**Theme 4 – Level 5 Leadership, The Triumph of Humility and Fierce Resolve- Jim Collins**

**Intro:**

* Argues that the key ingredient that allows a company to become great is having a level 5 leader, an exe in whom genuine personal humility blends with intense professional will.
* According to our five year research study, exe who posses this paradoxical combo of traits are catalysts for the statistically rear event of transforming a good company into a great one.
* Level 5 refers to the highest level in a hierarchy of executive capabilities that we identified during our research.
* Darwin smith- named chief exe of Kimberly-clark a old paper company whose stock had fallen 36% behind the general market. Remained ceo for 20 years. Turned company into the leading consumer paper products company in the world. Generated cumulative stock returns that were 4.1 times greater than that of general market. One of best turnaround in the market.
* Leaders on the other four level in the hierarchy can produce high degrees of success but not enough to elevate companies form mediocrity to sustained excellence.
* Level 5 leadership is not the only requirement for transforming a good company into a great one, getting the right people on the bus and crating a culture of discipline is essential.

**Not what you would expect:**

* Our discovery of level 5 leadership is counter intuitive.
* People generally assume that transforming companies from good to great requires larger than life leaders. Compared with these ceo’s Darwin smith seems to have come from mars- shy, unpretentious, awkward, smith shunned attention. He was unfashionable, a farm boy. Described his management style as ‘eccentric’.
* Smith brought up on a farm hard life, got finger chopped off went working next day. Diagnosed with cancer told had a year to live, lived another 25, 20 of them as CEO.
* Make dramatic decision for Kimberly-clark, he sold the mills. Studies shoed trad core company was doomed to mediocrity. If it entered consumer paper products businesss would force it to achieve greatness or perish.
* Sold the mills with proceeds going into the consumer business, with investments in brands like huggies diapers and Kleenex tissues. Media called move stupid, wall street down graded stock. But smith never wavered.
* 25 year later Kimberly clark owned and beat leading brand in 6 out of 8 markets.

**One question, five years. 11 companies:**

* Level 5 discovery derives from a research project began in 1996, ‘can a good company become a great company and if so how?’
* Looked at companies that shifted from good performance to great performance and sustained it. Identified comparison companies that had failed to make the shift. Then studies the contrast between the two groups.
* Searched for a specific pattern; cumulative stock returns at or below general stock market for 15 years,
* Those that made the cut averaged 6.9 times the general stock market for the 15 years after the point of transition.
* For each success company- selected the best direct comparison, bases on similarity of business, size, age, customers and performance leading up to the transition.
* Also constructed 6 ‘un sustained’ comparisons(companies that showed a short lived shift but then fell off).
* Had a comprehensive research team.
* Only 11 companies qualified as good to great. Every component in the final framework showed up in all 11 companies during transition period regardless of industry. Every component had to show up in less than 30% of the comparison companies during the relevant years.

**Not what we expected, either:**

* Not originally looking for level 5 leadership. ‘can a good company become a great one and if so how?’ team given explicit instructions to downplay the role of top exe.
* During research ‘we cant ignore the top executives even if we want to’ the data won in the end. It didn’t matter what transition period company was in or industry. The successful org all had a level 5 leader at the time of transition.
* The absence of level 5 leader showed up consistently across the comparison companies. Level 5 is an empirical finding, not an ideological one.

**The level 5 hierarchy:**

* Level 5 leader sits on top of a hierarchy of capabilities and is necessary for transforming a good company to a great one.
* **Level 5 executive-** builds enduring greatness through a paradoxical combination of personal humility plus professional will.
* **Level 4 effective leader-** catalyzes commitment to and vigorous pursuit of a clear and compelling vision; stimulates the group to high performance standards.
* **Level 3 competent manager-** organises people and resources toward the effective and efficient pursuit of predetermined objectives.
* **Level 2 contributing team member-** contributes to the achievement of group objectives; works effectively with others in a group setting.
* **Level 2 highly capable individual-** makes productive contributions through talent, knowledge, skills and good work habits.

**Humility + will = level 5:**

* Lfl are a study in duality; modest and willfull, shy and fearless.
* Whoever took this as a sign of weakness eventually lost in the end, lincon won

**Not by level 5 alone:**

* Multiple factors deliver companies to greatness.
* **First who**
  + Expected that good to great leaders would start with the vision and strategy.
  + Instead they attended to people first, strategy second.
  + Got the right people on the bus, moved the wrong people off.
* **Stockdale paradox**
  + Named after admiral james stockdal who survived 7 years in Vietcong camp by two contradictory beliefs.
  + His life couldn’t be worse at the moment and his life would someday be better than ever.
  + People ar good to great contfonted the most brutal facts of their current reality yet simultaneously maintained absoulute faith that they would prevail in the end.
* **Buildup – breakthrough flywheel**
  + Good to great doesn’t happen overnight.
  + Process resembles pushing a giant flywheel relentlessly.
  + With consistent effort increased momentum is built. Until finally breaks through.
* **The hedgehog concept**
  + Two approaches to thought and life using a simple parable.
  + The fox knows little about many things, but the hedgehog knows only on beg thing very well. The fox is complete the hedgehog simple and the hedgehog wins.
  + Research shows breakthroughs require a simple hedgehog like understanding of three intersecting circles: what a company can be best in the world at, how its economics work best, how its economics work best and what best ignites the passions of its people.
  + Breakthrough happens when you get the hedgehog concept and become systematic and consistent with it, eliminating virtually anything that does not fir in the three circles.
* **Technology accelerators**
  + Paradoxical relationship with technology.
  + On one hand they avoided jumping on new tech bandwagons.
  + On the other they were pioneers in the application of carefully selecting technologies, making bold farsighted investments in those that directly linked to theri hedgehog.
* **A culture of discipline**
  + Consistnely display three forms of disciplines, disciplined people, though and action.
  + When you have disciplined people you don’t need hierarchy.
  + When you have disciplined thought you don’t need bureaucracy.
  + When you have disciplined action you don’t need excessive controls.
  + When you combine a cultue of discipline with an ethic of entrepreneurship, you might get the magical mix of great performance.

**The ying and yang of level 5:**

* **Personal humility**
* Demonstrates a compelling modesty, shunning public adulation; never boastful.
* Acts with quiet, calm determination; relies principally on inspired standartds, not inspiring charisma, to motivate.
* Channels ambition into the company not the self. Sets up successors for even more greatness in the next generation.
* Looks in the mirror not out the window, to apportion responsibility for poor results, never blaming other people, external factors or bad luck.
* **Professional will**
* Creates superb results, a clear catalyst in the transition from good to great.
* Demonstrates an unwavering resolve to do whatever must be done to produce the best long term results no matter how difficult.
* Sets the standard of building an enduring great company; will settle for nothing less.
* Looks out the window, not in the mirrow to apportion credit for the success of the company – to other people, external factors and good luck.

**A compelling modesty:**

* Struck by the way they didn’t talk about themselves. Would talk about company and contributions of other executives but would deflect discussion about their own role.
* By contrast consider the courtship of personal celeb by the comparison CEO’s.scott paper hired al Dunlop as ceo a man who would tell anyone who would listen about his accomplishments. He spoke big about his company and later sold it and pocketed the cash.
* Research showed that gargantuan ego of ceo led to demise of the company.
* Lee Iacocca saved Chrysler form the brink of catastrophe. Automakers stock rose 2.9 times higher than the general market about halfway through his tenure.
* Then diverted attention to transforming himself. Appeared regulary on talk shows, starred in more than 80 commercials.
* Iacoccas personal stock soared but Chryslers stock fell 31% below the market in the second half of his tenure.
* Once iacoca had accumulated all the fame and perks, he found it difficult to leave center stage. Postponed his retirement numerous occasions.
* Finally retired and picked a determined replacement who rescued Chrysler and set the foundation for a more enduring corporate transition.

**An unwavering Resolve:**

* Also display tremendous professional will.
* George cain became ceo of abbott laboratories, a drowsy family controlled business sitting at the bottom oquartile of the pharamaceutical industry.
* Cain was a typical level 5 leader in his lack of pretense he had no inspiring personality. He did have inspired standards.
* Could not stand mediocrity in any form and was utterly intolerant of anyone who would accept the idea that good is good enough. For next 14 years he relentlessy imposed his will for greaness on abbott labs.
* Had to destroy nepotism in business. Systematically rebuilt the board and the exe team with best people he could find. Family ties no longer mattered.
* In the end family members were pleased with the performance of their stocks. Cain had set in motion a profitable growth machine.
* Another example- Charles r ‘cork’ Walgreen, who transformed dowdy walgrrens into a company that outperformed the stock market 16:1 from its transition in 1975-2000.
* The companys future lay in convenient drugstores, not in food service. Had to shut down 500 restaurants in 5 years.
* Food service was not largest part of business but added substancial profits to the bottom line.
* The real problem was more emotional than financial. Company built by family over the years.
* Walgreen had to fly in the face of family tradition in order to refocus on the one arena where they could be successful.
* Lfl have ambition not for themselves but for their companies, they routinely select superb successors. Want to see their companies become even more successful in the next generation.
* By contrast level 4’s often fail to set up the company for enduring success.
* Rubbermaid, grew from obscurity to become one of fortunes most admired companies and then just as quickly, disintegrated into such sorry shape that it had to be acquired by newell.
* Man responsible was stanly gault. Gault comes across as a hard driving, egocentric executive. Rubbermaid generated 40 consecutive quaters of eaerning growth under his leadership.
* But gault did not leave behind a company that would be great without him. His chosen successor lasted a year on the job and the next in line faced a management teams so shallow he had to temporarily shoulder four jobs while scrambling to identify a new number two exe.
* Gault was a level 4 leader.

**The window and the mirror:**

* Interviewed alan wurtzel a lfl responsible for turning circuit city from company on the edge of bankruptcy into one of Americas most successful electronics retailers.
* In the 15 years aftetr its transition date in 1982, circuit city outperformed the market 15:1.
* Wurtzel’s top five factors in transformation: number 1 ; luck. But other companies were in same position, refused to take much credit for transition.
* Other leaders blame luck, unwilling to take the credit.
* Lfl often blamed their situations on bad luck, bemoaning the difficulties of the environment they faced.
* Comapare Bethlehem stell and Nucor. Both operated with products that are hard to differentiate, and both faced competitive challengre from cheap imported steel. The two exe’s held different ciews of the same environment.
* Bethelems steels CEo blamed the imports. Nucor saw the imports as a blessing ‘ steel is heavy, shipping is expensive we have advantage’ spoke out pubically about import regulations, saw the real problems facing the industry lying in the fact that management had failed to keep pace with technology.
* The window and the mirror; lfl look out the window to apportion credit, even undue credit to factors outside themselves. They credit good luck otherwise.
* At same time they look in the mirror to assign responsibility, never citing bad luck or external factors when things go bad.
* Conversely, the comparison exe looked out the window for factors to blame but preened in the mirror to credit themselves when things went well.
* The funny thing about the window and mirror concept is that it does not reflect reality.
* According to our research the lfl were responsible for their companies transformations. But they would never admit that.

**Born or bred?**

* Can i learn to become level 5? I still don’t know the answer to that question.
* Lfl come to be, nor id we attempt to explain or codify the nature of their emotional lives.
* Can level 5 be developed?
* Preliminary hypothesis is that there are two categories of people, those who contain seed of level 5 and those who don’t.
* People who don’t consist of people who could never bring themselves to subjugate their own needs to the greater ambition of something larger and more lasting than themselves.
* The great irony is that the animus and personal ambition that often drives people to vecome a level four leader stands at odds with the humility required to rise to level 5.
* We keep putting people in positions of power who lack the seed to become a lfl and that is one major reason why thre are so few companies that make a sustained and verifiable shift from good to great.
* Second category is people who could evolve to level 5. Under the right circumstances with self relection, a mentor, living parents, a significant life experience the seed can begin to develop.
* Have no solid research data to give a list of steps to get lfl.