have lots of big brains but not let them work on your biggest problems.

A good culture is like the old RIP routing protocol: Bad news travels fast; good news travels slow. If you investigate companies that have failed, you will find that many employees knew about the fatal issues long before those issues killed the company. Too often the company culture discouraged the spread of bad news, so the knowledge lay dormant until it was too late to act.

If you run a company, you will experience overwhelming psychological pressure to be overly positive. Stand up to the pressure, face your fear and tell it like it is.

The Right Way to Lay People Off

How can you do something that's fundamentally wrong in "the right way"?

Step 1: Get Your Head Right. When a company fails to hit its financial plan so severely that it must fire the employees it went to great time and expense to hire, it weighs heavily on the chief executive. During a time like this, it is difficult to focus on the future, because the past overwhelms you — but that's exactly what you must do.

Step 2: Don't Delay. Once you decide that you will have to lay people off, the time elapsed between making that decision and executing that decision should be as short as possible. If word leaks (which it will inevitably if you delay), then you will be faced with an additional set of issues. Employees will question managers and ask whether a layoff is coming. If the managers don't know, they will look stupid. If the managers do know, they will either have to lie to their employees, contribute to the leak or remain silent, which will create additional agitation.

Step 3: Be Clear in Your Own Mind About Why You are Laying People Off. You are laying people off because the company failed to hit its plan. If individual performance were the only issue, then you'd be taking a different measure. This distinction is critical, because the message to the company and the laid-off individuals should not be "This is great, we are cleaning up performance." The message must be "The company failed and in order to move forward, we will have to lose some excellent people."

Step 4: Train Your Managers. The most important step in the whole exercise is training the management team. Training starts with a golden rule: Managers must lay off their own people. Why? Because people won't remember every day they worked for your company, but they will surely remember the day you laid them off. They will remember every last detail. The reputations of your company and your managers depend on you standing tall, facing the employees who trusted you and worked hard for you.

Step 5: Address the Entire Company. Prior to executing the layoff, the CEO must address the company. The CEO must deliver the overall message that provides the proper context and air cover for the managers. Keep in mind what former Intuit CEO Bill Campbell said — The message is for the people who are staying. The people who stay will care deeply about how you treat their colleagues.

Step 6: Be Visible, Be Present. After you make the speech telling your company that you will be letting many of them go, you will not feel like hanging out and talking to people. You will probably feel like going to a bar and drinking a fifth of tequila. Do not do this. Be present. Be visible. People want to see you. They want to see whether you care. Talk to people. Let them know that you appreciate their efforts.

Preparing to Fire an Executive

When you recruit an executive, you paint a beautiful picture of her future in your company. You describe in great depth and in vibrant color how awesome it will be for her to accept your offer and how much better it will be than joining that other company. Then one day you realize you must fire her. The key to correctly firing an executive is preparation. Here is a four-step process that will treat the executive fairly and improve your company.

Step 1: Root Cause Analysis. At this level, almost every company screens for the proper skill set, motivation and track record. Therefore, the first step to properly firing an executive is figuring out why you hired the wrong person for your company. You may have blown it for a variety of reasons:

- You did a poor job defining the position in the first place.
- You hired for lack of weakness rather than for strengths.
- You hired for scale too soon.
- You hired for the generic position.
- The executive had the wrong kind of ambition.
- You failed to integrate the executive.

Once you identify the problem, then you create the basis for the next steps.

Step 2: Informing the Board. You should have three goals with the board:

Get their support and understanding for the difficult task that you will execute. You should start by making sure that they understand the root cause and your plan to remedy the situation. This will give them confidence in your ability to hire and manage outside executives in the future.

Get their input and approval for the separation package. This will be critical for the next step. Executive packages are larger than regular severance packages and rightly so. It takes about ten times longer for an executive to find a new job than it does for an individual contributor.

Preserve the reputation of the fired executive. The failure was very likely a team effort, and it's best to portray it that way. You don't make yourself look good by trashing someone who worked for you. A mature approach to this issue will help keep the board confident in your ability to be CEO. It is also the fair and decent thing to do.

Step 3: Preparing for the Conversation. After you know what went wrong and have informed the board, you should tell the executive as quickly as possible. Three keys to getting it right:

1. **Be clear on the reasons.** You have thought about this long and hard; don't equivocate or sugarcoat it. You owe it to them to be clear about what you think happened.
2. **Use decisive language.** Do not leave the discussion open-ended. This is not a performance review; it's a firing. Use words and phrases like "I have decided" rather than "I think."
3. **Have the severance package approved and ready.** Once the executive hears the news, she will stop caring about the company and its issues; she will be highly focused on herself and her family. Be ready to provide specific details of the package.

Finally, the executive will be keenly interested in how the news will be communicated to the company and to the outside world. It is best to let her decide.

Step 4: Preparing the Company Communication. After you have informed the executive, you must quickly update the company and your staff on the change. The correct order for informing the company is (1) the executive's direct reports — because they will be most impacted; (2) the other members of your staff — because they will need to answer questions about it; and (3) the rest of the company. All of these communications should happen on the same day and preferably within a couple of hours.

When you update the company, you might worry about employees misinterpreting the news and thinking the company is in trouble. Do not try to maneuver around such a reaction. When you expect your employees to act like adults, they generally do.

Every CEO likes to say she runs a great company. It's hard to tell whether the claim is true until the company or the CEO has to do something really difficult. Firing an executive is a good test.

Take Care of the People, the Products and the Profits, in That Order

My old boss Jim Barksdale was fond of saying, "We take care of the people, the products and the profits — in that order." It's a simple saying, but it's deep. "Taking care of the people" is the most difficult of the three by far, and if you don't do it, the other two won't matter. Taking care of the people means that your company is a good place to work. As organizations grow large, important work can go unnoticed, the hardest workers can get passed over by the best politicians, and bureaucratic processes can choke out the creativity and remove all the joy.

A Good Place to Work

When things go well, the reasons to stay at a company are many:

- Your career path is wide open because as the company grows, lots of interesting jobs naturally open up.
- Your friends and family think you are a genius for choosing to work at the "it" company before anyone else knew it was "it."
- Your resume gets stronger by working at a blue-chip company in its heyday.
- Oh, and you are getting rich.

When things go poorly, all those reasons become reasons to leave. In fact, the only thing that keeps an employee at a company when things go horribly wrong — other than needing a job — is that she likes her job.

Things always go wrong. There has never been a company in the history of the world that had a monotonously increasing stock price. In bad companies, when the economics disappear, so do the employees. Being a good company doesn't matter when things go well, but it can be the difference between life and death when things go wrong. If you do nothing else, build a good company.

Why Startups Should Train Their People

Almost everyone who builds a technology company knows that people are the most important asset. Properly run startups place a great deal of emphasis on recruiting and the interview process in order to build their talent base. Too often the investment in people stops there. There are four core reasons why you should train your people: productivity, performance management, product quality and employee retention.

What should you do first? The best place to start is with the topic that is most relevant to your employees: the knowledge and skill that they need to do their job. I call this functional training. Functional training can be as simple as training a new employee on your expectations for them and as complex as a multi-week engineering boot camp to bring new recruits completely up to speed on all of the historical architectural nuances of your product. The training courses should be tailored to the specific job.

The other essential component is management training. Management training is the best place to start setting expectations for your management team. Do you expect them to hold regular one-on-one meetings with their employees? Do you expect them to give performance feedback? Do you expect them to train their people? Do you expect them to agree on objectives with their team? If you do, then you'd better tell them. Once you've set expectations, the next set of management courses teach your managers how to do the things you expect (how to write a performance review or how to conduct a one-on-one).

Once you have management training and functional training in place, there are other opportunities as well. Take your best people, and encourage them to share their most developed skills. Training in such topics as negotiating, interviewing and finance will enhance your company's competency in those areas as well as improve employee morale.

Ironically, the biggest obstacle to putting a training program in place is the perception that it will take too much time. Keep in mind that there is no investment that you can make that will do more to improve productivity in your company. Therefore, being too busy to train is the moral equivalent of being too hungry to eat.

Hiring Executives: If You've Never Done the Job, How Do You Hire Somebody Good?

The biggest difference between being a great functional manger and being a great general manager — particularly a great CEO — is that as a general manager, you must hire and manage people who are far more competent at their jobs than you would be at their jobs. In fact, often you will have to hire and manage people to do jobs that you have never done. So, with no experience, how do you hire someone good?

Step 1: Know What You Want. First, resist the temptation to educate yourself simply by interviewing candidates. The very best way to know what you want is to act in the role. Not just in title, but in real action. In my career, I've been acting VP of HR, CFO and VP of sales. Often CEOs resist acting in functional roles, because they worry that they lack the appropriate knowledge. This worry is precisely why you should act — to get the appropriate knowledge that you need to make the hire, because you are looking for the right executive for your company today, not a generic executive.

It also helps to bring in domain experts. If you know a great head of sales, interview them first, and learn what they think made them great. Figure out which of those strengths most directly match the needs of your company.

Finally, be clear in your own mind about your expectations for this person upon joining your company. What will this person do in the first 30 days? What do you expect their motivation to be for joining? Do you want them to build a large organization right away or hire only one or two people over the next year?

Step 2: Run a Process That Figures Out the Right Match. In order to find the right executive, you must take the knowledge that you have gathered and translate it into a process that yields the right candidate.

- Write down the strengths you want and the weaknesses that you are willing to tolerate.
- Develop questions that test for the criteria.
- Assemble the interview team.
- Backdoor and front-door references. For final candidates, it's critically important that the CEO conduct the reference checks herself. (Backdoor references are checks from people who know the candidate but were not referred by the candidate.)

Step 3: Make a Lonely Decision. Despite many people being involved in the process, the ultimate decision should be made solo. Only the CEO has comprehensive knowledge of the criteria, the rationale for the criteria, all the feedback from interviewers and references, and the relative importance of the various stakeholders. Consensus decisions about executives almost always sway the process away from strength and toward lack of weakness.

Concerning the Going Concern

As a company grows, it will change. No matter how well you set your culture, keep your spirit or slow-roll your growth, your company won't be the same when it's 1,000 people as it was when it was 10 people. But that doesn't mean that it can't be a good company when it reaches 10,000 or even 100,000 employees. It will just be different. Making it good at scale means admitting that it must be different and embracing the changes that you'll need to make to keep things from falling apart.

Titles and Promotions

Why do all organizations eventually create job titles, and what is the proper way to manage them? There are two important factors:

Employees want them. While you may plan to work at your company forever, at least some of your employees need to plan for life after your company. When your head of sales interviews for her next job, she won't want to say that despite the fact that she ran a global sales force with hundreds of employees, her title was "Dude."

Eventually people need to know who is who. As companies grow, everybody won't know everybody else. Importantly, employees won't know what each person does and whom they should work with to get their jobs done. Job titles provide an excellent shorthand for describing roles in the company. In addition, customers and business partners can also make use of this shorthand to figure out how to best work with your company.

Andreessen vs. Zuckerberg: How big should the titles be?

Marc Andreessen argues that people ask for many things from a company: salary, bonus, stock options, span of control and titles. Of those, title is by far the cheapest, so it makes sense to give the highest titles possible. If it makes people feel better, let them feel better. Titles cost nothing.

At Facebook, by contrast, Mark Zuckerberg purposely deploys titles that are significantly lower than the industry standard, to guarantee that every new employee gets re-leveled as they enter his company. In this way, he avoids accidentally giving new employees higher titles and positions than better-performing existing employees. He also wants titles to be meaningful and reflect who has influence in the organization. As a company grows quickly, it's important to provide organizational clarity wherever possible, and that gets more difficult if there are 50 VPs and 10 Chiefs.

In either scenario, you should still run a highly disciplined internal leveling and promotion process.

When Smart People Are Bad Employees

In business, intelligence is always a critical element in any employee, because what we do is difficult and complex, and the competitors are filled with extremely smart people. However, intelligence is not the only important quality. Being effective in a company also means working hard, being reliable and being an excellent member of the team. Here are three examples of the smartest people in the company being the worst employees:

The Heretic: No large organization achieves perfection. As a result, a company needs lots of smart, super-engaged employees who can identify its particular weaknesses and help it improve them. However, sometimes a really smart employee develops an agenda other than improving the company. Rather than identifying weaknesses so that he can fix them, he looks for faults to build his case. The smarter the employee, the more destructive this type of behavior can be. Often, it's very difficult to turn these kinds of cases around.

The Flake: Some brilliant people can be totally unreliable. Flaky behavior often has a seriously problematic root cause. Causes range from self-destructive streaks to drug habits to moonlighting for other employers. A company is a team effort, and no matter how high an employee's potential, you cannot get value from him unless he does his work in a manner in which he can be relied upon.

The Jerk: This particular smart-bad-employee type can occur anywhere in the organization but is most destructive at the executive level. When used consistently, asinine behavior can be crippling. As a company grows, its biggest challenge always becomes communication. Keeping a huge number of people on the same page executing the same goals is never easy. If a member of your staff is a raging jerk, it may be impossible.

The great football coach John Madden was once asked whether he would tolerate a player like Terrell Owens on his team. Owens was both one of the most talented players in the game and one of the biggest jerks. Madden answered, "If you hold the bus for everyone on the team, then you'll be so late you'll miss the game, so you can't do that. The bus must leave on time. However, sometimes you'll have a player that's so good that you hold the bus for him, but only him."

You may find yourself with an employee who fits one of the descriptions but nonetheless makes a massive positive contribution to the company. You may decide that you will personally mitigate the employee's negative attributes and keep her from polluting the overall company culture. That's fine, but remember: You can only hold the bus for her.

One-on-One

Perhaps the CEO's most important operational responsibility is designing and implementing the communication architecture for her company. While it is quite possible to design a great communication architecture without one-on-one meetings, in most cases one-on-ones provide an excellent mechanism for information and ideas to flow up the organization and should be part of your design.

The key to a good one-on-one meeting is the understanding that it is the employee's meeting rather than the manager's meeting. This is a free-form meeting for all the pressing issues, brilliant ideas and chronic frustration that do not fit neatly into status reports, email and other less personal and intimate mechanisms. If you like structured agendas, then the employee should set the agenda and send it to you in advance.

During the meeting, since it's the employee's meeting, the manager should do 10 percent of the talking and 90 percent of the listening.

While it's not the manager's job to set the agenda or do the talking, the manager should try to draw the key issues out of the employee. The more introverted the employee, the more important this becomes.

Some questions that are very effective in one-on-ones:

- What's the number-one problem with our organization? Why?
- What's not fun about working here?
- What don't you like about the product?

Programming Your Culture

When I refer to company culture, I am writing about designing a way of working that will distinguish you from competitors; ensure that critical operating values persist, such as delighting customers or making beautiful products; and help you identify employees who fit with your mission.

When you start implementing your culture, keep in mind that most of what will be retrospectively referred to as your company's culture will not have been designed into the system but rather will have evolved over time based on your behavior and the behavior of your early employees. As a result, you will want to focus on a small number of cultural design points that will influence a large number of behaviors over a long period of time.

You needn't think hard about how you can make your company seem bizarre to outsiders. However, you do need to think about how you can be provocative enough to change what people do every day. Ideally, a cultural design point will be trivial to implement but have far-reaching behavioral consequences. Key to this kind of mechanism is shock value.

For example, very early on, Jeff Bezos, founder and CEO of Amazon.com, envisioned a company that made money by delivering value *to* rather than extracting value *from* its customers. In order to do that, he wanted to be both the price leader and customer service leader for the long run.

Jeff decided to build frugality into his culture with an incredibly simple mechanism: All desks at Amazon.com for all time would be built by buying cheap doors from Home Depot and nailing legs to them. When a shocked new employee asks why she must work on a makeshift desk, the answer comes back with withering consistency: "We look for every opportunity to save money so that we can deliver the best products for the lowest cost." If you don't like sitting at a door, then you won't last long at Amazon.

Prior to figuring out the exact form of your company's shock therapy, be sure that your mechanism agrees with your values. For example, Jack Dorsey will never make his own desks out of doors at Square because at Square, beautiful design trumps frugality. When you walk into Square, you can feel how seriously they take design.

How to Lead Even When You Don't Know Where You Are Going

By far the most difficult skill I learned as CEO was the ability to manage my own psychology. This is the most personal and important battle that any CEO will face.

The first problem is that everybody learns to be a CEO by being a CEO. No training as a manager, general manager or in any other job actually prepares you to run a company.

Even if you know what you are doing, things go wrong. Things go wrong because building a multifaceted human organization to compete and win in a dynamic, highly competitive market turns out to be really hard.

If you manage a team of 10 people, it's quite possible to do so with very few mistakes or bad behaviors. If you manage an organization of 1,000 people, it is quite impossible. At a certain size, your company will do things that are so bad that you never imagined that you'd be associated with that kind of incompetence. Seeing people fritter away money, waste each other's time and do sloppy work can make you feel bad. If you are the CEO, it may well make you sick.

And to rub salt into the wound and make matters worse, it's your fault.

Given this stress, CEOs often make one of the following two mistakes: They take every issue incredibly seriously and personally and urgently move to fix it. Or, they do not take things personally enough and take the attitude of "It's not so bad."

Ideally, the CEO will be urgent yet not insane. She will move aggressively and decisively without feeling emotionally culpable. If she can separate the importance of the issues from how she feels about them, she will avoid demonizing her employees or herself.

Techniques to Calm Your Nerves

The problem with psychology is that everybody's is different. With that as a caveat, here are a few techniques that may be useful:

Make some friends. Although it's nearly impossible to get high-quality advice on the tough decisions that you make, it is extremely useful from a psychological perspective to talk to people who have been through similarly challenging decisions.

Get it out of your head and onto paper. The process of writing a document can separate you from your own psychology and enable you to make a decision swiftly.

Focus on the road, not the wall. If you focus on the road, you will follow the road. There are always a thousand things that can go wrong and sink the ship. If you focus too much on them, you will drive yourself nuts and likely crash your company. Focus on where you are going rather than on what you hope to avoid.

Don't Punk Out and Don't Quit

As CEO, there will be many times when you feel like quitting. Great CEOs face the pain. They deal with the sleepless nights, the cold sweats, and what my friend Alfred Chuang (legendary cofounder and CEO of BEA Systems) calls "the torture."

Whenever I meet a successful CEO, I ask them how they did it. Mediocre CEOs point to their brilliant strategic moves or their initiative, business sense or a variety of other self-congratulatory explanations. The great CEOs tend to be remarkably consistent in their answers. They all say, "I didn't quit."

In life, everybody faces choices between doing what's popular, easy and wrong versus doing what's lonely, difficult and right. These decisions intensify when you run a company, because the consequences get magnified a thousand-fold.

Every time you make the hard, correct decision you become a bit more courageous, and every time you make the easy, wrong decision you become a bit more cowardly. If you are CEO, these choices will lead to a courageous or cowardly company.

Over the past 10 years, technological advances have dramatically lowered the financial bar for starting a new company, but the courage bar for building a great company remains as high as it has ever been.