The author, a founder of an investment firm, studied companies that outperformed their peers and the larger market over extended periods of time. He ended with eight CEOs and companies with standout performance in the latter half of the 20th century. Looking deeper into their management practices, he found virtually identical patterns to their management style that were unorthodox but directly caused their outsized results. These CEOs and their management practices are the subject of The Outsiders.

The author found uncannily strong patterns among the outsider CEOs that distinguished them from typical CEOs. This concerned three areas:

1. Their approach to capital allocation
2. Their management practices
3. Their personality traits

In all three areas, outsider CEOs departed from common wisdom about how to operate a company and behave as a CEO.

This departure from conventional thinking makes logical sense. **By doing the same things as everyone else, you’re restricted to average performance. You need to do unorthodox things to get unorthodox results.**

**Capital Allocation**

In general, CEOs have to do two things to succeed:

1. Run operations efficiently to generate cash.
2. Deploy the cash productively.

Most CEOs and most management books focus on the former. In contrast, Henry Singleton of Teledyne and the other outsider CEOs in the book focused on the latter. Rather than seeing themselves as company operators, the outsider CEOs saw themselves as investors and capital allocators first and foremost.

Despite the importance of capital allocation, little training is devoted to it. Business schools don’t feature capital allocation in curricula, and CEOs are promoted from functional roles (like product or marketing) without strong experience with investment in the business. Outsider CEOs saw it as their core job.

**How do outsider CEOs deploy capital differently?**

As a baseline, businesses can deploy cash in five basic ways—invest in the existing business, acquire other businesses, pay dividends to shareholders, pay down debt, or buy back stock. They can also raise money by issuing debt or raising equity. These are all tools in capital allocation, and the specific usage of these tools determines a company’s performance.

How to decide between these options? Universally, outsider CEOs were rational—they calculated the return on each investment project, then made the most profitable choice. They ignored conventional wisdom and what their peers were doing.

Compared to their peers, outsider CEOs tended to allocate capital differently:

- They aggressively bought back company stock when it was cheap (for instance, when price-to-earnings ratio was in single digits). This would increase earnings per share and, consequently, price per share.
- They rarely issued shares to raise funds, preferring to avoid dilution.
- They rarely issued dividends, seeing this as a tax-inefficient way of rewarding shareholders. Dividends are essentially taxed twice, first as corporate tax on earnings, then as personal tax on capital gains.
- They were judicious about acquisitions. They didn’t acquire companies out of empire-building ego, with little care for cost. Instead, they bought companies only when it was a good deal; many had hard rules for what to buy, for instance based on a maximum P/E ratio or projected rate of return.
- This didn’t mean timidity—outsider CEOs were capable of making large, bet-the-company acquisitions when they felt it was a high-probability bet. Every CEO in the book made an acquisition worth at least 20% of their company’s enterprise value.

Outsider CEOs thought about their companies as investors and made cool, rational decisions based on what provided the best returns. **Ego and a desire to build empires were never part of the decision.**
In contrast, typical CEOs issued shares to fund costly acquisitions, preferred not to buy back stock or raise debt, and paid dividends frequently. In the conglomerate era, they aggressively acquired companies believing they could improve profits through scale or synergies; this was often a mirage that never materialized. All these activities tend to result in lower performance by the author’s favorite metric—price-per-share.

Note that the optimal choices vary from company to company, from industry to industry, and between different time periods. The point is not to blindly mirror what the outsider CEOs did—it’s to examine all of the tools in your toolkit, and choose the best one based on rational analysis.

Management Practices
Beyond capital allocation decisions, the outsider CEOs ran their businesses in unorthodox ways.

Decentralization
In their management of people and business units, outsider CEOs were relentlessly decentralized. They hired entrepreneurial operators for their business lines and left them alone. They kept a skeleton staff at headquarters, which reduced overhead and anxiety about office politics—the way to get ahead in the company was to outperform in your business unit.

Examples:
- Teledyne employed over 40,000 people but had fewer than 50 at its...

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READ FULL SUMMARY OF THE OUTSIDERS: EIGHT UNCONVENTIONAL CEOS
READ COMPLETE GUIDE TO THE OUTSIDERS: EIGHT UNCONVENTIONAL CEOS

Here’s a preview of the rest of Shortform’s The Outsiders: Eight Unconventional CEOs summary:guide:

The Outsiders: Eight Unconventional CEOs Summary The Outsiders: Eight Unconventional CEOs Guide Introduction
If you’re asked who the greatest CEO of the last century was, one name might naturally come to mind: Jack Welch. During his 20-year tenure as CEO of GE from 1981 to 2001, GE stock had a compounded annual return of 20.9 percent. $1 invested in GE stock in 1981 would have turned into $48 20 years later.

As a result, Jack Welch has been lionized as the classical power-CEO. He was a famously active manager, diving deep into business units and traveling among GE’s locations. He communicated regularly with Wall Street and focused intensely on managing GE’s stock price. He earned a public persona as a charismatic high-performance manager, gracing the covers of business magazines and authoring management books like Winning.

But is Jack Welch really the greatest CEO of the century? According to the author of The Outsiders, no—not even close.

There are two common issues with assessing the performance of CEOs like Jack Welch:
1. The macroeconomic...
Capital Cities Broadcasting was a media company owning television stations, radio stations, and print publications. Outsider CEO Tom Murphy was CEO from 1966 to 1996.

In 1966, the market capitalization of Capital Cities was 6% that of CBS, the dominant media business in the country.

By 1996, when Capital Cities sold to Disney, it had rocketed past CBS and was now worth three times as much as CBS. It had acquired media giant ABC, which was dubbed by the press as akin to a “minnow swallowing a whale.” Relative to CBS, Capital Cities had grown nearly 50 times as much in the same period.

The strategy was simple and repeatable: buy media properties with attractive economics, improve operations to generate more cash, and use the cash to buy more media properties. Capital Cities had a management playbook that made it very effective at increasing revenue and cutting costs at its newly acquired companies. This created a “perpetual motion machine for returns.”

Performance
From 1966 to 1996, Capital Cities showed a 19.9% annual return rate, compared to the 10.1% for the S&P 500 and 13.2% return for leading media companies.

$1 invested at the beginning would have been worth...

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The Outsiders: Eight Unconventional CEOs Guide Chapter 2: Henry Singleton and Teledyne
Teledyne is an industrial conglomerate founded in 1960, currently involved in businesses ranging from aerospace electronics to digital imaging.

Founder Henry Singleton served as CEO from 1960 to 1986, taking it through three phases with very different activities:

1. Rapid expansion of the conglomerate through acquisitions
2. Aggressively buying back shares with the company's free cash flow
3. Spinning out its subsidiaries when performance began stagnating

Performance
From 1963 to 1990, Teledyne showed a 20.4% annual return rate, compared to 11.6% for the S&P 500 and 11.6% for major conglomerates.

$1 invested at the beginning would have been worth $181 by 1990. This outperformed the S&P by 12 times, and his peers by nearly 9 times.

History
Henry Singleton was born in 1916. He attended MIT for college and received a PhD in electrical engineering. He won first place in the Putnam Math Competition and was nearly a chess grandmaster—clearly a smart guy.

After graduating, he became a research engineer at a series of aviation companies. At Litton Industries, he led a business group that grew to $80 million in revenue and became the company’s largest division.

In...
General Dynamics is an aerospace and defense corporation. After the end of the Cold War, it and many other defense companies faced a large contraction of spending as US national defense priorities shifted. Incoming CEO Bill Anders successfully led a turnaround that made General Dynamics the industry's profit leader, instilling fundamentals that continue to this day.

**Performance**

From 1991 to 2008, General Dynamics showed a 23.3% annual return rate, compared to 8.9% for the S&P 500 and 17.6% for major conglomerates.

$1 invested at the beginning would have been worth $30 by 2008. This outperformed the S&P by 6.7 times, and its peers by 1.8 times.

**History**

In 1989, the Berlin Wall fell, and with it fell the US defense industry's business model. Accustomed to selling large weapons systems such as missiles and bombers, the defense industry now found its wares obsolete amidst new national priorities. Within 6 months, the price of leading defense companies had fallen 40%.

General Dynamics was one of the worst affected companies. In 1991, it had $10 billion of revenue but negative cash flow, as well as $600 million of debt, and thus had a market capitalization of just $1...

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Tele-Communications Inc. (TCI) was a cable television provider founded in 1958. It grew to be the largest cable company in the country, owning both cable providers and content programming. It was acquired by AT&T in 1999 for $43.5 billion in stock and, through a series of transactions, would ultimately become Comcast.

As CEO from 1972 to 1991, John Malone pursued a **virtuous cycle strategy**—grow subscriber count through acquisitions of cable providers, which would give scale to negotiate lower fees with content providers, which would make acquisitions of cable companies further cheaper.

**Performance**

From 1973 to 1998, Teledyne showed a 30.3% annual return rate, compared to 14.3% for the S&P 500 and 20.4% for public cable companies.

$1 invested at the beginning would have been worth $900 by 1998. This outperformed the S&P by 40 times, and his peers by 5 times.

**History**

John Malone was born in 1941 and earned bachelor's degrees from Yale in economics and electrical engineering, as well as
graduate degrees in operations research from Johns Hopkins. He worked at Bell Labs, studying financial strategies in monopoly markets. Unhappy with the bureaucratic culture at...

The Outsiders: Eight Unconventional CEOs Summary

The Outsiders: Eight Unconventional CEOs Guide Chapter 5: Katharine Graham and the Washington Post

The Washington Post was owned by Eugene Meyer, whose daughter was Katharine Graham. Her husband, Philip Graham, was hired by Meyer to lead the Washington Post from 1946 to 1963. However, Philip committed suicide in 1963, and Katharine was expected to take over management.

An inexperienced executive, Katharine hadn't worked for 20 years when she took the CEO role. But through wise decisions around both editorial and business, the help of strong executives, and a key advisor by the name of Warren Buffett, she led the Post to be the most successful newspaper company of its class.

Performance
From 1971 to 1993, the Washington Post Company showed a 22.3% annual return rate, compared to 7.4% for the S&P 500 and 12.4% for public newspapers.

$1 invested at the beginning would have been worth $89 by the end. This outperformed the S&P by 18 times, and her peers by six times.

History
In 1963, Katharine Graham became CEO of the Washington Post. At the time, the Post had grown to include Newsweek magazine and three TV stations. She spent a few years learning the ropes.

In 1967, she made an unconventional staffing choice—she replaced her veteran editor-in-chief with a...

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The Outsiders: Eight Unconventional CEOs Guide Chapter 6: Bill Stiritz and Ralston Purina

Ralston Purina was a consumer packaged goods company producing commercial animal feed, consumer pet food, and human foods. When Stiritz joined as CEO in 1981, Ralston had a muddled focus (having purchased a hockey team and ski resort) and a stagnant stock price. Stiritz revitalized the company with discipline, divesting unprofitable business units and acquiring new genuinely synergistic businesses. In 2001, Ralston merged with Nestle in a transaction worth $10.4 billion.

Performance
From 1981 to 2001, Ralston showed a 20.0% annual return rate, compared to 14.7% for the S&P 500 and 17.7% for peer companies.

$1 invested at the beginning would have been worth $38 by 2001. This outperformed the S&P by 2.5 times, and his peers by 50%.

History
In the 20th century, consumer packaged goods companies like Heinz and Kellogg largely moved together as a pack. They were considered stable blue-chip stocks, paying out dividends and resisting recessions. During the 1960s and 1970s, they acquired aggressively in pursuit of synergy and vertical integration, ending up in industries like restaurants and agriculture.
General Cinema was a movie theater company founded in 1922 by Phillip Smith, who expanded drive-in theaters throughout New England and the Midwest. When he died in 1962, his son Dick Smith took over as CEO. Dick further expanded the company's theater locations, then diversified into unrelated businesses such as beverage bottling and retail. While diversifying acquisitions often end in failure, Smith executed them with finesse, leading to fantastic performance when the company's divisions were sold at premium prices in the 2000s.

Performance
From 1962 to 2005, General Cinema (and its spinoffs) showed a 16.1% annual return rate, compared to 9% for the S&P 500 and 9.8% for GE.

$1 invested at the beginning would have been worth $684 by the end. This outperformed the S&P by 15.8 times, and GE by 11.4 times.

History
In 1962, when Dick Smith was 37 years old, he took over as CEO of General Cinema. He had been working in the family business after graduating from college and World War II.

Movie theaters had strong economics:
- It had negative working capital, since moviegoers paid instantly but movie studios were paid on 90 day terms.
- It had low capital...

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Book Summary Shortform Guide?
Unconventional CEOs Guide Chapter 8: Warren Buffett and Berkshire Hathaway

Saving the best for last, the author ends with Warren Buffett's staggering returns over the 50-plus year history of Berkshire Hathaway. Starting with buying a textile company in 1965, Buffett grew Berkshire Hathaway into one of the world's largest companies.

Over the years, Buffett excelled in all manners of investments—in both public and private companies, with ownership of both minority and total stakes. He famously made use of insurance float to fund investments in higher-return companies, held a small basket of companies for very long periods of time, and acted aggressively when everyone else was ducking for fear.

Performance

From 1965 to 2011, Berkshire Hathaway showed a 20.7% annual return rate, compared to 9.3% for the S&P 500.

$1 invested at the beginning would have been worth $6,265 by 2011. This outperformed the S&P by a staggering 100 times.

History

Born in 1930 in Omaha, Nebraska, Warren Buffett was the son of a stockbroker and the grandson of a grocery store owner. His early entrepreneurial activities included paper routes and reselling soft drinks.

When he was 19, he read The Intelligent Investor by Benjamin Graham, which converted him into...

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The Outsiders: Eight Unconventional CEOs Summary The Outsiders: Eight Unconventional CEOs Guide Checklist for Outsiders

Here's a 10-step checklist for outsiders:

1. The CEO should lead capital allocation decisions, not delegate them to advisers or employees.
2. Determine the hurdle rate—the minimum return necessary to approve a project. The hurdle rate should generally exceed the cost of capital (usually in the midteens or higher).
3. For all investment options available, calculate returns and risk profiles. Higher-risk projects should have higher returns to...

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The Outsiders: Eight Unconventional CEOs Summary The Outsiders: Eight Unconventional CEOs Guide Conclusion: Relevance of the Lessons

We've covered 8 standout CEOs and their companies, mostly in the latter half of the 20th century. But how applicable are the lessons here? Are they still relevant in the modern day? And are the lessons relevant for small businesses or managers? The author argues yes to both.

Modern Relevance

The author argues the principles in this book are timeless, studying two examples: Pre-Paid Legal, and Exxon.

Modern Example: Pre-Paid Legal

Pre-Paid Legal (known today as LegalShield) provides legal insurance—for a fixed annual premium, customers have their unexpected legal costs covered, including expenses for litigation, wills, and trusts.

Growing quickly through the 1990s, its revenue flattened. Despite the lack of revenue growth, its stock price grew by 4 times. How did Pre-Paid Legal achieve this? As you might expect, the answer came in its capital allocation decisions:

- They optimized free cash flow.
Recognizing that the industry was mature and further investment would likely have low returns, the CEO instead repurchased shares aggressively, buying back over 50% of shares.

The company sold for $650 million to private equity in 2011.

Modern Example:...

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Shortform Exercise: Consider Your Outsider Management

Reflect on the patterns found in outsider CEOs and how they might apply to your management.

What are some of the most surprising habits of outsider CEOs that you don't do yourself or you don't see commonly done?

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